

TRUST BOARD IN PUBLIC	Date: 26th September 2013	
	Agenda Item: 4.4	
REPORT TITLE:	Annual Audit Letter	
EXECUTIVE SPONSOR:	Richard Congdon (Non Executive Director and AAC Chair)	
REPORT AUTHOR:	Paul Simpson (letter prepared by Grant Thornton – external auditor),	
REPORT DISCUSSED PREVIOUSLY: (name of sub-committee/group & date)	Audit & Assurance Committee - 02/09/13	
Purpose of the Report and Action Required:		(√)
	Approval	
	Discussion	
	Information/Assurance	√
Summary of Key Issues		
<p>The Audit & Assurance Committee (AAC) has accepted the draft Annual Audit letter for 2012/13 which is now presented to the Board for acceptance and publication. The Trust's auditor is Grant Thornton UK LLP.</p> <p>The Audit conclusions are as follows:</p> <ul style="list-style-type: none"> ▪ An unqualified opinion on the accounts which give a true and fair view of the Trust's financial position as at 31 March 2013 and its income and expenditure for the year. ▪ A qualified conclusion in respect of the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources – the qualified conclusion is because the Trust received non-recurrent financial support in the year. The Auditor notes that a) the Trust is on track against its medium term financial plan and b) meets the criteria for achieving savings and efficiency; ▪ A qualified limited [in scope] assurance report in respect of the Trust's Quality Account ▪ A group assurance certificate, issued to the National Audit Office, in respect of Whole of Government Accounts which did not identify any issues for the group auditor to consider. 		

Relationship to Trust Corporate Objectives & Assurance Framework:	
<p>Objective 4 – Become a Sustainable, Effective Organisation – live within our means both in year and sustainably into the future. Key targets - delivery of agreed financial budget (breakeven) and deliver savings target</p> <p>This letter provides the final formal confirmation of delivery of Trust financial targets in 2012/13 and the reduced risk assessments record in the last 2012/13 BAF.</p>	
Corporate Impact Assessment:	
Legal and regulatory implications	<p>Financial performance is subject to Schedule 5 of the NHS Act 2006 which provides the “breakeven duty”.</p> <p>This is a letter from the Trust’s external auditor and provides a formal conclusion on Trust accounts, and related aspects, for 2012/13.</p> <p>The main regulators for the Trust are as follows:</p> <ul style="list-style-type: none"> - External audit (the Audit Commission for this Trust) give an opinion on the Trust’s compliance with International Financial Reporting Standards and with NHS accounting conventions – this is not purely financial and deals with procurement, fraud, transparency and legal duties. It also gives a Value for Money Conclusion on the Trust’s ability to put in place arrangements to deliver economy, efficiency and effectiveness in its use of resources. - The Care Quality Commission registers the Trust according to its compliance with regulations concerning the safety and quality of services
Financial implications	No direct financial implications – this is an analysis of past financial performance with description of risk in respect of financial resilience.
Patient Experience/Engagement	No impact – although this is a public letter providing a concise summary of Trust financial performance in 2012/13.
Risk & Performance Management	This is an analysis of past financial performance and validates previous “real-time” reporting. See also financial implications above.
NHS Constitution/Equality & Diversity/Communication	No relevant aspects, and no compliance breach identified.
Attachments:	

[END]



The Annual Audit Letter for Surrey and Sussex Healthcare NHS Trust

Year ended 31 March 2013

25 July 2013

Darren Wells

Director

T 01293 554 120

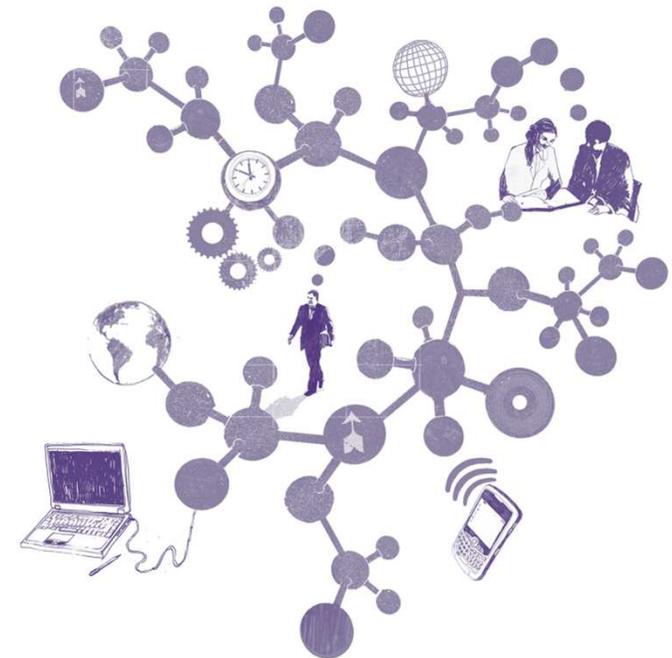
E darren.j.wells@uk.gt.com

Jamie Bewick

Manager

T 01293 554 138

E jamie.n.bewick@uk.gt.com



Contents

Section	Page
1. Executive summary	3
2. Audit of the accounts	5
3. Value for Money	8
4. Quality Account	14
5. Reports issued and fees	16

Section 1: Executive summary

- 01. Executive summary
- 02. Audit of the accounts
- 03. Value for Money
- 04. Quality Account
- 05. Reports issued and fees

Executive summary

Purpose of this Letter

Our Annual Audit Letter summarises the key findings arising from the following work that we have carried out at Surrey and Sussex Healthcare NHS Trust (the Trust) for the year ended 31 March 2013:

- auditing the 2012/13 accounts (Section two)
- assessing the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources (VFM conclusion - Section three)
- reviewing the Trust's Quality Account (Section four).

The Letter is intended to communicate key messages to the Trust and external stakeholders, including members of the public.

We reported the detailed findings from our audit work to the Trust's Audit and Assurance Committee as those charged with governance in our Audit Findings Report on 31 May 2013.

Responsibilities of the external auditors and the Trust

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

The Trust is responsible for preparing and publishing its financial statements, accompanied by an Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money).

Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued in February 2013 and was conducted in accordance with the Audit Commission's Code of Audit Practice ('the Code'), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Audit conclusions

The audit conclusions which we have provided in relation to 2012/13 are as follows:

- An unqualified opinion on the accounts which give a true and fair view of the Trust's financial position as at 31 March 2013 and its income and expenditure for the year.
- A qualified conclusion in respect of the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- A qualified limited assurance report in respect of the Trust's Quality Account
- A group assurance certificate, issued to the National Audit Office, in respect of Whole of Government Accounts which did not identify any issues for the group auditor to consider.

Acknowledgements

This Letter has been agreed with the Trust's Chief Executive and Chief Finance Officer on xx July 2013. We would like thank the Trust for the assistance and co-operation provided to us during our audit.

Grant Thornton UK LLP
July 2013

Section 2: Audit of the accounts

- 01. Executive summary
- 02. Audit of the accounts**
- 03. Value for Money
- 04. Quality Account
- 05. Reports issued and fees

Audit of the accounts

Audit of the accounts

The key findings of our audit of the accounts are summarised below:

Preparation of the accounts

The Trust presented draft accounts for audit on 22 April 2013, in accordance with the national deadline set by the Department of Health. Comprehensive working papers were made available to allow audit fieldwork to commence by 29 April in line with the timetable we agreed in advance with the Finance Team. Those working papers were of a consistently high quality and management were very prompt and helpful in responding to our queries.

The financial statements were prepared to a high standard and there were no significant issues arising from our audit. Following our audit the Trust made only minor amendments to its draft statements, none of which had any impact on the reported income and expenditure position.

Annual Governance Statement and Annual Report

Our review of the Trust's Annual Governance Statement confirmed it was prepared in accordance with Department of Health Guidance and was in line with our knowledge of the Trust.

The Trust provided us with a draft Annual Report on 29 April 2013. We reviewed the narrative element of the Annual report and were satisfied it was consistent with our knowledge of the Trust. We also audited the pay and pension disclosures for Trust senior managers in the Remuneration Report and confirmed they were fairly stated. The first draft of the annual report omitted a small number of disclosures which were required by the Department of Health's guidance. The Trust later added this additional information.

Conclusion

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (defined as the Audit and Assurance Committee at the Trust). We presented our report to the Audit and Assurance Committee on 31 May 2013 and summarise only the key messages in this Letter.

We issued an unqualified opinion on the Trust's 2012/13 accounts on 4 June 2013, meeting the Department of Health's deadline of 10 June. Our opinion confirms 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.

Audit of the accounts (continued)

Financial performance 2012/13

The Trust's Performance against its statutory targets is set out in the table below:

	Target	Actual	Met?
Surplus/ (deficit)	Breakeven	£373k surplus	Met
Capital cost absorption rate	3.5%	3.5%	Met
Capital resource limit	Less than £5,952k	£1,869k	Met
External finance limit	Less than £14,319k	£10,065k	Met

Section 3: Value for Money

- 01. Executive summary
- 02. Audit of the accounts
- 03. Value for Money**
- 04. Quality Account
- 05. Reports issued and fees

Value for Money

Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Trust's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code:

- **The Trust has proper arrangements in place for securing financial resilience.** The Trust has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- **The Trust has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Trust is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Basis of qualified conclusion

In considering the Trust's arrangements for securing financial resilience we identified that the Trust was in receipt of planned non recurring support of £13.9 million in 2012/13. The Trust's underlying position is in deficit and it continues to be in breach of its statutory break even duty.

Qualified conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, with the exception of the matter reported above in the basis for qualified conclusion paragraph, we are satisfied that in all significant respects the Trust put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

Financial resilience

We have undertaken a review which considered the Trust's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control

The Trust is still in an underlying deficit position. The Trust made a deficit in 2011/12 and in years prior to that. Because of historic financial difficulties it is still in breach of its statutory duty to break even over a five year period.

In 2012/13 the Trust made a small financial surplus of £300k, in line with its financial plans. However this was after commissioners provided £13.9 million of non recurring support in the year. Without this non recurring support the Trust would have made a significant deficit.

The non recurring support from commissioners was part of an agreed plan to restore the Trust to a recurring balanced position by 2014. This is a prerequisite of achieving Foundation Trust status. At the end of 2012/13 the Trust's performance is in line with its medium term financial plan.

Value for Money

Key findings – securing financial resilience

The Trust's projections for 2013/14 include £8.5 million of non-recurring support from Commissioners. This support was previously agreed with the demising Primary Care Trusts. There remains some uncertainty whether the new Clinical Commissioning Groups will provide this support. The Trust has revised its request for support to £5.5 million and has changed its projection from a surplus to a break even position.

This support has gone to an arbitration process and is being discussed by NHS England and the Trust Development Agency.

Apart from this issue the Trust is on track with its recovery plan and its medium term financial projections. However there are significant risks to the longer term position, due to the financial challenges faced by the local health economy.

While recognising the significant progress the Trust has made towards establishing a recurring balanced financial position, it is our view that a qualified conclusion is appropriate against the financial resilience criterion.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Trust has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

The Trust continued its strong track record of identifying and making savings through its Cost Improvement Programme. £10 million of savings were implemented in 2012/13.

The Trust needs to implement further challenging savings targets in 2013/14 and 2014/15 if it is to secure a stable financial position in the longer term. The target for 2013/14 is £11 million. A Project Management Office (PMO) has been established to identify and implement the savings plan and to give directorates greater ownership and accountability for their plans.

The Trust has identified programmes for substantially all of its savings requirements. There is some risk to the successful delivery of those schemes and the Trust recognises the need to establish contingency plans.

The Trust's cost base continues to compare favourably with other trusts. The reference cost index of 89 is lower than other comparable trusts.

In our view the Trust has established proper arrangements to challenge how it secures economy, efficiency and effectiveness.

Day case surgery

In 1990 the Audit Commission reviewed the rate of day case surgery in England and concluded the incidence of day case surgery was less common than in many other countries and unevenly distributed. Day case surgery has increased significantly since then with improvements in technology, facilities and changing consultants' attitudes.

Earlier this year the Board received a presentation from Ear, Nose and Throat consultants on improved surgical practice within the division, increasing day case rates. Outcomes achieved include increased theatre utilisation, a significant reduction in the number of patients treated by other providers, better performance against 18 week access times and a 50% reduction in waiting lists in the year.

Value for Money - continued

Day case surgery (continued)

The Trust has increased the rate of day case surgery significantly over the last two years and it compares favourably with other trusts. Its national ranking in 2010 was 135 moving to the top 40 in 2012/13. There remains however, further opportunities to increase the incidence of day case surgery compared with others and this is something for the Trust to explore to improve further patient experience and cost.

Figure 1 shows the Trust's day case performance compared to the national average. The source data is from the NHS Institute of Innovation and Improvement's website.

Figure 1 – SaSH day case rates compared to the national average.

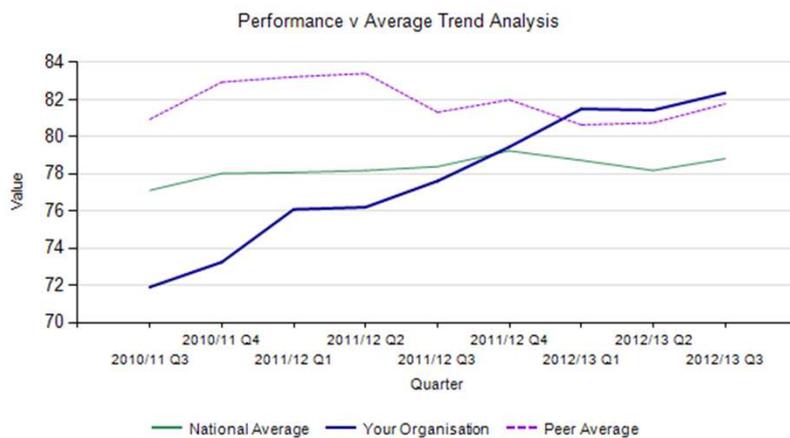


Figure 2 – Day case rates compared to a peer group of local trusts

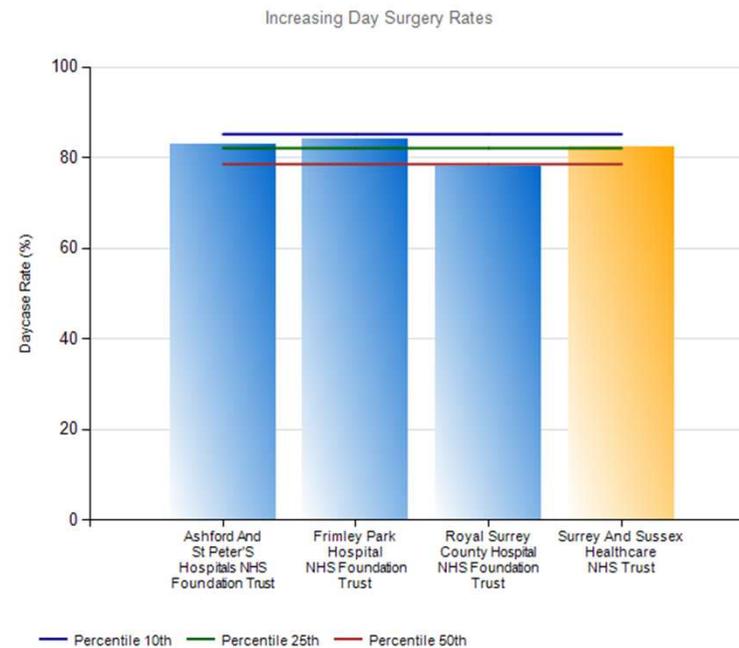


Figure 2 compares your performance to a peer group of local trusts. The graphs shows that the Trust has improved its day case rates relative to the local and national average, and that its performance is broadly comparable to its local peer group.

Value for Money - continued

Accident and emergency (A&E)

The Payment by Results system of tariffs contains incentives for trusts to manage the demand on A&E services. Increases in activity over the 2008/09 baseline are paid at a marginal rate of 30%. However demand management initiatives have historically had limited success within the local health economy.

	2009/10	2010/11	2011/12	2012/13
A&E Attendances	50,100	51,920	74,128	80,745
Non-elective (Emergencies)	33,500	32,754	32,773	35,883

A&E attendances have continued to rise year on year since 2008/09. The table above shows the rise in non elective activity over the period. A like for like comparison is problematic as the Trust took over responsibility for the Surrey Urgent Treatment Centre in July 2011 and has no reliable comparative data from before then.

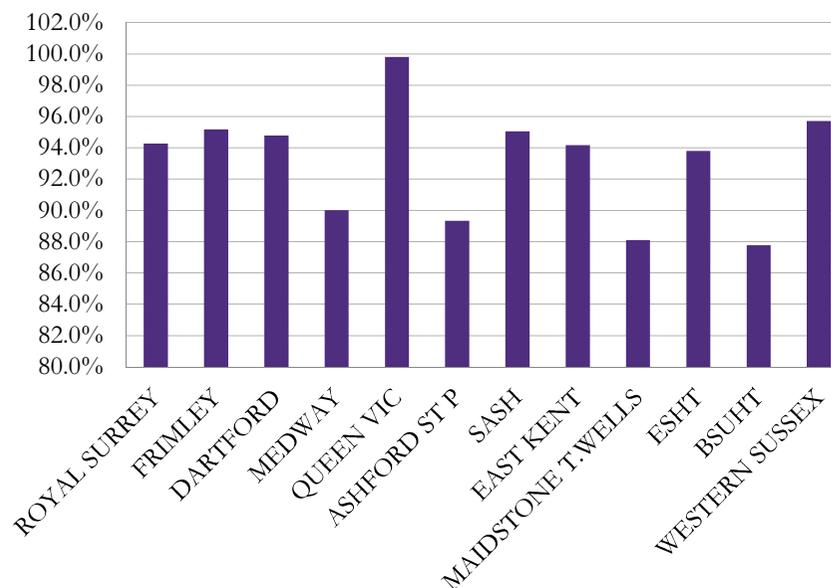
As part of developing its financial recovery plan in 2011/12 the Trust identified accident and emergency demand as a key issue, both in financial and operational performance. A&E waiting times were among the worst in the country until 2011/12.

60 per cent of the Trust's activity is non elective. The level of A&E admissions has a severe financial impact as it limits capacity to perform elective procedures and attracts a reduced tariff income.

The Trust estimates the effect of the marginal rate tariff to be £5.2 million, which is approximately the same as the non recurring support which the Trust requires in 2013/14.

The Trust has sought to address these issues both by increasing its capacity (by building new modular wards) and by focussing on improving A&E waiting times. Both financial and operational performance have improved in 2012/13. The Trust reports a 95% performance against the waiting times target, which compares favourably with other NHS Trusts in the South East.

A&E 4 hour wait - SEC area



Value for Money - continued

The Trust has invested in improving its performance against the A&E waiting times target. It has purchased community beds and provided ambulance transport, to facilitate discharges. It has also employed social workers to help patients in the transition to home.

In 2012 the Trust also opened two new modular wards, with the aim of improving patient safety and experience by reducing bed occupancy levels, to 100 per cent or lower.

These initiatives have enabled the Trust to improve its A&E waiting times by freeing up capacity in A&E, as well as benefitting patients.

The Trust's view is that it will not have the resources to continue these initiatives in the current year.

The initiatives have not tackled the underlying health economy issues of A&E demand. Attendances have continued to rise. Increasing A&E demand is a national issue not just a problem for the Trust. Initiatives to manage the level of that demand are a shared responsibility of the Trust and its new commissioning partners.

Section 4: Quality Account

- 01. Executive summary
- 02. Audit of the accounts
- 03. Value for Money
- 04. Quality Account**
- 05. Reports issued and fees

Quality Account

Introduction

For 2012/13 there is a requirement for the Trust to obtain external audit assurance on its Quality Account. To provide this assurance we have undertaken limited assurance procedures in accordance with guidance issued by the Audit Commission to assess whether:

- the Quality Account is prepared in all material respects with criteria set out in Regulations
- the Quality Account is consistent in all material respects with the sources specified in the *NHS Quality Accounts Auditor Guidance 2012/13* issued by the Audit Commission on 25 March 2013 ('the Guidance')
- the indicators in the Quality Account identified as having been the subject of limited assurance, are reasonably stated in all material respects in accordance with the Regulations and the six dimensions of data quality set out in the Guidance.

Key findings

Although the final quality account document was compliant with the Regulations, there were some issues with the Trust's processes for producing the document. The original draft quality account was issued over three weeks late for consultation. The draft was materially incomplete and omitted a number of disclosures that are required by the Regulations. It also omitted several items of mandatory performance information, including the number of patient safety incidents.

The quality account was extensively rewritten following consultation and following auditor comments on the draft. However the later version still omitted some items of mandatory performance information which were not added until the very end of the process.

We provided a qualified 'limited assurance engagement' opinion on the Trust's Quality Account, in accordance with requirements, on 28 June 2013, in advance of the 30 June 2013 deadline set by the Department of Health.

Basis for qualified conclusion

The Trust issued its draft quality account for consultation on 23rd May, over three weeks later than the national timetable. The report issued for consultation omitted several disclosures and mandatory performance information required by the Regulations.

The Trust is reporting the rate of readmissions within 28 days using the most recent nationally published data from 2010/11, in accordance with the Regulations. We carried out our assurance testing on readmissions data from 2012/13, in agreement with the Trust. Nothing came to our attention that caused us to believe that the indicator was not reasonably stated in all material respects.

Our limited assurance opinion

Based on the results of our procedures, with the exception of the matters reported in the paragraph above, nothing has come to our attention that causes us to believe that, for the year ended 31 March 2013:

- the Quality Account is not prepared in all material respects in line with the criteria set out in the Regulations
- the Quality Account is not consistent in all material respects with the sources specified in the Guidance
- the indicators in the Quality Account subject to limited assurance have not been reasonably stated in all material respects in accordance with the Regulations and the six dimensions of data quality set out in the Guidance.

Section 5: Reports issued and fees

- 01. Executive summary
- 02. Audit of the accounts
- 03. Value for Money
- 04. Quality Account
- 05. Reports issued and fees**

Reports issued and fees

We confirm below our final fees charged for the audit.

The final fee of £ is £2,976 higher than the fee we previously reported to you in our audit plan. The fee variation was agreed with management and related to additional work we undertook in auditing your quality account. The fee is subject to confirmation from the Audit Commission.

We have also set out below each of the reports we said we would issue in our 2012/13 Audit Plan and the dates we reported each of these to you.

Fees

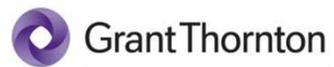
	Per Audit plan £	Actual fees £
Trust audit	90,370	93,346
Charitable fund audit	3,500	3,500
Total audit fees	93,780	96,846

Fees for other services

Service	Fees £
No other services delivered in 2012/13	0

Reports issued

Report	Date issued
Audit Plan	February 2012
Audit Findings Report	31 May 2013
Quality Account 'Limited Assurance Engagement' Opinion	28 June 2013
VfM – Financial Resilience Report	31 May 2013
Annual Audit Letter	25 July 2013



© 2013 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grant-thornton.co.uk