

# The Annual Audit Letter for Epsom and St Helier University Hospitals NHS Trust

**Year ended 31 March 2014**

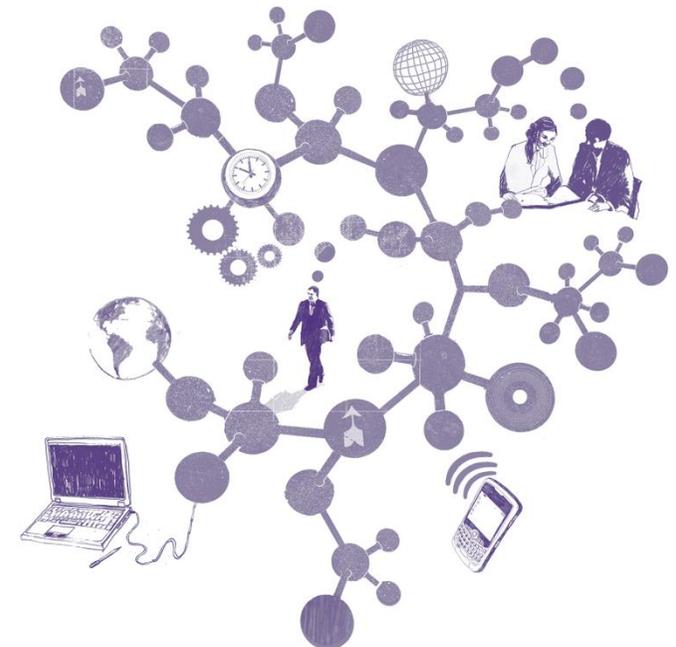
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This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.



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# Section 1: Executive summary

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# 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 Epsom and St Helier University Hospitals 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 those charged with governance in the Audit Findings Report on 2 June 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](http://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 on 7 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 a £7.4 million deficit for 2013/14, and a cumulative deficit of £26.6 million,
- a qualified limited assurance report in respect of the Trust's Quality Account due to issues identified during testing of the percentage of patients who were admitted to hospital and who were risk assessed for venous thromboembolism (VTE)
- 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.

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# Executive summary (continued)

## **Key areas for Trust attention**

The Trust is now moving out of a sustained period of financial difficulty that has led to deficit over the past few years. The Trust's management has worked hard to develop strong financial and clinical governance arrangements and to provide robust planning, management and control during this period. Although the Trust has not achieved breakeven in 2013/14 it did achieve its planned deficit position and met 93% of its QIPP savings target of £19.9m.

The Board has done well to maintain leadership and bring the financial position under control in difficult external circumstances. However, as explained in the detail of this report, the medium term financial position remains very challenging. Against a difficult external backdrop it is vital that the Board maintains strong leadership, including the focus on improving the financial position, whilst ensuring continued the quality of healthcare.

## **Acknowledgements**

This Letter has been agreed with the Director of Finance.

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

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## Section 2: Audit of the accounts

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# 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 deadline. Appropriate working papers were made available from the start of the audit fieldwork.

The NHS year end timetable is a demanding one and the finance team endeavoured to answer all queries and requests for additional information in a timely manner. The year end process did however stretch both our staff and the Trust's. We propose holding an 'audit debrief' meeting with finance staff to look at ways to improve the process for 14/15.

### **Issues arising from the audit of the accounts**

We did not identify any adjustments which impacted on the reported financial position. The draft accounts and audited accounts recorded a retained deficit of £7,400k. We identified only one material disclosure error in relation to PDC disclosure in the Statement of Changes In Taxpayers' Equity and agreed with management a number of adjustments to improve the presentation of the accounts.

### **Annual Governance Statement and Annual Report**

We reviewed the Annual Governance Statement (AGS) to ensure it was compliant with Department of Health (DH) guidance and consistent with our understanding of the Trust's system of internal control. As a result of our audit, management agreed to update the AGS to ensure it completely met DH requirements.

We also reviewed the Annual Report to ensure it was compliant with DH Manual for Accounts (MfA) guidance. Although there were significant delays in preparing the Annual Report no amendments resulted from our review.

### **Other**

On 15 May 2014 we referred a matter to the Secretary of State under section 19 of the Audit Commission Act 1998 in relation to the Trust being in breach of its statutory break-even duty for the three year period ending 31 March 2014. The Trust's expenditure has exceeded income for the three year period ended 31 March 2014 and it is recording a cumulative deficit of £26.6 million at that date.

### **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 Committee at the Trust). We presented our report to the Audit Committee on 2 June 2014 and summarise only the key messages in this Letter.

We issued an unqualified opinion on the Trust's 2013/14 accounts on 5 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's Performance against its financial targets is set out in the table below:

|                                     | Target                 | Actual   | Met? |
|-------------------------------------|------------------------|----------|------|
| <b>Surplus/ (deficit)</b>           | Breakeven              | (£7.4m)  | No   |
| <b>Capital cost absorption rate</b> | 3.5%                   | 3.5%     | Yes  |
| <b>Capital resource limit</b>       | Not to exceed £14.042m | £13.727m | Yes  |
| <b>External finance limit</b>       | Not to exceed £17.821m | £17.509m | Yes  |

The Trust has not met its statutory breakeven requirement in 2013/14, but has achieved its planned deficit of £7.4m (after the planned £8.2m adjustment for the partial closure and impairment of the Sutton hospital site). We note that in overall terms the Trust has made considerable progress in improving its financial position.

The Trust has met its External Finance Limit (EFL) and Capital Resource Limit (CRL) and also achieved £18.6m (93%) of its £19.9m QIPP which is mostly recurrent. The slight shortfall in the QIPP has been covered by a slight over performance of activity to help meet the budgeted position.

## Looking forward

The deficits in 2012/13 and 2013/14 were funded by permanent adjustments to PDC (£12m in 2013/14), rather than by non-recurrent hand-outs or loans. The 2014/15 I&E breakeven position (as set out in the IBP) assumes no further adjustments to PDC or other support (the Trust is getting additional money to fund capital schemes).

The Trust is now moving out of a sustained period of financial difficulty that has led to deficit over the past few years. The Trust's management has worked hard to develop strong financial and clinical governance arrangements and to provide robust planning, management and control during this period. As a result, 2013/14 should mark the last year of deficit, with the Trust planning to return to a sustainable in-year breakeven position in 2014/15. The 2014/15 I&E breakeven position (as set out in the IBP) assumes no further adjustments to PDC or other support (the Trust is getting additional money to fund capital schemes).

The Trust has a well developed Integrated Business Plan (IBP) for 2014/15 to 2018/19, which sets a sustainable medium term future budgeting for breakeven in 2014/15 and then between a 0.5% and 1% surplus to 2018/19. Achieving this would be confirmation of a successful period of turnaround. However, there remains a level of uncertainty surrounding the future of South West London NHS, following the demise of Better Service Better Value plans, replaced by the emerging South West London Collaborative Commissioning group proposals for a new approach in SW London. Once these plans are formalised the Trust will need to consider the impact on the IBP going forward.

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## Section 3: Value for Money

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# 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.

Our work highlighted that although the trust delivered a planned deficit in 2013/14 there is a positive direction of travel with in-year breakeven projected for 2014/15. Robust financial management and governance arrangements have been established. The trust has a good record of delivering savings plans, which adds credibility to the medium term financial plan, although the Trust will need to manage the relatively high level of non-recurrent savings that have enabled it to hit its financial targets.

### 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.

Our work highlighted that arrangements to secure economy, efficiency and effectiveness are robust, with some good practice in regard to clinical engagement in financial planning and delivery and in regard to using service line analysis at point of delivery and patient level, to help develop savings. The Trust also demonstrates good practice in the way that clinical risk in cost improvement plans is managed.

## Overall VfM conclusion

On the basis that the Trust was not able to deliver a balanced budget, and continues to face significant financial challenges, we issued a qualified except for value for money conclusion.

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## Section 4: Quality Account

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# 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 23 June 2014. The key matters arising from our work are:

- The draft Quality Account excluded the most up-to-date performance information for some quality indicators and the statements from key stakeholders. The Trust subsequently included these sections within the final Quality Account.
- Testing of the percentage of patients who were admitted to hospital and who were risk assessed for venous thromboembolism (VTE) during the period identified two issues which were the basis of our qualified conclusion.

## Conclusions

We provided a qualified limited assurance opinion on the Trust's Quality Account, in accordance with requirements, on 23 June 2014 as a result of the following:

- Accuracy and Validity : As the Trust's admissions management system (IPM) is a live system, we could not reconcile the data in the reported indicator to the live system. There were small differences in the data for both the numerator (number of adults admitted to hospital who have been risk assessed for VTE) and the denominator (total number of adults admitted to hospital) which would have a minor impact on the overall value of the indicator.
- Accuracy, Validity and Relevance: The VTE indicator includes patients who were admitted to hospital because they had a diagnosis or signs and symptoms of deep vein thrombosis (DVT) or pulmonary embolism. This is contrary to the relevant guidance which states that these patients should be excluded from the indicator. In total there were 188 patients in this category, of which 177 were risk assessed for VTE.

# Appendices

# 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 services.

## Fees

|                         | Per Audit plan<br>£ | Actual fees<br>£ |
|-------------------------|---------------------|------------------|
| Trust audit             | 106,102             | 106,102          |
| Charitable fund audit   | 2,775               | Est 2,775        |
| <b>Total audit fees</b> | <b>108,877</b>      | <b>108,877</b>   |

## Fees for other services

| Service | Fees £ |
|---------|--------|
| None    | Nil    |

## Reports issued

| Report                            | Date issued  |
|-----------------------------------|--------------|
| Audit Plan                        | 7 March 2014 |
| Audit Findings Report             | 2 June 2014  |
| Quality Account Report            | 23 June 2014 |
| VfM – Financial Resilience Report | 2 June 2014  |
| Annual Audit Letter               | 22 July 2014 |



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