

Annual Audit Letter 2011/12

For: *Noting and acceptance*

Summary: *The Audit & Assurance Committee (AAC) has accepted the draft Annual Audit letter for 2011/12 which is now presented to the Board for acceptance and publication. The Trust's auditor is the Audit Commission.*

Key points from the letter:

- *It provides a fair summary of the Trust's position in respect of financial sustainability (illustrating transparency between Trust and Audit);*
 - *comments on the high quality of annual accounts;*
 - *gives a summary of the value for money rating (OK on internal VFM, weakness in financial resilience);*
 - *notes the favourable output from the recent PbR assurance audit, poor follow up of last year's PbR assurance audit and the adequate audit of the Quality Account, noting the need for improvement in style and content.*
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Action: *The Board is asked to note and accept the letter from the Auditors.*

Presented by: *Paul Simpson, Chief Financial Officer*

Author: *Audit Commission*

Notes:

Trust objective:	<i>The Board Committees support the achievement of all objectives but of specific relevance is: Priority 3: Develop an effective organisation:.</i>
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Legal:	<i>The AAC reviews assurance in respect of all Trust systems of control which includes reporting and compliance with all statutes applied to an NHS Trust. Financial performance is subject to Schedule 5 of the NHS Act 2006 which provides the "breakeven duty".</i>
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The AAC reviews assurance in respect of all Trust systems of control which includes reporting and compliance with all regulation applied to an NHS Trust. The main regulators, however are as follows:

Regulation:

- *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*

6 September 2012

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Dear Board member

Surrey and Sussex Healthcare NHS Trust Annual Audit Letter 2011/12

I am pleased to present my Annual Audit Letter summarising my audit of Surrey and Sussex Healthcare NHS Trust (the Trust) for the 2011/12 financial year.

Overview

2011/12 was another year of significant financial challenge for you. You ended 2011/12 with a planned financial deficit of £6.1 million. This was following receipt of non-recurring support which reduced your underlying deficit of £13.3 million.

In September 2011 the Tripartite Formal Agreement (TFA) between you and your commissioners stated that the Trust was not financially sustainable at that time. You subsequently embarked on a programme of work with other stakeholders to assess options for achieving long term sustainability. A detailed review of the Trust's operations and its position in the local health economy identified underlying problems with excessive bed occupancy and chaotic patient flows, due to high levels of emergency admissions. Your performance against accident and emergency waiting times was one of the worst in the country. The key conclusions were as follows.

- The Trust needed to rebalance its elective and non-elective work and to address its capacity issues in accident and emergency.
- Cost improvement savings are needed totalling 5 per cent in 2012/13 and around 7.5 per cent in 2013/14.
- Interim support is needed from the health economy until the Trust returns to recurring in year financial balance in 2014/15.
- A stable and sustainable contracting position is needed with new and emerging commissioners.

Working with stakeholders, you concluded that the Trust does have a future as a standalone organisation. You secured formal agreement from Clinical Commissioning Groups and the Department of Health to a revised medium term financial plan. This includes interim support of £15.9 million in 2012/13, which is incorporated into your contract. You have identified the required £10 million cost improvement savings for 2012/13 and have begun work on the 2013/14 plan. You also received additional operational Public Dividend Capital (PDC) of £13.6 million in 2011/12 which has supported your cash position and capital programme.

At the same time you have also taken action to address your significant performance and safety issues. In recent months your performance has significantly improved against key waiting time targets.

Your aspiration is to achieve Foundation Trust (FT) status. You have made positive progress towards this aim. You plan to finalise your long term financial model in October 2012, after which the Department of Health will make a decision on whether you will be considered for Foundation Trust status.

There remain some significant risks and challenges to achieving your Foundation Trust aspirations. The financial outlook remains fragile and requires strong delivery by the Trust and continued support from commissioners. The financial position of your partners in the local health economy is weak, putting further pressure on your own position. The structural changes to the local health economy main commissioners has had an effect on you, as these changes make longer term planning more problematic.

Financial statements

On 1 June I presented my Annual Governance Report to your Audit Committee. That report set out the findings of my audit of your 2011/12 financial statements. I do not propose to repeat those findings in detail in this letter. Your accounts were produced on time and to a high quality standard. Your finance team responded to my audit queries promptly and constructively, which enabled me to complete my audit within the challenging deadlines set by the Department of Health.

Following the Audit Committee I issued an unqualified opinion on your 2011/12 financial statements on 7 June, in advance of the Department of Health's deadline of 11 June.

Value for money conclusion

I also issued my value for money conclusion on 7th June 2012. I qualified my value for money conclusion on the basis of financial resilience for the reasons described above. I concluded that with the exception of this issue you have adequate arrangements in place to secure economy, efficiency and effectiveness in your use of resources.

Quality accounts

I reviewed your quality accounts and I issued a limited assurance report on 27 June 2012. You complied with the Regulations for producing Quality Accounts. I reported some areas for improvement in the style and content of the report.

I also reviewed a sample of three performance indicators to form a view whether the Trust produces relevant and reliable data to underpin the Quality Accounts. The selected indicators were:

- Clostridium Difficile Infections;
- Venous Thromboembolism (VTE); and
- Patient Safety Incidents.

Overall I concluded that the Trust produces relevant and reliable data to underpin these performance indicators. I noted some system weaknesses and control failures, which I reported to the Audit Committee.

On completion of my quality accounts work I certified the completion of my audit on 27 June 2012.

Payment by Results (PbR) Data Assurance Framework

In June 2012 the Audit Commission released two PbR Data Assurance Framework reports on the Trust:

- The PbR National Data Assurance report commented on the accuracy of clinical coding and other data that affect the price commissioners pay the Trust under PbR rules. The specialties reviewed were paediatrics and a random sample of cases from other specialties. The report highlighted a 4.2 per cent error rate at Healthcare Resource Group level. Under this measure the performance of the Trust is considerably better than the national average error rate of 9.1 per cent.
- The Audit Commission also issued a report which followed-up progress against recommendations from previous PbR reports (on inpatient clinical coding, outpatients data quality and reference costs). I concluded that you had taken satisfactory action against the reference costs recommendations. However you had not made satisfactory progress against the recommendations for improving the quality of inpatient case notes and implementing more frequent outpatient data quality audits.

You agreed a small number of recommendations aimed at improving standards of data quality.

Closing remarks

I have discussed and agreed this letter with the Chief Executive and Chief Financial Officer. While this has been another challenging year for the Trust I wish to thank the finance staff for the positive and constructive approach they have taken to my audit. I also wish to thank senior management, the Board and the Audit Committee for their support and co-operation during the audit, which is very much valued and appreciated.

Yours sincerely

Darren Wells
Engagement Lead