



Accountants &  
business advisers

# **Tavistock and Portman NHS Foundation Trust**

## **Annual Audit Letter 2006/07**

**Report to the Board of Directors**

September 2007



# 1 Executive summary

- 1.1 Tavistock and Portman NHS Foundation Trust has again had a successful year with the key highlight being its approval to become a foundation trust on 1 November 2006. The application to become a foundation trust is a challenging process covering financial management, long term planning, governance and financial viability and underlines the improvements made by the Trust in recent years.
- 1.2 The Trust achieved all of its financial duties and reported a surplus for the year of £22,000, despite having a significant reduction in its NHS training contract funding part way through the year.
- 1.3 We were able to issue unqualified opinions on both the NHS Trust and Foundation Trust financial statements and concluded that the Trust has proper arrangements in place for securing economy, efficiency and effectiveness in its use of resource.
- 1.4 The key challenge for the Trust in the coming months will be to seek additional organisational efficiencies and recurrent cost savings in order to achieve its planned surplus in 2007/08 and further improve its financial performance going forward.
- 1.5 We have made a number of recommendations to management to improve organisational processes and performance as a result of our audit and these have been separately reported to management (see appendix 1 for reports issued during the year).
- 1.6 We highlight below the key recommendations to the Board of Directors:

## Recommendation – 1

The Trust should ensure that it has contracts with other organisations that allow for the recovery of all services undertaken, and develops arrangements to identify activity that has not been included within contracts for agreement with the NHS commissioner before providing these additional services.

## Recommendation – 2

The Trust should prepare for the adoption of IFRS based on the Treasury timescales and ensure that staff have sufficient knowledge of IFRSs to report under these new standards.

## Recommendation – 3

The Trust should carry out a formal baseline assessment of workforce capacity across all services to identify additional opportunities for organisational efficiencies.

## 2 Introduction

2.1 The purpose of this Letter is to summarise the key issues arising from the work that we have carried out during the year. Although this letter is addressed to the directors of Tavistock and Portman NHS Foundation Trust (the Trust), it is also intended to communicate the significant issues we have identified, in an accessible style, to the Governors, other key external stakeholders and members of the public.

### Responsibilities of the auditor and the Trust

2.2 We were appointed as the independent external auditors of the NHS Trust by the Audit Commission, the body responsible for appointing auditors to local public bodies in England, including NHS trusts. Following the Trust's conversion to foundation trust status, the Trust appointed PKF as its external auditor.

2.3 As the Trust's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key risks to the Trust achieving its objectives. It is the responsibility of the Trust to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Trust is fulfilling these responsibilities.

### The scope of our work

2.4 Our main responsibility as the appointed auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice or Monitor's Audit Code for NHS Foundation Trusts. Under these Codes, we are required to review and report on:

- the Trust's accounts
- the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources.

2.5 This letter summarises the significant issues arising from both these areas of work and highlights the key issues that we consider should be addressed by the Trust.

### Acknowledgement

2.6 We would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the course of the audit. Our aim is to deliver a high standard of audit which makes a positive and practical contribution that supports the Trust's own agenda. We recognise the value of your co-operation and support.

### 3 Activities and services of the Trust

- 3.1 The Trust is a leading provider of multi-disciplinary postgraduate training in mental health and a provider of mental health clinical services to patients throughout London. It is also an international centre of excellence in the therapeutic treatment of complex and serious mental health disorders, in clinical training, consultancy, research and scholarship.
- 3.2 The Trust employs approximately 330 staff and provides training for nearly 2,000 students every year. Over 50 per cent of the Trust's income is received from providing education, training and research in mental health services.
- 3.3 On becoming a foundation trust on 1 November 2006, the Trust recruited a diverse membership of 3,279 people. The members and other key stakeholders elected a Board of 21 Governors, who have a central role in deciding the long term strategy for the Trust and supporting its mission. As a foundation trust, the Trust is now better placed to take advantage of new freedoms and opportunities to improve its services and to face its challenges.
- 3.4 Other key achievements during the year included a successful bid to provide additional child and adolescent mental health services that were previously provided by Camden PCT; and growth in the Trust's partnership with the National Children's Homes charity, with the Trust taking over full financial responsibility for the Monroe Young Family Centre.
- 3.5 The Healthcare Commission, the regulator for health care and public health, assessed the Trust as 'excellent' in the quality of its services in the 2006 Annual Health Check, and 'fair' with regard to its financial arrangements. The Trust has assessed itself as fully compliant with the National Standards for the 2007 Annual Health Check and the Healthcare Commission will announce its 2007 assessment of the Trust in October 2007.
- 3.6 Monitor, the independent regulator of NHS foundation trusts, monitors foundation trusts' performance against their annual plans and for the quarter ended 31 March 2007 has assigned the Trust a risk rating of 'three' (with five being the highest level of risk) for finance and 'green' (low risk) for governance and mandatory services.

## 4 Key findings

- 4.1 This has been a successful year for the Trust in which it has attained foundation trust status and has again achieved its key objectives and continued to expand its services. The Trust achieved all of its statutory financial duties and reported a surplus of £22,000 for the year.
- 4.2 The challenge for the Trust in the coming months will be to seek additional organisational efficiencies and recurrent cost savings in order to achieve its planned surplus in 2007/08 and further improve its financial performance going forward.

### Accounts

- 4.3 The Trust was required to produce two sets of financial statements for 2006/07 – for the seven month period ended 31 October 2006 as an NHS Trust and for the five month period ended 31 March 2007 as a Foundation Trust.
- 4.4 We were able to issue unqualified opinions on both sets of financial statements on 8 June, ahead of the deadlines set by Monitor and the Department of Health. Our opinions confirm that the accounts give a true and fair view of the Trust's financial affairs and of the income and expenditure recorded by the Trust for each period.
- 4.5 The following matters were noted during the audit.

### Application of accounting policies

- 4.6 The Trust has prepared its financial statements in accordance with the templates provided by the Department of Health (for the NHS Trust) and Monitor (for the Foundation Trust) and has in all material respects correctly applied the accounting policies included in the Manual for Accounts (for the NHS Trust) and the NHS Foundation Trust Financial Reporting Manual (for the Foundation Trust).
- 4.7 However, an accounting adjustment was made during the audit as a result of the change in the basis of accounting for revaluations of fixed assets to current values when the Trust became a foundation trust. The NHS Trust accounting policy requires fixed assets to be inflated by a relevant index each year and for a full revaluation to be undertaken every five years, whereas the foundation trust accounting policy does not apply annual indexation but instead requires interim valuations in the third year of a five yearly revaluation cycle. The adjustment was made to pro-rata indexation for the seven month period in the NHS Trust accounts rather than apply it in full to fixed assets at the beginning of the year.

### Agreeing income due from other NHS organisations

- 4.8 As part of the accounts closedown process foundation trusts are encouraged to agree income and expenditure and balances at year end with other NHS organisations.

- 4.9 We noted that the Trust was in dispute with a small number of organisations regarding amounts invoiced for services provided during the year, mainly relating to activity for which there were no contracts in place. The Trust had set aside amounts to cover the potential loss and some progress has been made in recovering this income.
- 4.10 The Trust should ensure that it has contracts with other organisations that allow for the recovery of all services undertaken, and develops arrangements to identify activity that has not been included within contracts for agreement with the NHS commissioner before providing these additional services.

### Future developments

- 4.11 The Treasury has recently announced that central government intends to adopt International Financial Reporting Standards (IFRSs) which will necessitate significant revision to the Financial Reporting Manual (FReM). Foundation trusts will be required to adopt IFRSs for reporting financial performance from 2008/09 and transitional arrangements will need to be put in place in advance.
- 4.12 The Trust should prepare for the adoption of IFRS based on the Treasury timescales and ensure that staff have sufficient knowledge of IFRSs to report under these new standards.

### Use of resources

- 4.13 We are required to review the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money). As a result of becoming a foundation trust part-way through the year, the Trust was not required to participate in the Auditors' Local Evaluation (ALE) of its arrangements and we have therefore followed up on recommendations raised from our previous use of resources work, and reviewed the work to date of the Healthcare Commission and Monitor.
- 4.14 The Trust has made good progress in identifying recurrent savings and cost improvements. Benchmarking exercises are carried out where appropriate and savings have been made from improved procurement processes. The Assurance Framework has been strengthened following the development of the operational risk register for the effective management of the Trust's significant business risks.
- 4.15 We are satisfied that the Trust has proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources although further work is required to carry out a formal baseline assessment of workforce capacity across the Trust and to identify additional opportunities for organisational efficiencies.

## Financial duties

4.16 The Trust has achieved its key statutory financial duties for the year:

Target	Performance	Achieved
<b>NHS Trust requirements</b>		
Breakeven on income and expenditure	Surplus of £9,000 to 31 October 2006	√
Keep within the External Financing Limit	The Trust achieved its EFL of £482,000	√
Keep within the Capital Resource Limit	The Trust achieved its CRL of £71,000	√
<b>Foundation Trust requirements</b>		
Keep within the Prudential Borrowing Limit (PBL)	The Trust did not require any borrowing against its PBL of £5.4million	√
Keep the proportion of income from private patients within agreed limits	The Trust has no private patient income	√

- 4.17 The Trust is required to demonstrate its financial viability over the medium term and submits information on its financial performance to Monitor each quarter. Monitor will assess the achievement against plan, underlying performance, financial efficiency and liquidity. In the latest assessment, Monitor has assigned the Trust a financial risk rating of 'three' for its performance at 31 March 2007, indicating that it has some concerns regarding the Trust's financial performance although these are unlikely to result in a significant breach of the Trust's Terms of Authorisation.
- 4.18 The overall surplus for the year of £22,000 was below the planned target of £230,000, largely due to a reduction of £600,000 in the Trust's allocation of the NHS training contract funding part way through the year and a decrease of £100,000 in consultancy income. The income shortfall has been partly offset by efficiencies achieved through the Trust's cost savings programme.
- 4.19 The cash balance of £271,000 was also lower than planned, although the Trust's cash flow forecasts indicate that it expects the balance to remain positive in the medium term.
- 4.20 The average aggregate financial risk rating for all 59 foundation trusts at 31 March 2007 was 'four'. For the Trust to achieve this risk rating, it would require its surplus to increase from its current forecast of £135,000 to £450,000 in 2007/08.
- 4.21 There are also a number of risks around the forecast surplus, mainly arising from uncertainty on the expected take up for training courses which will not be known until the new academic year, the agreement of its NHS training contract funding for 2007/08, potential reductions in research funding and achieving planned levels of consultancy income. The Trust acknowledges that additional cost savings may be required to cover any income shortfalls in these areas.

## Appendix 1 – Reports issued in relation to the 2006/07 audit

Report	Date Issued
Annual Audit Plan	June 2006
Report of the auditor to those charged with governance	May 2007
Annual Audit Letter	September 2007

## Appendix 2 – Recommendations to the Board of Directors

Recommendation	Management response	Responsibility	Timing
<p>The Trust should ensure that it has contracts with other organisations that allow for the recovery of all services undertaken, and develops arrangements to identify activity that has not been included within contracts for agreement with the NHS commissioner before providing these additional services.</p>	<p>Agreed. The policy for non-contracted activity has been revised.</p>	<p>Director of Performance</p>	<p>ongoing</p>
<p>The Trust should prepare for the adoption of IFRS based on the Treasury timescales and ensure that staff have sufficient knowledge of IFRSs to report under these new standards.</p>	<p>Agreed. DH circulated in May 2007 guidance from HM Treasury stating that we will need to follow IFRSs for the 2008/09 accounts (including 2007/08 comparators). The guidance gave an initial list of likely changes; review of this list suggested that the Tavistock and Portman's accounts may not be significantly affected. Further guidance and manuals will be reviewed when received.</p>	<p>Director of Finance</p>	<p>July 2008</p>
<p>The Trust should carry out a formal baseline assessment of workforce capacity across all services to identify additional opportunities for organisational efficiencies.</p>	<p>Agreed. This should be done as part of the next Annual Plan.</p>	<p>Chief Executive</p>	<p>March 2008</p>