The Annual Audit Letter for Surrey and Sussex Healthcare NHS Trust

Year ended 31 March 2015

July 2015

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

Jamie Bewick
Senior Manager
T 07880 456 144
E jamie.n.bewick@uk.gt.com
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### Appendices

A  Reports issued and fees
Section 1: Executive summary
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 2015:

- auditing the accounts (Section two)
- assessing the Trust’s arrangements for securing economy, efficiency and effectiveness in its use of resources (Section three)
- other audit related services carried out for the Trust during the years 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 on the accounts and the Trust’s arrangements for securing economy, efficiency and effectiveness in its use of resources to the Audit and Assurance Committee (those charged with governance) in the Audit Findings Report on 27 May. We reported the detailed findings from our work on the Trust’s Quality Account in our separate Quality Account Report on 30 June.

**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 2015 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 we provided in relation to 2014/15 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 2015 and the Trust's 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 incurring a deficit of £2.4 million in 2014/15.

We issued an unqualified limited assurance report in respect of the Trust's Quality Account in relation to this separate engagement.

**Acknowledgements**
This Letter has been agreed with the Chief Finance Officer.

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 2015
Section 2: Audit of the accounts
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 presented us with draft accounts in accordance with the national NHS timetable. Good quality working papers were provided at the outset of the audit and Trust finance staff were prompt and helpful in responding to our queries. As a consequence we were able to complete our audit efficiently, to meet the Trust's reporting timetable.

Issues arising from the audit of the accounts

There were no significant matters arising from the audit of the Trust's accounts. The financial statements were prepared to a high standard of quality and we did not identify any significant misstatements.

Annual Governance Statement and Annual Report

The Trust produced an annual governance statement and a draft annual report which were compliant with the Department of Health's requirements. The final version of the annual report had not yet been published at the time of completing our audit. We have discussed the publication requirements with the Trust.

Conclusion

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (defined as the Audit and Assurance Committee at the Trust). We presented our report to the Committee on 27 May 2015 and summarise only the key messages in this Letter.

We issued an unqualified opinion on the Trust's 2014/15 accounts on 3 June 2015, meeting the deadline set by the Department of Health (DH). Our opinion confirms 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 2014/15

The Trust's Performance against its financial targets is set out in the table below:

<table>
<thead>
<tr>
<th></th>
<th>Target</th>
<th>Actual</th>
<th>Met?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus/ (deficit)</td>
<td>Breakeven</td>
<td>(£2.4 million deficit)</td>
<td>No</td>
</tr>
<tr>
<td>Capital cost absorption rate</td>
<td>3.5%</td>
<td>3.5%</td>
<td>Yes</td>
</tr>
<tr>
<td>Capital resource limit</td>
<td>Not to exceed £19,614k</td>
<td>£19,330k</td>
<td>Yes</td>
</tr>
<tr>
<td>External finance limit</td>
<td>Not to exceed £9,595k</td>
<td>£9,595k</td>
<td>Yes</td>
</tr>
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</table>

Looking forward

In 2015/16 the Trust has signed up to an enhanced national tariff of 70 per cent for emergency activity. This should address the issue of the marginal tariff which was the main driver behind the 2014/15 overspend.

The Trust is also working more closely with its partners in the local health economy towards establishing a health campus, with clearer care pathways and risk sharing arrangements.

In March 2015 the Trust submitted an integrated business plan to Monitor, as part of its application to become a Foundation Trust. The plan sets out how the Trust plans to maintain financial stability over the next five years and achieve a surplus in each of those five years.

The plan assumes the Trust will achieve cost improvement savings over the next five years. While the targets for these savings are challenging, the Trust has a strong track record of achieving its cost improvement programmes. Planned savings are also less than the Trust has achieved over the last five years.

The plan has been subject to significant external scrutiny. In March 2015 the Trust Development Authority referred the Trust to Monitor in support of its application to become a Foundation Trust.

The Trust incurred a deficit of £2.4 million in 2014/15. The primary reason was the increased level of non elective activity for which the Trust was only paid at 30 per cent of the national tariff.
Section 3: Value for Money

01. Executive summary
02. Audit of the accounts
03. Value for Money
04. Audit related services
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 has continued to progress its long term plan to become a financially sustainable organisation and to achieve Foundation Trust (FT) status. The Trust Development Authority referred the Trust for FT assessment in March 2015.

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 has continued its good track record of achieving its Cost Improvement Programmes. The Trust has well established arrangements, which include quality impact assessments for all proposed schemes. The Trust's most recent reference cost index (2013/14) is 92, indicating that the overall cost base is lower than other comparable trusts.

Overall VfM conclusion
The Trust made a deficit of £2.4 million in 2014/15 and continues to be in breach of the statutory break even duty, because of historic deficits incurred over the last decade.

Except for this matter and 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 2015.
Section 4: Audit related services
Audit related services

Quality Accounts
For 2014/15 the Trust is required to obtain external audit assurance on its Quality Account. 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 2014/15 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 29 June 2015. We highlighted a number of presentational issues in the way the Trust had reported its key indicators of quality, which the Trust corrected in the final version of the Quality Account.

Conclusions
We provided an unqualified limited assurance opinion on the Trust’s Quality Account, in accordance with requirements, on 29 June 2015.
Appendices
Appendix A: Reports issued and fees

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

<table>
<thead>
<tr>
<th>Fees for audit services</th>
<th>Per Audit plan £</th>
<th>Actual fees £</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trust audit</td>
<td>80,370</td>
<td>80,370</td>
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<tr>
<td>Charitable fund audit</td>
<td>1,800</td>
<td>1,800</td>
</tr>
<tr>
<td><strong>Total audit fees</strong></td>
<td><strong>82,170</strong></td>
<td><strong>82,170</strong></td>
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<table>
<thead>
<tr>
<th>Fees for other services</th>
<th>Service</th>
<th>Fees £</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Audit related services</td>
<td></td>
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<tr>
<td></td>
<td>• Quality Accounts</td>
<td>10,000</td>
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<table>
<thead>
<tr>
<th>Reports issued</th>
<th>Date issued</th>
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<tbody>
<tr>
<td>Audit Plan</td>
<td>March 2015</td>
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<tr>
<td>Audit Findings Report</td>
<td>May 2015</td>
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<tr>
<td>Quality Account Report</td>
<td>June 2015</td>
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