

Trust Board Report

Meeting Date:	26 th September 2011
Title:	Annual review of Supply Strategy 2010-11
Executive Summary:	This report advises on achievements during 2010/11, the final year of the 3 Year Supply Strategy approved by the Board in June 2008, and summarises progress made over the 3 years against key performance indicators.
Action Requested:	Acknowledge the progress made in delivering the supply strategy
Report of:	Kevin Stringer, Chief Finance Officer
Author: Contact Details:	Neil Simmonds Tel 01902 6954 Email Neil.simmonds@nhs.net
Resource Implications:	N/A
Public or Private: (with reasons if private)	Public
References: (eg from/to other committees)	
Appendices/ References/ Background Reading	
NHS Constitution: (How it impacts on any decision-making)	<p>In determining this matter, the Board should have regard to the Core principles contained in the Constitution of:</p> <ul style="list-style-type: none">  Equality of treatment and access to services  High standards of excellence and professionalism  Service user preferences  Cross community working  Best Value  Accountability through local influence and scrutiny

Background Details

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**THE ROYAL WOLVERHAMPTON HOSPITALS NHS TRUST
REPORT TO TRUST BOARD
ANNUAL REVIEW OF SUPPLY STRATEGY 2010 – 2011**

1. Summary

This report focuses on the continued development of performance management, the achievement of the procurement savings target, the expansion of Procurement influence and the contribution Procurement has made to capital and service developments.

2. Overview of Supply Strategy

The Supply Strategy sets out the management arrangements for Procurement within the Trust, the role of the Procurement Department, the key principles to be adopted when conducting supply activity and the key issues to be addressed. These included the expansion of Procurement influence and the achievement of the annual savings target, the development of electronic requisition and ordering processes, increased consideration of sustainability and environmental issues and the development of the professional competence of Procurement staff.

Throughout 2010-11, supply activity has been conducted within this framework.

3. Performance Management

A Strategic Work Plan is in place which sets out the key outcomes and targets to be implemented. Progress against this is monitored in conjunction with the Finance Director on a monthly basis.

Some of the highlights from these are:

- Contribution of £1.7m towards the Trust's overall CIP target
- Value of locally held stocks has almost been halved
- On-going consolidation of category management through NHS Supply Chain has resulted in the increase in line activity of 3%
- Supplier direct ordering line activity has continued to increase, this year by over 2,000
- Percentage value of Supplier direct orders covered by contracts has increased by 5%
- The use of electronic ordering systems has significantly increased

The remainder of this paper will highlight key achievements and developments during the year.

4. Key Departmental Achievements and Developments

4.1 Procurement Savings

The Procurement C.I.P. savings contribution for 2010 – 2011 was set at **£2.5 million**. Table 1 below indicates details of in year Revenue savings achieved.

Table 1 – Summary of Procurement Savings Achieved 2010 - 2011

Savings Summary 2010-11	Value
Brought forward from 2009-10 impacted on 2010-11	£487,820
Savings achieved 2010-11	£1,212,910
Total 'in-year' Revenue savings (target £2.5m)	£1,700,730
Annual recurring impact	£1,465,421
Carried forward to next Financial year 2011 - 2012	£343,363
Total combined capital & revenue	£1,782,386

The most significant **Revenue** savings contributing to C.I.P. during the year include:

- Haemodialysis & Peritoneal Dialysis - £83,000
- Heart Valves - £79,000
- Radiology and Cardiology Consumables - £64,000
- Synergy Sterile Services Contract - £43,000
- Diabetes Insulin Infusion - £37,000
- Financial General Ledger System - £31,000

In addition, the Procurement Team had significant success in negotiating fixed contract prices which have negated inflationary increases by some £800,000.

Overall, however the team were not able to deliver the £2.5m CIP target. There are some key factors which impacted on the performance. Firstly and most significantly the engagement process and relationship with the managers and clinical teams/leads was somewhat disjointed and ineffective. In addition the lack of an integrated stock management system to provide comprehensive visibility of products, stock levels and demand, delayed initiatives for some of the major medical consumable/implant spends.

In recognising these issues, during the latter part of the year Procurement savings performance has been embedded within the Divisional Cost Improvement Programmes and Directorate and Department managers meet with a Procurement lead and have individual savings and project plans which cover their spend areas..

The Trust also commissioned an extensive supply chain review which resulted in a business case for investment in materials management services/systems, together with the purchase of inventory management solution for the high value/volume areas. This case was approved by the Capital Review Group and subsequently endorsed by the Trust Management team. This will be targeted on 88 requisition locations capturing over £18m spend on medical consumables and implants.

4.2 Expansion of Procurement Influence

The year on year target to increase procurement influence/contract coverage on non-pay spend was set at 3%. For the financial year 2010/11 a 5% increase was achieved on Supplier direct activity supported by the contract compliance benefits of the accelerated e-Series electronic ordering roll out.

Working alongside Capital & Estates Development and Finance leads all Measured Term orders are now transacted through e-Series and captured direct on the Integra General Ledger system. This will provide visibility of supplier activity and spend to enable targeted Procurement engagement as well as managing SFI compliance.

Work has also been undertaken this year to maximise income for the Trust within the Women's and Children's Directorate, consolidating agreements for baby portrait services with the issue of 'Bounty Packs'. This has realised in-year income for the Directorate of £20,000 with additional recurrent income of £8,856 pa.

Procurement have also negotiated reduced rates for Child Care voucher provision, as part of the Trusts salary sacrifice scheme. This has realised savings of £7,500 pa.

4.3 Collaborative Procurement Arrangements

The continued collaboration with NHS Supply Chain throughout 2010-11 has resulted in increased growth both in terms of product lines and value of spend transacted.

Exiting the HPC agreement from 1st April 2010, the Trust has continued to work collaboratively at a regional level working with a number of other Trusts across the West Midlands (as the re-established West Midlands Procurement Alliance) on a defined contracts workplan covering 12 major medical and surgical consumable spend areas. To date this collaboration has delivered recurrent revenue savings of £135,000 for the Trust.

4.4 Capital and Service Developments

During 2010-11 Procurement has made a major contribution to the completion of various capital and service developments including:

- Purchasing of Medical equipment under MEPG (Medical Equipment Purchasing Group), total spend of £1.73m with savings generated of £31,000. Items included:- EP Lab & Mapping system – equipment and consumable requirements to support the introduction of a new service within Heart & Lung; Lasers for Ophthalmology, Urology and ENT; Liquid chromatograph tandem mass spectrometer for Clinical Chemistry and Bone cement removal system to facilitate change in clinical practise
- Renal I.T. system
- Integrated compliance management IT system for Governance
- I.T. Network upgrade
- Additional Theatre instrumentation
- F & E projects including: Catering CPU, Regeneration Kitchens, Delivery Suite and ENT decontamination
- Completion of lease acquisition of surgical robot

4.5 E-Commerce and Supply Operations

As required by the Supply Strategy, the main emphasis in supply operations activity has been to introduce more efficient processes. Towards this end the following developments have been progressed:

- The E-Series ordering system, which facilitates electronic requisitioning and also, where applicable, enables users to select products from an electronic catalogue and place orders electronically directly with suppliers, is now operational in 103 Requisition Points (an increase of over 200% from the 33 areas last financial year). There has been a 34% increase in catalogue items loaded to date (from 16,875 to 22,760).
- We have continued to increase the use of email for purchase orders by ensuring as many suppliers as possible are email enabled. This year another 219 suppliers are now receiving purchase orders via emails which is an increase of 42% from 525 to 744.
- The SOLO on-line ordering system used for ordering goods from NHS Supply Chain has been expanded to a further 22 departments during the year giving a total of 123 which is an increase of 22%.
- E-Sourcing and Evaluation – the 2 electronic systems, e-tendering (Bravo) and e-evaluation (Award) have been implemented resulting in the automation and elimination of some of the repetitive routine processes associated with the invitation, evaluation and award of contracts.
- The value of centrally held stocks managed by the Procurement Department has been maintained at significantly reduced levels as alternative methods of supply have been implemented.

4.6 Sustainability and Environmental Issues

The department has key role in developing the Trust's Sustainable Procurement Strategy. The primary aim of the Strategy is to ensure that goods and services procured by the Trust are designed, manufactured, delivered, used and managed at end-of-life in an environmentally and socially responsible manner.

In brief the strategy describes how the Trust will conduct its purchasing activity to support the commitments made in the Trust's Sustainability and Carbon Reduction Strategy. The strategy has been developed with consideration of the Procuring for Carbon Reduction Roadmap (P4CR). The strategy is also compatible with the Trust's on-going development of a modern Purchasing function embracing sector wide best practice techniques.

This will assist in:

- identifying opportunity for greater efficiency in the supply chain
- identifying opportunity for greater efficiency in the Trust

- stimulating innovation in the supply chain to deliver viable sustainable options for both goods and services
- meeting stakeholder expectations
- reducing sustainability risks posed to the Trust through the practices of supply chain partners, the sourcing of materials and design of goods
- identifying and realising reductions in carbon emissions resulting from the procurement activities of the Trust

4.7 **Business Continuity and Emergency Planning**

In addition to Procurement specific business continuity plans established in September 2010, the Receipts and Distribution team have worked alongside A&E for mass casualty operational planning identifying products and optimising stock levels to account for potential major incident.

4.8 **Procurement Department**

Staff have continued to progress towards professional qualifications and 12 staff are now fully or partially qualified under the Chartered Institute of Purchasing & Supply.

Staff have also attended appropriate Trust Policy awareness sessions and specialist ad hoc training courses. Katherine Glazebrook, Acting Senior Category Manager, became a recommended trainer for the National Sustainability Public Procurement Training Programme and all the Procurement team have undertaken the basic level Sustainable and Ethical Procurement training e-modules which now form part of the on-going Departmental Induction and Training programme.

5. **Summary and Recommendation**

The progress made during the last year continues the progress made in previous years and demonstrates the contribution that the procurement function has made to the achievement of overall Trust objectives.

The table below demonstrates achievements against some of the Key Performance Indicators measured over the 3 year period of the Supply Strategy:

	Financial Year 2008-09	Financial Year 2009-10	Financial Year 2010-11
Financial			
Savings	£1.57m	£1.47	£1.78m
Value of Centrally held stocks	£80,577	£84,853	£46,088
Activity & Efficiency			
Number of Order Lines processed – Supplier direct	34,344	44,109	46,360
Number of Order Lines processed – NHSSC warehouse	141,076	152,463	157,444
Purchasing & Contract Coverage			
Percentage value of Supplier direct orders covered by contracts	68%	69%	74%
Number of suppliers accounting for 80% of spend	140	121	120
e-Commerce & Materials Management			
Number of requisition locations using e-Series	23	33	103
Number of requisition locations using SOLO (NHSSC on Line Ordering system)	78	101	123
Number of locations operating Materials Management	44		
Team Information			
Sickness Absence	3.5%	2.3%	2.3%
Number of staff CIPS part / fully qualified	9	10	12
Number of appraisals conducted	25	22	10

It is recommended that the Trust Board receives this report and acknowledges the progress made in delivering the Supply Strategy.

All of these developments have made an important contribution to the provision of quality patient care and illustrate the role played by Procurement and the broad range of activities undertaken.

6. **Moving forward**

It is now necessary to revise the previous strategy, reflecting the integrated acute/community services provided by the Trust; the move towards Foundation status and the adoption of the new Trust Vision, together with current issues and developments which impact on supply activity.

The revised 3 year strategy will be completed for presentation at the October 2011 Board meeting, and this updated version will build on the work contained in the previous strategy; it will seek to identify areas for on-going improvement and review together with initiatives that represent transformation in the way we buy goods and services, from the systems we have in place and the processes that we follow.

Neil Simmonds
Acting Head of Procurement
September 2011

Government and Public Sector

***The Royal
Wolverhampton
Hospitals NHS Trust***
Annual Audit Letter

September 2011

2010/11 Audit

The Board
The Royal Wolverhampton Hospitals NHS Trust
New Cross Hospital
Heath Town
Wolverhampton
WV10 0QP

21 September 2011

Ladies and Gentleman

We are pleased to present our Annual Audit Letter summarising the results of our 2010/11 audit. A draft of this letter was presented to the Audit Committee at its meeting on 8 September 2011. We would like to thank all those directors and staff with whom we have had contact for their help and assistance throughout the course of our work during 2010/11.

Yours faithfully



PricewaterhouseCoopers LLP

Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In April 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to directors or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any director or officer in their individual capacity or to any third party.

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Executive Summary

Introduction

The purpose of this letter is to provide a high level summary of the results of the 2010/11 audit work we have undertaken at The Royal Wolverhampton Hospitals NHS Trust that is accessible for the Board and other interested stakeholders.

We have already reported the detailed findings from our audit work to those charged with governance, which in the case of the Trust has previously been agreed as being the Trust's Audit Committee, in the following reports:

- Progress Reports (February 2011 and April 2011);
- Report on the results of our audit of the 2010/11 financial statements under the requirements of the International Standard on Auditing (ISA) (UK and Ireland) 260 (ISA (UK&I) 260);
- Audit opinion on the 2010/11 financial statements, incorporating our conclusion on the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources;
- Audit opinion on the Summary Financial Statements included within the Annual Report; and
- 2010/11 External Assurance on the Quality Account (which was in fact reported directly to the Trust Board).

Scope of work

Our audit work is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Trust is responsible for preparing and publishing its financial statements, including the Statement on Internal Control. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. As auditors we are responsible for:

- Forming opinions on the statutory financial statements (including the Trust's Statement on Internal Control) and the summary financial statements included in the Annual Report;
- Forming a conclusion on the arrangements that the Trust has in place to secure economy, efficiency and effectiveness in its use of resources; and
- undertaking any other work specified by the Audit Commission.

Our 2010/11 audit work has been undertaken in accordance with the Audit Plan that we discussed and agreed with the Audit Committee at its meeting on 24 February 2011. We have set out in the rest of this report what we consider to be the most significant matters arising from our audit. The following scorecard summarises our views across the main areas of our audit using the following key:

Key**Red** – significant improvements required**Amber** – some improvements required**Green** – no or some minor improvements required**Audit Scorecard**

Audit Area		Comments
Financial Statements		Our audit identified no significant issues with respect to the quality of the draft accounts presented for audit. We issued an unqualified opinion on the Trust's financial statements on 9 June 2011.
Annual Report and Summary Financial Statements		We reviewed whether the content of the Annual Report complied with the NHS Manual for Accounts and our review identified no significant issues. We issued an unqualified ('consistent with') opinion on the Trust's Summary Financial Statements included within the Annual Report on 12 August 2011.
Financial Standing/Going Concern		The Trust achieved all of the financial reporting targets that it is required to report upon within the statutory financial statements. There were no material uncertainties related to events and conditions that may cast significant doubt on the Trust's ability to continue as a going concern. The Trust is on target to achieve its financial plans in 2011/12.
Internal Controls		We reviewed the Trust's systems of internal financial control for the purposes of our audit and our review of the Statement on Internal Control. Our work identified no significant matters to bring to your attention here. We reviewed the Trust's Statement on Internal Control to consider whether it complied with relevant guidance and whether it was misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.
Use of resources (Value for Money) conclusion		We reviewed the Trust's arrangements for planning for the effective transfer of community health services to the Trust on 1 April 2011. We also reviewed how the Trust monitors its Capital Programme. Based on this and other work we concluded that the Trust had put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources. We therefore issued an unqualified conclusion on the Trust's arrangements for its use of resources on 9 June 2011.
Quality Account		Our work concluded that the Trust's arrangements for producing the Quality Account were sound and that performance indicator information included in the Quality Account was fairly stated. We also concluded that the information contained in the Quality Account was consistent with the Trust's Statement on Internal Control and that it complied with relevant regulations and guidance.

Review of
reference cost data
quality



We assessed the Trust as **performing adequately** across all four theme areas that support arrangements for good quality reference costs. Our findings indicated that across all four areas there were elements of the audit criteria where the Trust was performing well, however, the audit criteria for performing well had not been met fully in each of the areas reviewed.

Audit Findings

Financial Statements

Audit Opinion

We audited the Trust's financial statements in line with approved Auditing Standards in May 2011 and the early part of June 2011. We reported the detailed findings from our audit of the financial statements to the Trust's Audit Committee at a meeting on 7 June 2011 and issued an **unqualified audit opinion** on 9 June 2011.

We summarise below the significant matters arising from our audit of the financial statements.

Accounts Preparation

Your draft financial statements were submitted to the Department of Health on time. Our audit identified no significant issues with respect to the quality of the draft accounts presented for audit. Most working papers were available for audit on time and were of high quality. Key staff were also available to address any audit queries. The Finance Team responded positively to our audit questions and requests for information. In light of the other pressures on the Finance Team, including the continued Foundation Trust assessment and the community health services transfer, the Trust's accounting performance is to be commended.

Accounting issues

Radiology PFI

In September 2010 the Trust agreed a variation order with its radiology PFI provider for the provision of new equipment. This variation order increased the annual cost of the PFI contract by approximately £0.8m. The Trust updated its accounting for the radiology PFI scheme within its 2010/11 accounts with the support of its PFI accounting advisors. We reviewed the updated accounting model and associated accounting entries and identified some apparent anomalies in the model.

As part of our fixed asset testing we also sought confirmation from the Trust's PFI provider as to the accuracy of £3.8 million of fixed asset additions included in the Trust's accounts in relation to this scheme. This amount reflected 100% of the PFI provider's 2010/11 programme of capital work. The correspondence we received from the PFI provider confirmed that the capital spend included in the 2010/11 accounts had been overstated by £0.8 million. This was due to the planned purchase of a MRI scanner being delayed.

We satisfied ourselves that the Trust's accounts were not materially misstated as a result of the above. However, we discussed this matter with the Director of Finance and Information who agreed with us that the Trust's PFI accounting model requires updating prior to the preparation of the 2011/12 accounts. The Director of Finance and Information also agreed that further steps will be undertaken in future to confirm the value of in-year capital spending incurred by the PFI provider.

Prior Period Adjustment

During 2010/11 the Trust identified that it had a negative revaluation reserve balance of £2.2m within its reserves. International Finance Reporting Standards (IFRS) require that the revaluation reserve contains only positive balances. On identifying this, the Trust discussed the matter with us and proposed putting through a prior period adjustment (to the Revaluation Reserve and Retained Earnings balance) within the Trust's statutory financial statements. We were satisfied that this accounting treatment would have been reasonable under the circumstances.

However, in addition to the statutory financial statements, the Trust also submits summarisation schedules or 'TRU' forms to the Department of Health. We provide a 'consistent with (the statutory financial statements)' opinion on the Trust's TRU forms. TRU forms require the Trust to account for prior period adjustments differently than in the statutory financial statements. As a result, a prior period adjustment would have required our 'consistent with' opinion to be modified.

During the audit process further discussions on this matter took place between the Trust, the Strategic Health Authority and ourselves to determine the most appropriate accounting treatment in the circumstances. As a result of these discussions, the Trust decided against accounting for this matter as a prior period adjustment and instead decided to account for the adjustment as an in-year transaction within the 2010/11 financial statements. This change in treatment impacted on reserve balances only and did not impact on the Trust's financial performance for the year. On this basis, and the fact that the amount involved was not material to the financial statements, we accepted the Trust's revised accounting treatment on this matter. As a result we were also able to issue an unmodified 'consistent with' opinion on the Trust's TRU forms.

Unadjusted misstatements

We identified a small number of unadjusted items. Had these items been adjusted, the Trust's reported surplus and net asset position would have increased by £186,000. The largest unadjusted item was a projected misstatement of £123,000. This was 'extrapolated' from the results of our testing where we identified three minor errors in accruals with a net impact of £5,000 on the income statement. After considering our ISA 260 report, the Trust's Audit Committee decided not to adjust the accounts for the unadjusted items on the grounds that they were not material, either individually or in aggregate, to the truth and fairness of the accounts either taken as a whole or in connection with the ability properly to assess the performance and financial position of the Trust. We considered the qualitative and quantitative aspects of the unadjusted items and concluded that, this would not adversely impact on our audit opinion.

Annual Report and Summary Financial Statements

The NHS Manual for Accounts requires NHS bodies to publish, as a single document, an annual report and accounts. The Annual Report consists of a Directors' Report, based on the requirements of Chapter 5 of Part 15 of the Companies Act 2006, and a Remuneration Report based on Chapter 6 of Part 15 of the Companies Act 2006.

Auditors are required to review the Annual Report for consistency with the information in the statutory financial statements. We are also required to consider whether the content of the Annual Report meets the requirements set out by the NHS Manual for Accounts and whether the Summary Financial Statements included in the Annual Report are consistent with the Trust's statutory financial statements.

Our work found no areas of inconsistency to report in this context. We issued an unqualified ('consistent with') opinion on the Trust's Summary Financial Statements on 12 August 2011.

Financial standing/Going concern

Financial Standing

The Trust is responsible for ensuring that it has arrangements in place to secure its financial standing. One of our key responsibilities as auditors is to fully consider the financial standing of the Trust.

Where there are significant doubts as to the Trust's ability to meet its statutory financial duties we are required to take appropriate steps to ensure that the Trust's accounts fully reflect such matters and to draw any concerns in relation to financial standing to the attention of management, the Board and in certain circumstances, to external parties. The Trust's performance in 2010/11 in relation to the financial reporting targets that the Trust is required to report upon within the statutory financial statements is summarised below:

Performance Target	2010/11 Performance	Achieved
To achieve its statutory duty to break-even	The Trust reported an in-year surplus of £8.0 million and a cumulative surplus of £8.6 million.	✓
To absorb the cost of capital	Achievement of the 3.5% prescribed absorption rate.	✓
To remain within the Capital Resource Limit	The Trust reported an under spend of £0.1 million against its Capital Resource Limit.	✓
To remain within the External Financing Limit	The Trust undershot its notified External Financing Limit by £5.5 million.	✓

Going concern

There were no material uncertainties related to events and conditions that may cast significant doubt on the Trust's ability to continue as a going concern. In addition to the points noted above, we noted:

- strong performance against the 2010/11 Cost Improvement Plan (CIP) target;
- the Trust plans to achieve a significant surplus in 2011/12; and
- as at 31 March 2011 the Trust had available cash balances of £11.8 million.

We concluded that in overall terms the Trust had sufficient resources available to meet its commitments for at least a 12-month period after the date of our audit opinion. We therefore concluded that the use of the going concern assumption was appropriate in the preparation and presentation of the financial statements.

Current year position

As at the end of June 2011 the Trust was reporting:

- a cumulative 2011/12 surplus position of £2.4 million, which is £0.5 million ahead of plan;
- an estimated forecast outturn (to 31 March 2012) of £7.0 million; and
- an annual cost improvement programme (CIP) of £14.1 million, of which £5.6 million had been identified and withdrawn from budgets. Of the remaining programme the Trust has identified £1.4 million as high risk, £6.9 million as medium risk and £0.3 million as low risk.

We will continue to monitor the Trust's financial resilience and performance against budget and against its cost improvement plans as a routine part of our 2011/12 audit procedures.

Internal Controls

Accounting systems and systems of internal control

It is the responsibility of the Trust to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. We review these arrangements for the purposes of our audit of the financial statements and our review of the Statement on Internal Control. Our work identified no significant matters to bring to your attention.

Statement on Internal Control (SIC)

NHS trusts are required by the Department of Health to produce a Statement on Internal Control (SIC), to be included in the financial statements and the Annual Report. The aim of the SIC is to disclose whether the Trust had risk management and review processes, as evidenced by the Department of Health's Assurance Framework, in place for the whole of the period covered by the financial statements.

We reviewed the SIC to consider whether it complied with relevant guidance and whether it was misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

Use of Resources

Economy, efficiency and effectiveness

Our Use of Resources Code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources. In accordance with guidance issued by the Audit Commission, in 2010/11 our conclusion was based on two criteria:

- the organisation has proper arrangements in place for securing financial resilience; and
- the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Unlike in previous years, we were not required to reach a scored judgement in relation to these criteria and the Audit Commission did not develop 'key lines of enquiry' for each criteria. Instead, we determined a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

Our Audit Plan set out our tailored local programme of audit work which focussed on reviewing the Trust's arrangements for:

- planning for the effective transfer of community health services (previously provided by Wolverhampton City Primary Care Trust) to the Trust on 1 April 2011; and
- monitoring its Capital Programme.

In addition to the above we kept a watching brief on your financial plans, including cost improvement plans.

Transforming Community Services 'TCS'

On 1 April 2011 community health services previously provided by Wolverhampton City Primary Care Trust were transferred to the Trust. Careful planning was required to ensure that community health services were effectively transferred to the Trust, and that these services were financially and operationally viable.

We considered the steps taken by the Trust to prepare for and manage this transfer. In line with guidance issued to us by the Audit Commission, we particularly focused upon the steps taken by the Trust to secure financial resilience and value for money in respect of the transfer.

Our work identified no issues regarding the Trust's arrangements to secure economy, efficiency and effectiveness in the use of resources with regard to the transfer of community health services. In reaching this conclusion we considered the steps taken by the Trust to manage risks associated with the TCS transfer effectively. In particular, we noted the level of engagement of the Board and senior management team in the process, the way the Trust organised itself and how it project managed the tasks in hand. We also noted the strategies and tools used by the Trust to gain the assurance it needed on key risk areas, including the commissioning of detailed due diligence investigations.

Capital Programme

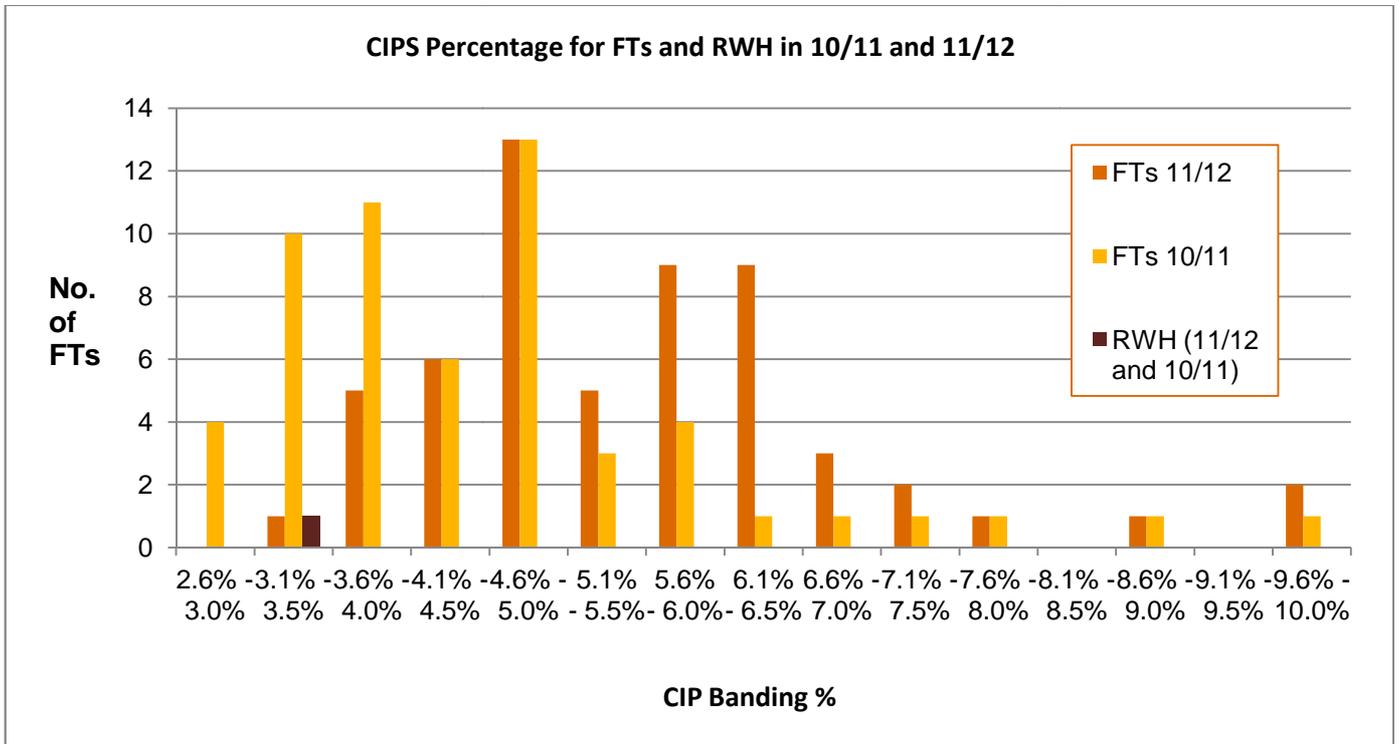
Over a six year period to 2015/16 the Trust's Capital Programme amounts to approximately £80 million. For 2010/11, the Trust incurred capital expenditure of £21.7 million. This programme requires careful planning and monitoring to ensure that capital spending is appropriately controlled, that it delivers the intended outcomes and provides value for money.

We considered the steps taken by the Trust to manage its Capital Programme. In line with guidance issued to us by the Audit Commission, we particularly focused upon the steps taken by the Trust to secure financial resilience and value for money in respect of its capital spending.

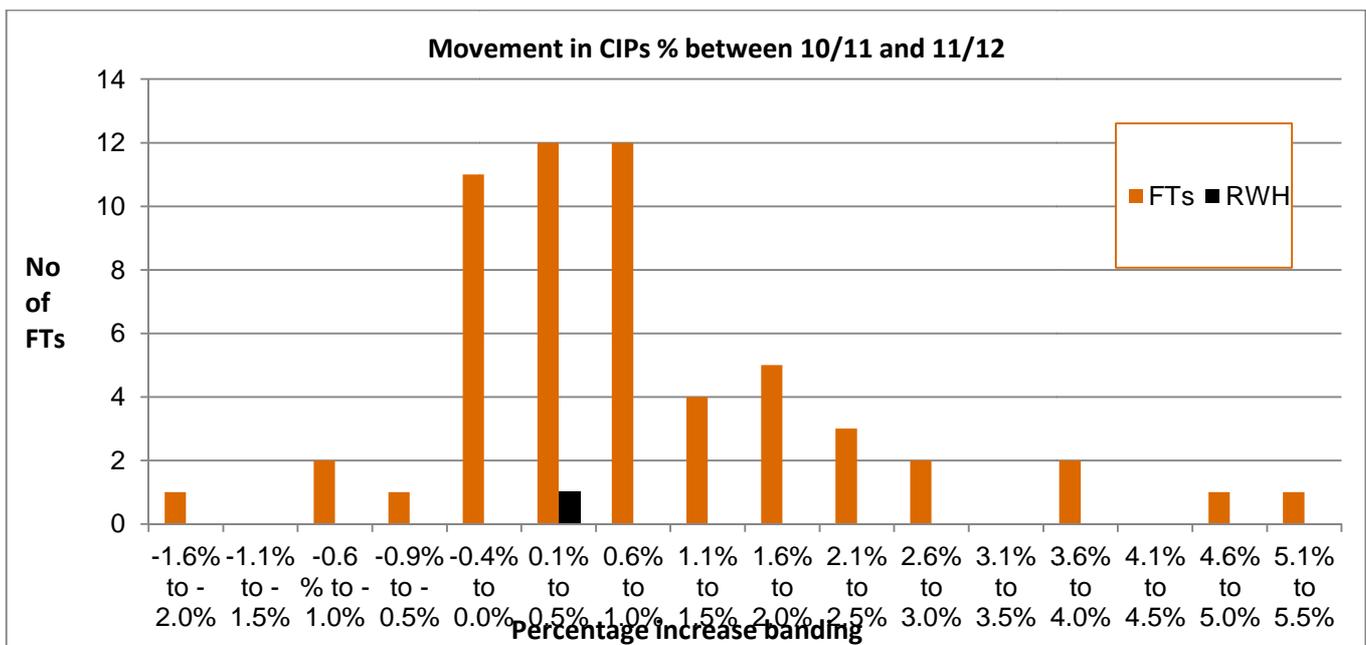
Our work identified no issues regarding the Trust's arrangements to secure economy, efficiency and effectiveness in the use of resources with regard to the management of its capital programme. In reaching this conclusion we considered the steps taken by the Trust to manage risks and monitor the Capital Programme. In particular, our review noted the Trust's capital scheme approval procedures, the level of management oversight of the Capital Programme and the positive findings of Internal Audit.

Cost improvement plans

We considered the steps taken by the Trust to secure financial resilience including its cost improvement plans (CIP). The graph below compares the relative size of your CIP in comparison to our Foundation Trust benchmark group, for both the 2010/11 and 2011/12 financial years.



The following graph shows how the relative increase of your CIPs between 2010/11 and 2011/12 compares to our Foundation Trust benchmark group.



Use of Resources Conclusion

Based on the findings of all our work we concluded that you have put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources. We therefore issued an unqualified conclusion on the Trust's arrangements for its Use of Resources on 9 June 2011.

Quality accounts

A quality account is a report about the quality of services provided by an NHS healthcare service. The report is published annually by each NHS healthcare provider and is available to the public. The first statutory quality accounts were published in June 2010, covering activity for 2009/10. For the first time, in 2010/11 quality accounts published by NHS trusts were subject to external audit review.

In line with guidance issued to us by the Audit Commission, our audit work included:

- a review of the Trust's arrangements for satisfying itself that the Quality Account was fairly stated;
- testing (on a sample basis) of two performance indicators included in the Quality Account;
- reviewing whether the information contained in the Quality Account was consistent with the Trust's Statement on Internal Control (SIC); and
- reviewing whether the Trust had complied with relevant Department of Health (DH) requirements and associated DH guidance notes when producing its Quality Account.

We completed our work in June 2011 and concluded that:

- the Trust's arrangements for producing the Quality Account were sound;
- performance indicator information included in the Quality Account was fairly stated;
- the information contained in the Quality Account was consistent with the Trust's Statement in Internal Control (SIC); and
- the Trust had complied with the requirements set out in the Quality Accounts regulations and had considered the Quality Accounts Toolkit 2010/11 when producing its Quality Account.

We reported the detailed findings from our audit of the Quality Account to management on 29 June 2011. This report included a small number of recommendations which were discussed and agreed with management.

Review of reference cost data quality

Reference costs are the average cost to the NHS of providing a defined service in a given financial year. Reference costs are important because they provide the NHS with key data to:

- calculate and develop the national tariff;
- produce Programme Budgeting data;
- assess various NHS productivity analysis, for example the Office of National Statistics public healthcare output; and
- calculate the weighted capitation formula used to inform PCT allocations.

The DH asked the Audit Commission to deliver a programme of reference cost data quality reviews at all acute NHS trusts and Foundation Trusts during the year. We carried out this review in December 2010 using the methodology developed by the Audit Commission and reference cost data from April 2009 to March 2010.

We used a Key Lines of Enquiry (KLOE) framework, developed by the Audit Commission, to rate the Trust's performance using a four part rating scale as follows:

Level	Description
Inadequate performance	Below minimum requirements
Adequate performance	Only at minimum requirements
Performing well	Consistently above minimum requirements
Performing strongly	Well above minimum requirements

We were required to assess four areas of the Trust's performance. The following table summarises our findings:

Area assessed	What we were looking for	Findings
Engagement	There is senior level engagement in and support for the data quality of reference costing data.	Adequate performance
Activity reporting	There are arrangements to support recording all relevant activity right at final submission.	Adequate performance
Approach to costing	There are arrangements to ensure a robust approach to costing.	Adequate performance
Data capture systems	The organisation's IT systems provide adequate functionality and controls to ensure the production of robust activity and costing information.	Adequate performance

We assessed the Trust as performing adequately across all four of the areas that support arrangements for good quality reference costs. Furthermore, our findings indicated that across all four areas there were elements of the audit criteria where the Trust was performing well; however, the audit criteria for performing well had not been met fully in each of the areas assessed. Recommendations for improvement have been made in each of the areas assessed and if implemented should enable the Trust to demonstrate that it is performing well.

We reported the detailed findings from our audit of the reference cost data to management on 25 March 2011. This report included a small number of recommendations which were discussed and agreed with management.

Summary of Recommendations

During the course of our audit work we have made a number of recommendations to the Trust. These have been discussed and agreed with management. None of these recommendations are significant enough to warrant reporting in this letter. However, we will continue to report to the Trust's Audit Committee on the Trust's progress in implementing the agreed actions in response to the recommendations that we have made.

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