



The Annual Audit Letter 2016/17 for Surrey and Sussex Healthcare NHS Trust

Year ended 31 March 2017

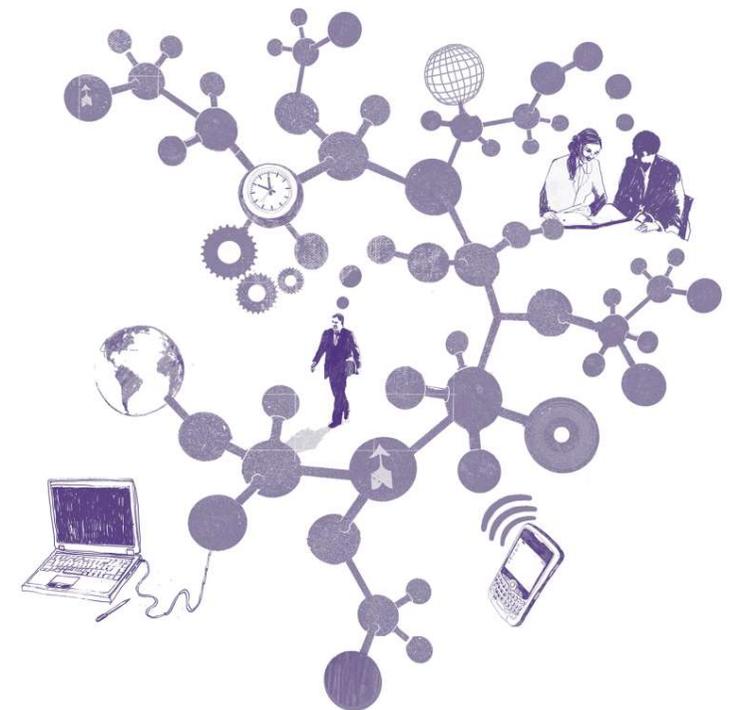
July 2017

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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 (the Trust) for the year ended 31 March 2017.

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 the Trust's Audit & Assurance Committee as those charged with governance in our Audit Findings Report on 24 May 2017.

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 the Trust's financial statements (section two)
- assess the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Trust's 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 2017.

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. We reflected this in our value for money conclusion on 2 June 2017.

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

We referred a matter to the Secretary of State, as required by section 30 of the Act, on 1 June 2017 because the Trust has taken a course of action that has led to a breach of the Trust's break-even duty for the three-year period ending 31 March 2017.

Certificate

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

Quality Accounts

We completed a review of the Trust's Quality Account and issued our report on this on 29 June 2017. We concluded that the Quality Account and the indicators we reviewed were prepared in line with the Regulations and guidance.

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 2017

Audit of the accounts

Our audit approach

Materiality

In our audit of the Trust's 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 the Trust's accounts to be £5,090,000, which is 1.9% of the Trust's gross operating costs. We used this benchmark as in our view, users of the Trust's 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 & 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:

- the Trust's 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 remainder of the Annual Report to check it is consistent with our understanding of the Trust and with the accounts included in the Annual Report, on which we gave 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 the Trust's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts

These are the risks 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	Findings and conclusions
<p>The revenue cycles include fraudulent transactions</p> <p>Under ISA (UK and Ireland) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. For this Trust, we concluded that the greatest risk of material misstatement related to the occurrence of healthcare income and the existence of the associated receivables.</p>	<p>As part of our audit work we completed;</p> <ul style="list-style-type: none"> • Documenting our understanding of management's controls over revenue recognition • Review and testing of revenue recognition policies • Testing of material revenue streams • Review the year end agreement of NHS balances exercise • Review the reconciliation of healthcare revenues to signed contracts • Cut off testing of revenue received during the year from both healthcare contracts and non-healthcare revenue • Review of revenue recognition in respect of Sustainability and Transformation Fund income for Quarter 4 	<p>We discussed with management two significant mismatches, which were identified as part of our review of the NHS agreement of balances exercise.</p> <ul style="list-style-type: none"> • NHS Crawley CCG – Income mismatch £3.6 m, Balances mismatch £3.3 m. • NHS East Surrey CCG – Income mismatch £ 2.9 m, Balances mismatch £2.6 m. <p>From a review of the evidence provided by the Trust and discussions with management our understanding is that the mismatch arising with Crawley CCG was not formally disputed and arises in part from difference in estimating technique between the two parties; we are satisfied that the Trust's estimate is supported by activity undertaken during the year. However there remains a potential uncertainty over the revenue recognised in the financial statements of £4.5m. This is below our materiality of £5.1m but still represents a significant potential uncertainty in the income recognised in your financial statements. In the event that these differences are not resolved in the Trust's favour it would have a material impact on the Trust's reported outturn position and would place the Trust into a deficit position.</p> <p>NHS East Surrey CCG</p> <p>The Trust provided minutes of discussions with the CCG indicating that a number of the specific items under dispute have subsequently been resolved and that the amount still under dispute is significantly less than indicated in the mismatch report.</p> <p>We have received further confirmation from the CCG that the meeting minutes are a true record of the meeting that was held between the parties.</p> <p>NHS Crawley CCG</p> <p>The mismatches report shows that the difference was due to adjustments made by the CCG, which have not been formally disputed. We understand that the CCG agreed the Trust's position up to month 11 without dispute and that the adjustments have all been made in month 12. Management provided us with an itemised list of issues causing the variance. The Trust disagrees with the adjustments. Management provided us with further evidence in support of the reported income position and the activity underpinning it. We viewed confirmation from the CCG which stated the balance in their accounts is based on an estimate forecast for M12 run rate activity and reductions following the introduction of new QIPP schemes in January/ February which were not reflected in the YTD run rate activity.</p>

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of controls</p> <p>Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p>	<p>As part of our audit work we completed;</p> <ul style="list-style-type: none"> • Our review of entity controls • Testing of journal entries • Review of accounting estimates, judgements and decisions made by management • Review of unusual significant transactions 	<p>There were no significant issues identified in relation to this risk.</p>
<p>Expenditure cycle includes erroneous transactions</p> <p>Practice Note 10 requires us to consider the risk of material misstatement due to fraudulent financial reporting that may arise from manipulation of expenditure recognition, especially where the body is required to meet targets. For your Trust, we have concluded that the greatest risk of material misstatement relates to the completeness of operating expenses and creditor balances</p>	<p>As part of our audit work we completed;</p> <ul style="list-style-type: none"> • Testing of creditor payments, including accruals, for completeness, classification and occurrence • Cut-off testing of expenditure received around year end to ensure this has been included within the correct accounting year • We verified that the operating expenses included within the financial statements are complete • We tested your depreciation entries to ensure these are based on valid valuations 	<p>There were no significant issues identified in relation to this risk.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Trust's financial statements on 2 June 2017, in advance of the national deadline.

The Trust 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 the Trust's Audit & Assurance Committee on 24 May 2017.

Annual Governance Statement and Annual Report

We are also required to review the Trust's Annual Governance Statement and Annual Report. It provided these on a timely basis with 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. On 1 June 2017 we reported to the Secretary of State that Surrey and Sussex Healthcare NHS Trust has taken a course of action that has led to a breach of the Trust's break-even duty for the three-year period ending 31 March 2017.

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 2016 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 table 1 overleaf.

Overall VfM conclusion

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 2017.

Value for Money conclusion

Table 1: Value for money risks

Significant risk	Work carried out	Findings and conclusions
<p>Financial sustainability During the year you revised your forecast outturn from £15.2million to a stretch target of £5m surplus. You have a good understanding of the risks and the issues impacting on your financial position and the underlying driver of revenue and costs. You have identified significant savings requirement in both the 2016/17 and 2017/18 financial years.</p> <p>You have agreed a control total of £21.3m surplus for 2017/18. Whilst you are able to forecast a recurrent surplus even after STF monies of £8.6m the local health economy is financially challenged and may not be able to afford your planned activity.</p> <p>This places significant risk around the delivery of your control total for 2017/18.</p>	<p>The links to your arrangements for understanding and using appropriate cost and performance information to support informed decision making; and planning finances effectively support the delivery of key strategic priorities.</p> <p>This links to the Trust's arrangements for working effectively with third parties to deliver strategic priorities.</p>	<p>The Trust had budgeted a revised year end surplus for 2016/17 of between £3m to £5m and the Trust recorded a year end surplus position of £3.4m.</p> <p>The Trust achieved its savings target of £9.2m in 2016/17 this included 30% of one off, non-recurrent measures. Whilst the delivery of planned savings has been important in securing the reported year end surplus position it does suggest that there is some residual risk in terms of sustainable planning for the long term.</p> <p>The Trust is budgeting a £21.3m surplus in 2017/18, which is very ambitious when set in the context of the initial £15.2m surplus position forecast at the start of 2016/17. There are a number of key assumptions included in this forecast position:</p> <ul style="list-style-type: none"> • The move to HRG4+ will benefit the Trust by an additional £12.4m. However the local health economy remains significantly challenged and there are significant questions about commissioners ability to pay for the changes introduced by the new tariff • The Trust is due to receive £8.8m of Sustainability and Transformation Funding (STF), You did not secure your full STF entitlement this year and the receipt of this funding in 2017/18 will depend on the delivery of financial and non-financial targets. • The budget includes Cost Improvement Programme of £6.2m. As at the end of April 2017 approximately £400k of the programme is yet to be fully scoped, this is mitigated by your contingency fund of £446k. <p>Whilst some risks remain in your forward plans, there is good understanding and transparency about your financial position and the associated risks. This clarity is important as you seek to move towards a more financially sustainable position and it is encouraging that the Trust is forecasting recurrent surpluses in the short to medium term.</p> <p>We concluded that the Trust has proper arrangements to plan finances effectively and provide reliable financial reporting to support the delivery of its strategic priorities.</p>

Quality Accounts

The Quality Account

The Quality Account is an annual report to the public from an NHS Trust about the quality of services it delivers. 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 the Trust's 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 set DH criteria;
- the Quality Account is not consistent with other documents, as specified in the DH guidance; and
- the two indicators in the Quality Account where we have carried out testing are not compiled in line with DH regulations and do not meet expected dimensions of data quality.

Quality Account Indicator testing

We tested the following indicators:

- Rate of Clostridium difficile infections.
- Percentage of patient safety incidents resulting in severe harm or death.

For each indicator tested, we considered the processes used by the Trust to collect data for the indicator. We checked that the indicator presented in the Quality Account reconciled to underlying Trust data. We then tested a sample of cases included in the indicator to check the accuracy, completeness, timeliness, validity, relevance and reliability of the data, and whether the calculation of the indicator was in accordance with the defined indicator definition.

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 DH Guidance.
- We confirmed that the commentary on indicators in the Quality Account was consistent with the reported outcomes
- 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 the Trust's Quality Account on 29 June 2017.

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit service.

Fees

	Planned £	Actual fees £	2015/16 fees £
Statutory audit	60,278	60,278	60,278
Charitable fund	1,800	1,800	1,800
Total fees (excluding VAT)	62,078	62,078	62,078

Reports issued

Report	Date issued
Audit Plan	9 March 2017
Audit Findings Report	24 May 2017
Annual Audit Letter	10 July 2017

Fees for other services

Service	Fees £
Audit related services	
Assurance on your quality report	10,000
Total Quality report audit fees (excluding VAT)	10,000

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Trust. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Trust's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Trust's policy on the allotment of non-audit work to your auditor.



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