

# The Annual Audit Letter for Weston Area Health Trust

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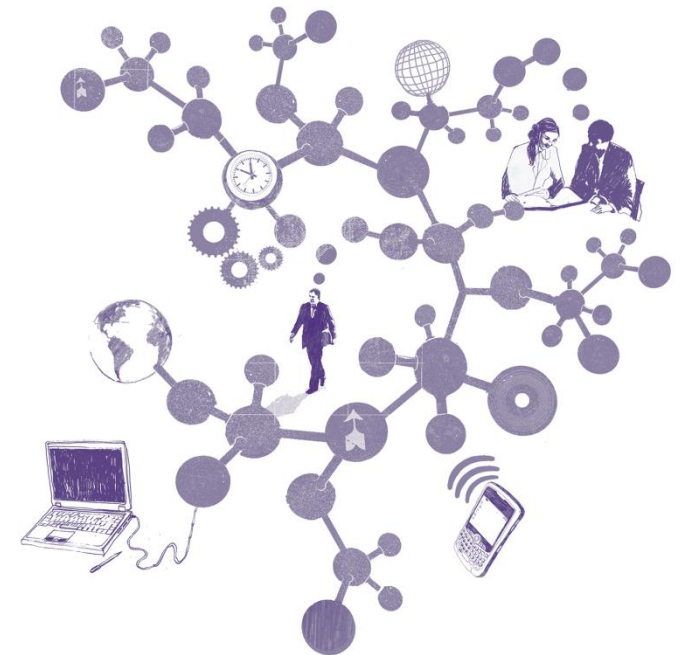
**Year ended 31 March 2015**

23 July 2015

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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 Weston Area Health 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 arrangements for securing economy, efficiency and effectiveness in its use of resources to those charged with governance in the Audit Findings Report on 3 June 2015 and reported the detailed findings from our work on the Trust's Quality Account in our separate Quality Account Report on 25 June 2015.

## 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 13 February 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

We issued 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 income and expenditure for the year.

We issued 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:

- not achieving its statutory break even objective in 2014/15 by recording a deficit of £3.90m for the year,
- having a cumulative deficit of £11.50m at 31 March 2015 and not being able to recover its cumulative deficit position,
- having a current financial plan for 2015/16 which shows a worsening financial position, with a projected deficit of £7.95m for 2015/16.

We also issued a qualified limited assurance report in respect of the Trust's Quality Account in relation to this separate engagement. The indicator relating to the Friends and Family Test patient element score is based on returns completed by patients. We were unable to obtain an audit trail that supports the indicator value as these returns have not been retained by the Trust. We were therefore unable to gain sufficient assurance to conclude that the indicator is reasonably stated in all material respects.

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# Executive summary (continued)

## Key areas for Trust attention

The Trust is in a difficult financial position in that it has not been able to achieve a break even position and has incurred substantial deficits for the last two years. It's projected deficit for 2015/16 is £7.95m. It is not sustainable over the longer term in its current form.

Against this the Trust plans its finances very well and either achieves its planned deficit or, as in 2014/15 its outturn was better than planned. It also achieved all its SIP targets in 2014/15. Financial governance and financial control are strong.

The Trust is in the process of being acquired by Taunton and Somerset NHS Foundation Trust as a way of ensuring it can continue to deliver sustainable health services in the local area. As such the deficit plans in 2014/15 and 2015/16 have been agreed with relevant stakeholders and include the provision of additional cash support and liquidity requirements.

Overall our work highlighted that the Trust has worked hard this year to maintain services at the level that it has achieved. The Trust reports comprehensive and detailed performance information to the Board on a monthly basis.

The Trust should ensure that that returns are retained for a sufficient period to provide an audit trail to source documents for the Friends and Family Test performance data.

## 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 2015**

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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.

The draft financial statements and the supporting working papers were again prepared to a high standard. The Trust dealt with our audit requests and queries in a timely manner.

The Trust has again demonstrated that it has sound processes in place to produce a robust set of accounts. The Trust benefits from a sound financial control environment supported by an experienced and stable finance team resulting in financial statements requiring very little amendment as a result of the audit process.

### Issues arising from the audit of the accounts

We identified no adjustments affecting the Trust's (unadjusted) retained deficit of £4.456m for the year. We identified a small number of minor adjustments to improve the presentation of the financial statements.

### Annual Governance Statement and Annual Report

We have not identified any issues in respect of the Annual Governance Statement and Annual Report that we wish to bring to your attention.

### Other

In exercising our duty under s19 of the Audit Commission Act 1998, we were obliged to make a S19 report to the Secretary of State on 5 March 2015 as previously reported to the audit committee. In summary we reported that:

- Taking into account the NHS Finance Manual "Guidance on Breakeven Duty and Provisions" we have reason to believe that Weston Area Health NHS Trust will continue being in breach of the Trust's break-even duty for the five year period ending 31 March 2015.
- The Trust's expenditure exceeded income for the five year period ended 31 March 2014, as reported last year, and there are no plans to recover this deficit within any defined period. The cumulative deficit as at 31 March 2014 was £7.59 million. The Trust set a deficit budget for 2014/15 of £4.95 million and is forecasting to achieve this deficit for the year. This is likely to result, after adjusting for impairments, in the cumulative deficit increasing to £12.54 million at 31 March 2015.
- Weston Area Health NHS Trust does not have a recovery plan in place. With the support of local health commissioners and the NHS Trust Development Authority, it is seeking a partner for the Trust from within the NHS in an 'NHS only' acquisition.

## 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 Board at the Trust). We presented our report to the Audit Committee on 3 June 2015. A special meeting of the Board was then held afterwards on 3 June when the accounts and the audit findings report were approved. As such we summarise only the key messages in this Letter.

We issued an unqualified opinion on the Trust's 2014/15 accounts on 4 June 2015, 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 2014/15

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

	Target	Actual	Met?
Surplus/ (deficit)	£4.95m*	(£3.902m)	N
Capital cost absorption rate	3.5%	3.5%	Y
Capital resource limit	Not to exceed £3.982m	£3.796m	Y
External finance limit	Not to exceed £5.292m	£2.794m	Y

\*The Trust is subject to the break even duty, but it had agreed a target deficit budget of £4.95m for 2014/15 with stakeholders. As such although it did not meet the break even duty it achieved a better than planned for deficit.

## Looking forward

As stated earlier, the Trust is in the process of being acquired by Taunton and Somerset NHS Foundation Trust as a way of ensuring it can continue to deliver sustainable health services in the local area. As such the deficit plans in 2014/15 and 2015/16 have been agreed with relevant stakeholders and include the provision of additional cash support and liquidity requirements.



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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 the Trust continues to be in a difficult financial position in that it has not been able to achieve a break even position and has incurred substantial deficits for the last two years. Its projected deficit for 2015/16 is £7.95m. It is not clinically or financially sustainable over the longer term in its current form.

Against this the Trust plans its finances very well and either achieves its planned deficit or, as in 2014/15 its outturn was better than planned. It also achieved all its SIP targets in 2014/15. Financial governance and financial control are strong.

The Trust is in the process of being acquired by Taunton and Somerset NHS Foundation Trust as a way of ensuring it can continue to deliver sustainable health services in the local area.

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# Value for Money

## 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

- 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.
- Overall our work highlighted that the Trust has worked hard this year to maintain services at the level that it has achieved. The Trust reports comprehensive and detailed performance information to the Board on a monthly basis.
- The Trust did not achieve the Emergency Department four hour standard of 95% for the year with a year end position of 92.55%, but Trust-wide delivery against all three Referral to Treatment targets achieved the overall year end position.
- The Trust continues to face a challenge with the recruitment and retention of staff across a number of key areas.

## Overall VfM conclusion

Having regard to the guidance on the specified criteria published by the Audit Commission, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Trust had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In seeking to satisfy ourselves that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, we have considered the following matters in relation to financial resilience:

- the Trust did not achieve its statutory break even objective in 2014/15 recording a deficit of £3.90m for the year,
- the Trust has a cumulative deficit of £11.50m at 31 March 2015 and has not been able to recover its cumulative deficit position,
- the Trust's current financial plan for 2015/16 shows a worsening financial position, with a projected deficit of £7.95m for 2015/16.

On the basis of our work, with the exception of the matters reported in the paragraph above, we are satisfied that in all significant respects Weston Area Health NHS Trust put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

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## Section 4: Audit related services

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# Audit related services

## Quality Accounts

For 2014/15 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 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 26 June 2015. The key matters arising from our work are that, based on limited assurance procedures, nothing has come to our attention that causes us to believe that:

- the Quality Account is not prepared in all material respects in line with the criteria set out in the Regulations
- the Quality Account is not consistent in all material respects with the sources specified in the *NHS Quality Accounts Auditor Guidance 2014/15* issued by the Department of Health ("the Guidance")

However the Friends and Family indicator in the Quality Account was identified as being not reasonably stated in all material respects in accordance with the Regulations and the six dimensions of data quality set out in the Guidance.

## Conclusions

We provided a qualified limited assurance opinion on the Trust's Quality Account, in accordance with requirements, on 26 June 2015 because we could not obtain an audit trail for the Friends and Family Test patient element indicator.

The reported indicator for the Friends and Family Test patient element score, is based on returns completed by patients. We were unable to obtain an audit trail that supports the indicator value as these returns had not been retained by the Trust. We were therefore unable to gain sufficient assurance to conclude that the indicator is reasonably stated in all material respects in accordance with the Regulations and the six dimensions of data quality set out in the Guidance.

# Appendices

# Appendix A: Reports issued and fees

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

## Fees for audit services

	Per Audit plan £	Actual fees £
Trust audit	62,954	62,954
Charitable fund audit	3,210	3,210
<b>Total audit fees</b>	<b>66,154</b>	<b>66,154</b>

## Fees for other services

Service	Fees £
<b>Audit related services</b>	
Quality Accounts	10,000
<b>Non-audit related services</b>	Nil

## Reports issued

Report	Date issued
Audit Plan	February 2015
Audit Findings Report	June 2015
Quality Account Report	June 2015
Annual Audit Letter	July 2015



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