

TRUST BOARD IN PUBLIC		Date: 7 August 2014	
		Agenda Item: 4.2	
REPORT TITLE:		Annual Audit Letter	
EXECUTIVE SPONSOR:		Paul Simpson Chief Finance Officer	
REPORT AUTHOR:		Grant Thornton LLP External Auditor	
REPORT DISCUSSED PREVIOUSLY: (name of sub-committee/group & date)		No – Letter goes to Board	
Action Required:			
Approval	Discussion	Assurance (√)	
Summary of Key Issues			
<p>The Trust has received the Annual Audit letter for 2013/14 which is now presented to the Board for acceptance and publication. The Trust's auditor is Grant Thornton UK LLP. The letter has been discussed in draft with the Auditor and its contents agreed for presentation.</p> <p>The conclusions expressed in the letter are, overall, positive and can be summarised 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 2014 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 Strategic Objectives & Assurance Framework:			
<p>SO2: Effective - Deliver effective and sustainable clinical services within the local health economy</p> <p>SO4: Responsive – Become the secondary care provider and employer of choice for the catchment populations of Surrey & Sussex</p> <p>SO5: Well - led</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 2013/14.
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:	
Annual Audit Letter	

[END]

The Annual Audit Letter for Surrey and Sussex Healthcare NHS Trust

Year ended 31 March 2014

July 2014

Darren Wells

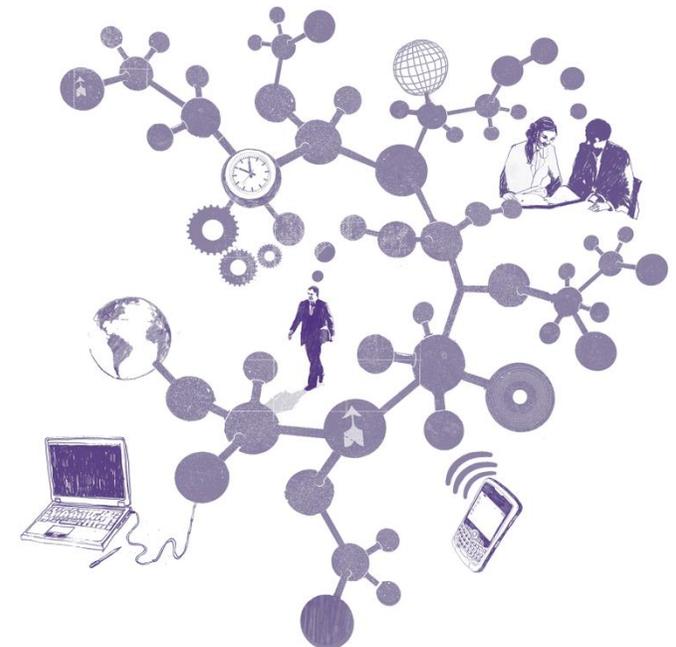
Director
T 01293 554 120
E darren.j.wells@uk.gt.com

Jamie Bewick

Senior Manager
T 01293 554 138
E jamie.n.bewick@uk.gt.com

Marcus Ward

Assistant Manager
T 020 7728 3350
E marcus.ward@uk.gt.com



Contents

Section	Page
1. Executive summary	3
2. Audit of the accounts	6
3. Value for Money	9
4. Quality Account	11
Appendices	
A Reports issued and fees	

Section 1: Executive summary

01. Executive summary

02. Audit of the accounts

03. Value for Money

04. Quality Account

Executive summary

Purpose of this Letter

Our Annual Audit Letter ('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 2014:

- auditing the 2013/14 accounts (Section two)
- assessing the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources (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 on 30 May 2014.

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 our Audit Plan issued in March 2014 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 2013/14 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 2014 and its income and expenditure for the year
- a qualified "except for" conclusion in respect of the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources, as a result of the Trust's reliance on external financial support in 2013/14.
- 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.

Executive summary (continued)

Key areas for Trust attention

In 2013/14 the Trust once again produced good quality, timely and accurate year end accounts, to meet the challenging deadlines set by the Department of Health. There were only very minor changes as a result of the audit.

The Trust has kept to the trajectory of the financial recovery plan it agreed with its commissioners in 2011, and made a surplus in 2013/14. At the same time the Trust is continuing to perform well against its key quality and performance indicators, including waiting times. The Trust was praised by the Health Secretary at a visit to East Surrey hospital in March, where he commented on the significant improvements the Trust has achieved in recent years.

Securing long term financial resilience remains a significant challenge for the Trust, as it continues its journey towards Foundation Trust status. There are significant financial challenges for the year ahead and the medium term, as financial pressures in the wider health economy are likely to have an impact.

The Trust is aware of the scale of the challenge and has recently submitted its Integrated Business Plan to the Trust Development Agency, setting out its medium term financial strategy.

Acknowledgements

This Letter has been agreed with the Trust's Chief Finance Officer, Paul Simpson.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Trust's staff.

Grant Thornton UK LLP
July 2014

Section 2: Audit of the accounts

01. Executive summary

02. Audit of the accounts

03. Value for Money

04. Quality Account

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 has continued its strong track record of producing good quality, timely financial accounts supported by clear and comprehensive working papers. A complete set of draft accounts was presented for audit on 22 April, in line with the national timetable.

Finance staff responded to our queries promptly and efficiently. As a consequence we were able to give the opinion on the accounts on 2nd June, a week before the national deadline.

Issues arising from the audit of the accounts

We did not identify any adjustments affecting the Trust's retained surplus position. The financial statements show a retained **surplus** of £338k.

We recommended a small number of adjustments to the notes to the financial statements to improve the presentation of the accounts.

Annual Governance Statement and Annual Report

As part of our audit we reviewed the Annual Governance Statement and the Annual Report. Both documents were made available for audit in line with the national timetable and we did not raise any significant issues with either.

Section 19 Report

NHS Trusts have a statutory duty to break even over a three year rolling period, or exceptionally a five year rolling period with the agreement of the NHS Trust Development Authority.

Surrey and Sussex Healthcare NHS Trust's accounts show a historic deficit position because it incurred significant deficits in the years following its inception up to and including 2006/07. The Trust has made surpluses in six of the last seven years, but these have not been sufficient to redress the cumulative deficit position from earlier years.

Under section 19 of the Audit Commission Act (1998) we are required to report to the Secretary for State for Health if a trust has incurred or is planning to incur unlawful expenditure. Although this matter is already known to the Secretary of State, as external auditors we have a duty to report it. We issued a section 19 report on 2 June 2014.

Conclusion

Prior to giving our opinion on the accounts, we reported matters arising from the audit to the Trust's Audit and Assurance Committee in its role as 'those charged with governance' on 30 May 2014. We summarise only the key messages in this Letter.

We issued an unqualified opinion on the Trust's 2013/14 accounts on 2 June 2014, meeting the deadline set by the Department of Health (DH). 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.

Financial performance 2013/14

The Trust met all its Financial Performance targets for 2013/14 as set out in the table below:

	Target	Actual	Met?
Surplus/ (deficit)	Breakeven	£338k surplus	Yes
Capital cost absorption rate	3.5%	3.5%	Yes
Capital resource limit	Not to exceed £17,409k	£16,509k	Yes
External finance limit	Not to exceed £9,935k	£9,003k	Yes

2013/14 was the final year of the recovery plan agreed with commissioners in 2011, aimed at returning the Trust to recurring financial balance. As part of this plan the Trust received £3.5 million of support from NHS England to support its revenue position in 2013/14.

The Trust continued its strong track record of realising efficiencies through a successful Cost Improvement Plan of £11 million in 2013/14.

Looking forward

The Trust has successfully kept to the trajectory of its financial recovery plan and forecasts a surplus in 2014/15, without the need for planned support. The Trust has recently submitted an Integrated Business Plan to the Trust Development Agency, in support of its aspirations to become a Foundation Trust. This sets out its medium term plan to secure financial resilience. There are some significant risks to achieving this.

The 2014/15 budget includes a Cost Improvement Plan of £11 million. At the time of setting the budget over £4 million of this was rated as at risk of not being achieved.

Some commissioners in the local health economy are facing significant financial difficulties. Additionally the Better Care Fund programme will lead to further reductions to commissioners' financial baselines. There is a risk that the Trust's plans may not align with commissioners' plans or with commissioners' ability to pay.

The Trust continues to experience long term increases both in referrals, non elective activity and emergency attendances. To meet these pressures the Trust is adapting its working practices and investing in better facilities and new staff. Recent Board reports show continuing good performance against key quality indicators and waiting times targets.

In 2013/14 the Trust incurred over £22 million of costs on temporary staff, which includes bank and agency staff. The Trust recognises recruitment and retention of staff is an issue as it looks to build more resilience into its permanent staffing establishment.

We will continue to monitor and comment on the Trust's financial position in our 2014/15 audit.

Section 3: Value for Money

01. Executive summary

02. Audit of the accounts

03. Value for Money

04. Quality Account

Value for Money

Value for Money conclusion

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.

Key findings

Securing 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
- Financial control.

The Trust achieved its financial targets in 2013/14 after receiving £3.5 million of non recurring support from NHS England. Without this support the Trust would have made a deficit.

You have agreed a balanced budget and a cash plan for 2014/15 without any planned external support. While there are some risks to achieving this budget the Trust is starting from a more resilient underlying position than in previous years because of the successful recovery plan.

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 achieved a challenging cost improvement programme of £11 million in 2013/14 . The most recent reference cost index of 92 indicates that costs remain lower than other similar trusts.

Overall VfM conclusion

The Trust was in receipt of planned non-recurring support totalling £3.5 million in 2013/14 enabling it to break even in the year . With the exception of this matter, on the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, 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 2014.

Section 4: Quality Account

01. Executive summary

02. Audit of the accounts

03. Value for Money

04. Quality Account

Quality Account

Introduction

For 2013/14 the Trust is required to obtain external audit assurance on its Quality Account. In order 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 in line with the criteria set out in the Regulations
- the Quality Account is consistent in all material respects with the sources specified in the *NHS Quality Accounts Auditor Guidance 2013/14* issued by the Audit Commission ('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

We provided the Trust with a report setting out the detailed findings of our work on 27 June 2014.

The Quality Account presented for audit was a good quality, complete document which was compliant with the Department of Health's Directions. As part of our review we raised some minor documentation points which the Trust subsequently addressed.

The Quality Account was only presented for audit on the 21st June, which gave a limited amount of time for audit review and dealing with audit queries.

During the year the Trust was not consistently recording and reporting patient safety incidents on a timely basis. The guidance recommends that incidents should be recorded within 2 days. Out of the 25 cases we tested 16 were within the time frame and nine were outside the time frame. We had no concerns over the accuracy of the data.

The Trust has already recognised the issue with this indicator and an internal audit report on incident management was finalised in December 2013 and presented to the Audit and Assurance Committee. Management's response has been to put in place a Standard Operating Procedure with the aim of ensuring that going forward, no incidents are reported outside of the required time frame.

Conclusions

We provided a qualified limited assurance opinion on the Trust's Quality Account, in accordance with requirements, on 27 June 2014. The qualification was as a result of the data quality issue described in the paragraphs above.

Appendices

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit. We did not provide any other services in 2013/14.

Fees

	Per Audit plan £	Actual fees £
Trust audit	90,370	90,370
Charitable fund audit	3,500	3,500
Total audit fees	93,870	93,870

Reports issued

Report	Date issued
Audit Plan	March 2014
Audit Findings Report	May 2014
Quality Account Report	June 2014
Annual Audit Letter	July 2014



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