



The Annual Audit Letter for Surrey and Sussex Healthcare NHS Trust

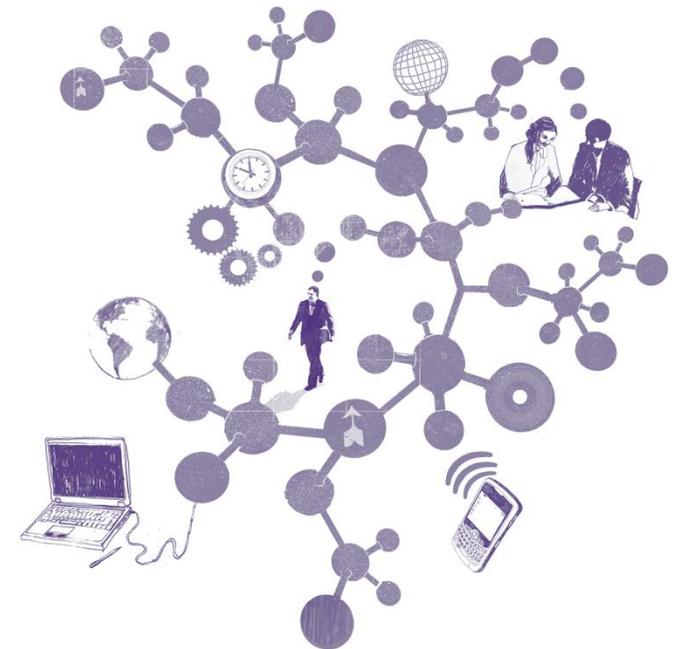
Year ended 31 March 2016

July 2016

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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Surrey and Sussex Healthcare NHS Trust NHS Trust (the Trust) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Trust and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to your Audit and Assurance Committee as those charged with governance in our Audit Findings Report on 26 May 2016.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on your financial statements (section two)
- assess your arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of your financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Trust's financial statements on 2 June 2016.

Value for money conclusion

We were satisfied that the Trust put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources except for the fact that the Trust made a deficit of £6.5 million in 2015/15, having previously planned to make a surplus of £1.6 million. We therefore qualified our value for money conclusion in our report on the financial statements on 2 June 2016.

Consolidation template

We also reported on the consistency of the consolidation schedules submitted to the Department of Health with the audited financial statements. We concluded that these were consistent.

Use of statutory powers

In 2013/14 we issued a referral to the Secretary of State to inform him that the Trust was in breach of the statutory break even duty.

The Trust remains in breach of the break even duty because of its cumulative deficit. However we are not required to issue another referral in 2015/16 because the Secretary of State is already aware of the issue, and the position has not materially changed since the last referral.

Certificate

We certify that we have completed the audit of the accounts of Surrey and Sussex Healthcare NHS Trust in accordance with the requirements of the Code of Audit Practice.

Quality Accounts

We completed a review of your Quality Account and issued our report on this on 29 June 2016. We concluded that the Quality Account and the indicators we reviewed were prepared in line with the Regulations and guidance.

Working with the Trust

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you, delivering the accounts within the challenging NHS deadline.
- Improving your annual reporting – we benchmarked your annual report against good practice and made a number of recommendations for improvement.
- Providing assurance over data quality – we provided assurance over the data quality of two key indicators, incident reporting and rates of c-diff infections.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports with you.
- Networking events - your Non Executive Directors attended networking events for the local health economy at our Sussex office. We provided a forum for NEDs across the local health economy to discuss issues of common interest.

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

Grant Thornton UK LLP
July 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of your financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of your accounts to be £5.1 million, which is 1.9% of your gross revenue expenditure. We used this benchmark as in our view, users of your financial statements are most interested in where it has spent the income it made in the year.

We set a lower threshold of £250,000, above which we reported errors to the Audit and Assurance Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- your accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the annual report to check it is consistent with our understanding of the Trust and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of your business and is risk based.

We identified key risks and set out overleaf the work we performed in response to some of the key risks. We also discuss our work in response to the going concern assumption and the results of this work.

Audit of the accounts

These are the risks and significant issues which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p>Going concern The Trust made a deficit of £6.5 million in 2015/16 and remains in breach of the statutory break even duty. The Trust also required working capital support of £12.5 million in year to shore up its cash position. The Trust's weak cash position is evidenced by its poor and deteriorating performance against the better payments practice code.</p>	<p>There was no clear disclosure of going concern in the draft financial statement. We requested that an appropriate disclosure should be added to the revised statements.</p> <p>We asked you for evidence that the Trust's cash position would continue to be supported for the foreseeable future. You subsequently obtained a letter from NHS Improvement confirming that the working capital facility is on-going.</p> <p>We are therefore satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.</p>
<p>Revenue recognition Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p>	<p>You did not agree signed memoranda of understanding with your main commissioners in 2015/16.</p> <p>In the agreement of balances exercise your receivables exceed the counterparty payables by over £2 million.</p> <p>You were able to provide evidence to support your reported financial position. In our audit findings report we highlighted the fact that if these differences are not resolved in the your favour, this will increase the size of the deficit.</p>
<p>Valuation of property plant and equipment You revalue your land and buildings to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate; • reviewed the competence, expertise and objectivity of any management experts used; • reviewed the instructions issued to valuation experts and the scope of their work; • discussed the basis on which the valuation is carried out and the key assumptions with the valuer; • reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding; • tested revaluations made during the year to ensure they are input correctly into your asset register; • evaluated the assumptions made by management for those assets not revalued during the year and how management have satisfied themselves that these are not materially different to fair value. <p>We did not identify any significant issues with the valuation of property, plant and equipment.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on your financial statements on 2 June 2016.

You made the accounts available for audit in line with the national timetable for submission, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit to your Audit and Assurance Committee on 26 May 2016.

Annual Governance Statement and Annual Report

We are also required to review your Annual Governance Statement and Annual Report. You provided these on a timely basis alongside the draft accounts, with supporting evidence.

Other statutory duties

We are also required to refer certain matters to the Secretary of State under section 30 of the Local Audit and Accountability Act 2014. In 2013/14, we reported to the Secretary of State that the Trust was in breach of its statutory breakeven duty, which is the requirement to achieve a balanced financial position over a three year period.

The Trust remains in breach of the breakeven duty, however we have not issued another referral because the position has not materially changed.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in the table below.

Overall VfM conclusion

In 2015/16 the Trust made a deficit of £6.5 million, having previously planned to make a surplus of £1.6 million.

We are satisfied that, in all significant respects, except for the matter we identified above, the Trust had proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Risk identified	Work carried out	Findings and conclusions
<p>Financial outturn You have a history of good budget setting, monitoring and forecasting. You have reported a deficit position and continue to be in breach of the statutory break even duty, because of historic deficits incurred over the last decade.</p>	<p>We reviewed your reported financial performance and key financial indicators for the year We reviewed how savings are identified and monitored and how you performed against your financial plan. We reviewed your processes for medium term financial planning.</p>	<p>The Trust made a retained deficit of £6.5 million in 2015/16, having originally planned to make a surplus of £1.6 million. The Trust also made a small deficit in 2014/15 and continues to be in breach of the statutory break even duty, because of historic deficits. The main factor behind the on-going deficit position was higher than planned emergency activity.</p> <p>You have a good track record of making cost improvements. However in 2015/16 you delivered only £5.4m (66%) of its planned £8.2m savings. The shortfall was due mainly to the non-achievement of agency reductions as a result of external influences and activity pressures.</p> <p>The budget for 2016/17 was presented to the March 2016 Board. The projection is for a £15.2 million surplus which is the control total notified by NHS Improvement.</p> <p>A qualified 'except for' conclusion is appropriate because for the last two years the Trust has not been able to achieve its forecast position and in 2015/16 did not achieve all of its cost improvement plans.</p>

Value for Money

Table 2: Value for money risks continued

Risk identified	Work carried out	Findings and conclusions
<p>Cash flow Liquidity is highlighted as a significant risk in your Board Assurance Framework. You have taken out a working capital loan in year. You continue to perform poorly against the better payment practice code.</p>	<p>We reviewed the credibility of your cash planning and forecasting. We also reviewed terms of the Trust's loans and support and the intentions of the TDA to carry on supporting the Trust.</p>	<p>The Trust has a significant issue with cash flow, which is signposted clearly in finance reports to the Board. This is reflected in very poor and deteriorating performance against the better payment practice code. The cash shortfall arises because of the historic deficit position and is exacerbated by the deficit in year. In 2015/16 you took out a working capital loan of £12.5 million to shore up the cash position. NHS Improvement has provided you with a letter confirming they will continue to provide cash support for the foreseeable future.</p>
<p>Partnership working You are working with partner organisations in primary and community care towards a health campus model of greater partnership working and risk sharing</p>	<p>We reviewed how you are developing the health campus and care pathways with partners</p>	<p>Your organisation is leading on innovative approaches towards greater partnership working with other Trusts, commissioners and local councils. These include collaborations with partners including Royal Surrey County, MacMillan cancer and Guys and St Thomas. You are also establishing a joint venture for pathology services with Brighton and Sussex University Hospitals NHS Trust. The overall vision is for a health campus approach, where the local population's health needs can be met on a single site with extensive collaboration between the different parties involved.</p>
<p>Business process re-engineering You are looking to Lean Management and working with the Virginia Mason team to transform care for patients.</p>	<p>We reviewed the steps being taken to redesign services under the Virginia Mason initiative</p>	<p>SaSH is also one of only five Trusts in the country to be selected to take part in a pilot scheme with the Virginia Mason Institute, which is regarded as one of the highest -performing and safest hospitals in the world. You have begun reviewing the cardiology work stream and will also look at the processes for flow of outpatients and management of diarrhoea.</p>
<p>Relationships with commissioners You face financial challenges around the contractual position with your main commissioners.</p>	<p>We discussed with management the current state of relationships with commissioners and considered the impact of issues and disputes raised by the agreement of balances exercise.</p>	<p>Despite some difficult contract negotiations you have good relationships with your commissioners, as evidenced by the successful collaboration with East Surrey CCG and Surrey County Council in building an integrated re-ablement unit. You are in dialogue with all your commissioners around creating more efficient care pathways to reduce admissions and attendances in hospital. Contractual differences have been driven by the financial pressures of the local health economy. However you have made progress on these and have agreed contracts with all your commissioners for 2016/17.</p>

Value for Money

Table 2: Value for money risks continued

Risk identified	Work carried out	Findings and conclusions
<p>Recruitment and retention You have a high level of expenditure on temporary staffing (around 1/6 of staff spend) which has remained high in spite of initiatives to improve permanent recruitment and retention</p>	<p>We reviewed steps you are taking to improve recruitment and retention and to minimise spending on agency.</p>	<p>Despite initiatives to improve recruitment and retention your spending on temporary and agency staff continues to increase. This was a key factor behind the non-achievement of your 2015/16 cost improvement programme.</p> <p>Recruitment and retention are challenging both because of a shortage in the local labour market and because of your proximity to London, where pay is generally higher. An additional factor is that you are continuing to expand because of increasing demand. In 2015/16 you added additional ward and theatre capacity and 200 more staff. Therefore even as you have increased recruitment the demand for more staff has outstripped the additional supply.</p> <p>You have a keen focus on improvement in this area, which is the single biggest element of the 2016/17 cost improvement programme. There is a fortnightly meeting on rostering and there will also be a regular meeting on agency staffing. You have been actively recruiting more nursing staff from the Philippines, the EU and India.</p> <p>You are also adopting a more rigorous approach to nursing staff planning and rostering. You have acquired health roster v5.1 and you have a programme of embedding the system in the wards, through intensive training and follow up. This should help ensure that agency staff are only employed when needed. You also work closely with the respective agencies to negotiate the best prices.</p>

Quality Accounts

The Quality Account

The Quality Account is an annual report to the public from NHS Trusts about the quality of services they deliver. It allows Trust Boards and staff to show their commitment to continuous improvement of service quality, and to explain progress to the public.

Scope of work

We carry out an independent assurance engagement on your Quality Account, following Department of Health (DH) guidance. We give an opinion as to whether we have found anything from our work which leads us to believe that:

- the Quality Account is not prepared in line with the DH criteria;
- the Quality Account is not consistent with other documents specified in the DH guidance; and
- the two indicators in the Quality Account where we carry out detailed work are not compiled in line with the DH regulations and meet expected dimensions of data quality.

Key messages

- We confirmed that the Quality Account had been prepared in line with the requirements of the Regulations.
- We confirmed that the Quality Account was consistent with the sources specified in the Guidance.

- We confirmed that the commentary on indicators in the Quality Account was consistent with the reported outcomes
- Our testing of two indicators included in the Quality Account found that these were materially reasonably stated in accordance with the Regulations and six dimensions of data quality .

Quality Account Indicator testing

We tested the following indicators:

- Percentage of Patient Safety Incidents resulting in severe harm or death;
- Rate of clostridium difficile infections.

We reviewed the process used to collect data for the indicator. We checked that the indicator presented in the Quality Report reconciled to the underlying data. We then tested a sample of cases to check the accuracy, completeness, timeliness, validity, relevance and reliability of the data, and whether the calculation is in accordance with the definition.

Based on the results of our procedures, nothing came to our attention that caused us to believe that the indicators we tested were not reasonably stated in all material respects.

Conclusion

As a result of this we issued an unqualified conclusion on your Quality Account.

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and fees for the provision of non audit services.

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit	60,278	60,278	60,278
Charitable fund	1,800	1,800	1,800
Total fees	62,078	62,078	62,078

Fees for other services

Service	Fees £
Quality accounts	10,000

Reports issued

Report	Date issued
Audit Plan	March 2016
Audit Findings Report	May 2016
Annual Audit Letter	July 2016
Quality accounts report	July 2016



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