

Annual Audit Letter

Surrey and Sussex Healthcare NHS Trust

Audit 2010/11



Contents

1. Key messages	3
1.1 Audit opinion and financial statements	3
1.2 Value for money	3
2. Financial statements and statement on internal control	6
2.1 Overall opinion	6
2.2 Systems of internal control	6
3. Value for money	7
3.1 Overall VFM conclusion	7
3.1.2 Financial resilience	7
3.1.3 Securing economy efficiency and effectiveness	8
4. Formal audit powers	10
4.1: Background	10
4.2: Section 19 referral	10
4.3: Report in the Public Interest	10
5. Closing remarks	11
Appendix 1 - Fees	12
Appendix 2 - Glossary	13

1. Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- the audit of your financial statements; and
- my assessment of your arrangements to achieve value for money in your use of resources.

1.1 Audit opinion and financial statements

Key audit risk	Our findings
Audit opinion	Unqualified

I issued an unqualified audit opinion on the Trust's financial statements. The quality of accounts produced for audit was good. A small number of material audit adjustments were agreed and amended in the accounts approved by the Trust's audit committee.

1.2 Value for money

Key audit risk	Our findings
Proper arrangements to secure value for money	Qualified

1.2.1 Financial resilience

In considering the Trust's arrangements for securing financial resilience for 2010/11 I concluded the following:

The Trust's financial position is weak. It has poor cash availability and its financial standing for 2011-12 is uncertain. Its 2011-12 budget for the

year was set on the expectation of £20 million additional financial support from commissioners, which has not yet been agreed."

Progress has been made against this position in the last few months as the Trust has reached an agreement within the LHE that through a combination of savings and additional support that the £20m risk has been reduced. The Trust's forecast deficit for 2011/12 was £6.1 million at the end of month 3. However, the Trust faces significant challenges in the coming year.

1.2.2 Securing economy, efficiency, and effectiveness

The Trust prioritised its resources within tighter budgets by achieving cost reductions and improving efficiency and productivity in 2010/11. This builds on achievement of cost savings in earlier years. The Trust acknowledges that it has to tackle some key strategic issues in this current year including, service reconfiguration and local health economy (LHE) sustainability issues; and ensuring high quality & clinical governance and service performance.

1. Current and future challenges

The Trust faces external strategic challenges in responding to the changes set out in the White Paper, local health economy spending reductions and dealing with its own internal safety, quality and productivity pressures.

Challenge	Trust response
<p>Service transformation</p> <p><i>The Trust recognises that it needs to transform patient care pathways.</i></p> <p><i>It is working closely with commissioning PCTs to meet the government's requirements to move services closer to home and also deliver a sustainable future for the Trust.</i></p>	<p>An independent report, commissioned by the Local Health Economy (LHE) in May 2011, indicates that clinical and financial improvements are needed to improve the viability of the Trust. Approximately 60% of the Trust's activity is non-elective which has lower contributions under tariff than elective work. The demand for the Trust's services has risen and bed occupancy is at some 101% (113% in the winter), which is higher than the more clinically appropriate 85-90%. The Trust also has inefficiencies in patient flows as its A&E department cannot cope with the influx of patients whilst Length of Stay (LoS) increases on the wards.</p> <p>Some good progress is being made in improving services. Within the Enhancing Quality (EQ) programme the Trust is the best performing trust across the South East Coast for the quality of care of heart failure and heart attack patients.</p> <p>The Trust has a 'Service Transformation' workstream to help transform patient care pathways. It recognises that productivity improvements and length of stay reductions are key in improving the patient experience and delivering a more sustainable financial footing for the Trust. Capital projects are being invested in to provide additional capacity to meet the winter demand and reconfigure the A&E Department. The Trust is also looking at how services may benefit from joint working arrangements and shared services. An early example of this is the joint procurement, with three other trusts, of pathology services to reduce support costs and procure a better quality service.</p>
<p>Economic downturn and pressure on the NHS</p> <p><i>Tighter financial settlements and the challenging ongoing financial health of the PCTs and the Trust have put significant pressure on the local health economy.</i></p>	<p>In March 2011, the Trust Board approved its 2011/12 revenue budget which assumed a break even position with a non recurrent income risk of £19.8 million with a reasonable expectation that there would be financial support from the LHE. Discussions within the LHE has improved that position to a £6.1 million deficit for the Trust through the phasing of additional income and cost reductions of £13.7 million expected later in the year.</p> <p>The challenging financial standing of NHS Surrey and NHS West Sussex puts pressure on the local health economy and the Trust is experiencing an increase in the number of contract performance challenges from its PCTs. The Trust plans to manage the financial risks, but the Board recognises that it cannot concentrate solely on financial issues to be clinically safe. There continues to be pressure on staff numbers, however the Trust has invested £1.4 million in</p>

Challenge

However, there is a need, both financially and politically, for the Trust to continue to improve the value for money of services provided and demonstrate this improvement.

Trust response

increasing its nursing establishment for 2011/12. The Trust continues to prioritise its resources within tighter budgets looking to achieve significant cost reductions and improve efficiency and productivity. For 2011/12, the Trust has a savings plan of £7.7million, some 4%, to deliver but has still yet to identify where £1.6 million of savings will come from. The cash forecast has been adjusted to match the I&E forecast deficit. Temporary cash cover has been agreed with the PCTs so cash will tighten and potentially run out later in the year if the deficit position cannot be resolved. The Trust will not meet its statutory breakeven target and is awaiting approval from the DH on its forecast £6.1 million deficit. The delivery of the financial plans for 11/12 will therefore be extremely challenging. I will continue to monitor the Trust's progress over the coming year.

FT timetable

Late 2010, the Trust thought that it would be in a position to submit an application to the DH in June 2013 with the aim of being authorised by Monitor in December 2013.

The Trust commissioned an independent 'FT Readiness Assessment', in October 2010, which identified that significant improvements were required across all FT domains and that the Trust needed 18-24 months to deliver the services to Monitor's standards, as well as a financial solution to address the loan and liquidity issues. The Board's priority is to stabilise the Trust and is in discussion with the PCTs, SHA and the DH on the Foundation Trust timeline.

Quality account

We provided assurance on NHS trusts' 2010/11 quality report. The DH is aiming for a consistent approach to quality reports assurance for FTs and non-FTs.

The Trust has adequate arrangements in place to ensure that its Quality Account is fairly stated and in accordance with the Department of Health's Requirements. I found that the Trust has effective performance management and data quality systems underpinning the data and information reported in the Quality Account. The data testing (C.Diff and 62 Day Wait - Cancer) provided further assurance that the Trust has controls on which it can rely.

The Trust's corporate framework for overseeing the production of the 2011/12 will improve as the Trust's Safety and Quality Committee has responsibility for providing the Board with the assurance that the data and information reported in the Quality Report is accurate. The Committee needs to show how it plans to effectively both monitor the improvement priorities for 2011/12 and information presented in the Quality Report. Robust monitoring will provide the Board with greater assurance that the Quality Report accurately reflects the improvements made by the Trust in the year.

2. Financial statements and statement on internal control

The Trust's financial statements and Statement on Internal Control are an important means by which the Trust accounts for its stewardship of public funds.

2.1 Overall opinion

I issued an unqualified opinion on the Trust's financial statements and Statement of Internal Control. The quality of accounts presented for audit was good. I identified six significant errors in the draft accounts which I discussed with management. Management agreed to amend the accounts for these matters. I reported in detail the findings of my audit to the Trust's audit committee before it approved the accounts for submission to the Department of Health. I issued an audit opinion on the 3 June 2011 meeting the Department of Health's target deadline.

I **considered the Trust's accounting practices, accounting policies, accounting estimates and financial statements disclosures** as part of my audit. I concluded that these were appropriate, but did report some minor improvement areas..

2.2 Systems of internal control

I did not identify any significant weaknesses in the Trust's internal control arrangements or any weakness in the design or operation of internal control that might result in a material error in the financial statements. The Statement on Internal Control was prepared in accordance with the findings specified by the Department of Health and was consistent with the findings from my audit.

3. Value for money

I considered whether the Trust is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

3.1 Overall VFM conclusion

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. I concluded that the Trust does not have proper arrangements to secure its financial resilience. My findings on each of the two areas is set out below.

3.1.2 Financial resilience

The organisation has proper arrangements in place to secure financial resilience.

Key messages

Focus for 2010/11:

The organisation 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 made a surplus of £875,000 compared to the original planned surplus of £4.8 million in 2010/11. The small surplus was achieved with some £2.2 million of non recurrent income from its commissioners. Given the financial outturn compared with plan, the Trust was unable to meet the final repayment of a loan to the Department of Health. The Trust has a statutory duty to break even taking one year with another. It has not met this duty and it has a large historic cumulative deficit.

On 24 March 2011, the Trust Board approved its 2011/12 revenue budget which assumed a break even position providing the Trust is supported with non recurrent income of £19.8 million. The Board approved the budget on the basis that there was a reasonable expectation that the Trust will have external financial support based on discussions within the local health economy but this level of support had not, at the time of budget setting, been agreed by commissioners. The Trust has poor cashflow and also faces a significant challenge to deliver some £7.7 million planned efficiency savings in 2011-12, particularly given its failure to achieve planned savings in 2010-11. The Trust does not have a secure and stable financial position.

I have noted above in the 'Current and Future Challenges' section of this report, the progress the Trust has

The organisation has proper arrangements in place to secure financial resilience.

Key messages

made to secure its immediate financial resilience and the good progress made by the Trust since June to reduce the level of risk considerably and cover the Trust's trading position for 2011/12. It is working up medium-terms plans, with the LHE, to achieve a sustainable future for the Trust.

In terms of the above four issues, at month 3 the Trust is forecasting a £6.1 million deficit. It has also applied for sufficient 'operational Public Dividend Capital' so that it can trade with sufficient cash until 31 March 2012 and complete its capital programme. It still needs to identify some £1.6 million of its £7.7 million 2011/12 savings target. A decision on the rescheduling of the outstanding £4.5 million loan over a longer term needs to be made and the although the balance sheet may be strengthened with award of the 'Operational PDC', the remaining circa £12 million liquidity issue has yet to be resolved.

3.1.3 Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Key messages

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

The Trust prioritised its resources within tighter budgets and achieved 3 % cost reductions (£4m). This is significantly less than the £12 million planned savings for the year. Reference costs, as an indicator of potential inefficiency are however, low compared with other trusts. There are a number of significant issues which the Trust is currently working through in 2011/12:

- *Strategic and LHE:* Service reconfiguration and local health economy (LHE) sustainability issues.
- *Financial:* Current financial position, level of efficiencies, loan debt and working capital & liquidity.
- *Quality and performance:* Quality & clinical governance issues and service performance issues.

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Key messages

Other work on the Value for money (VFM) conclusion

- **The BAF could be improved with the addition of SMART measures to show how and when the actions are to be delivered in year.**
- **New clinically led divisional governance arrangements have been introduced with the emphasis on delivering safety and quality and improving performance.**
- **Assurance is missing at Board level over the effectiveness of the Trust's Clinical Audit Programme, therefore undermining the delivery of the Trust's Safety & Quality Agenda and robustness of its Board Assurance Framework.**

Other work to support the Value for Money Conclusion in 10/11

Review of the Board Assurance Framework

The Trust's management of its strategic risks, recorded on the BAF, has been reviewed at each bi-monthly Board meeting during 2010/11.

The challenge for 2011/12 is embedding the clinically led organisational structure to drive improvement. The BAF has been revised to incorporate the 2011/12 Trust objectives and will be presented to the July 2011 Board.

As part of the revision, we recommended the addition of SMART measures to show how the 'actions' in the BAF to reduce the gaps in assurance will be delivered and when.

However, assurance is missing at Board level over the effectiveness of the Trust's Clinical Audit Programme, therefore undermining the delivery of the Trust's Safety & Quality Agenda and robustness of its Board Assurance Framework.

We suggest that given this significance assurance is missing at Board level that the timetable for reporting is brought forward and a report taken to the AAC on 15 September.

Follow-up of 09/10 Governance Review

Our 2009/10 review identified 19 recommendations for improvement. In the second half of 2010/11 the Trust underwent both a committee and an organisational restructure with clinical management teams heading up each division.

The functions of the Board and its sub-committees have been clarified in the new Trust Rules of Procedure, ratified by the Board in May 2011.

A multidisciplinary team approach to governance has been introduced with an emphasis on Safety and Quality. Job plans for doctors allow management time to embed proper governance.

However, the agreed high risk recommendation around clinical audit which was for the Trust, before February 2010, to "*Implement a robust clinical audit framework (including the review of morbidity and mortality figures) into the Directorate governance arrangements to improve the multidisciplinary approach to improving patient care.*" has yet to be implemented.

We will follow-up on how the new governance arrangements both provide assurance to the Board and also drive up performance, as part of our 2011/12 audit.

4. Formal audit powers

4.1: Background

I have:

- a duty to make a referral to the Secretary of State where I believe the Trust:
 - has or is about to make a decision that would involve incurring unlawful expenditure; or
 - has or is about to make a decision that is unlawful and likely to lead to a loss; and
- a power to issue a public interest report where I believe this is necessary to draw a matter to public attention.

4.2: Section 19 referral

I made a referral to the Secretary of State, in June 2011 in response to the Trust's non-achievement of its statutory break-even duty as at 31 March 2011 and my concern with its 2011-12 budget. My referral highlighted the financial position of the Trust which is summarised above in section 3.1.2..

4.3: Report in the Public Interest

Under section 8 of the Audit Commission Act 1998 I am also required to consider whether to issue a report in the public interest on any significant matter coming to my notice in the course of an audit and to bring the matter to the attention of the audited body and the public. Guidance issued by the Audit Commission set out the steps that I took when considering whether to issue such a report during 2010/11. I have concluded that although the Trust's financial position and that of the Local Health Economy (LHE) remains challenging, there is commitment by the SHA, the Trust Board and the PCTs to build upon the progress to date and find a workable sustainable financial solution through investing in service transformational schemes designed to solve the structural service issues faced by the LHE and the NHS nationally.

Given that there is an ongoing constructive debate with the LHE reviewing the risks and solutions to the Trust's financial challenges for 2011/12, it would be premature to issue a report in the public interest (PIR) at this stage of the 2011/12 financial year. However I will continue to monitor the situation closely throughout the year.

5. Closing remarks

I have discussed and agreed this letter with the Chair of the Trust, the Chief Executive and the Chief Financial Officer. I will present this letter at the Audit & Assurance Committee on 13 September 2011 and will provide copies to all board members.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Trust during the year.

Report	Date issued
Opinion Plan	March 2011
Annual Governance Report	June 2011

The Trust has taken a positive and constructive approach to our audit. I wish to thank the Trust staff for their support and co-operation during the audit.

Darren Wells

Engagement Lead

August 2011

Appendix 1 - Fees

	Actual	Proposed	Variance
Scale fee	141,000	141,000	0
Quality Report	12,000	12,000	0
Total audit fees	153,000	153,000	0
Non-audit work	0	0	0
Total	153,000	153,000	0

Appendix 2 - Glossary

Statement on internal control

Public bodies must provide assurance that they are appropriately managing and controlling their money, time and people. The Statement on Internal Control (SIC) is an important document for communicating these assurances to Parliament and citizens.

The SIC is the means by which the Chief Executive Officer declares his or her approach to and responsibility for, risk management, internal control and corporate governance. It is also used to highlight weaknesses which exist in the internal control system within the organisation. It forms part of the Annual Report and Accounts.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

If I agree that the financial statements give a true and fair view and that the spending and income was regular, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view; or
- I find that some spending or income was irregular.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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