

The Annual Audit Letter for Weston Area Health NHS Trust

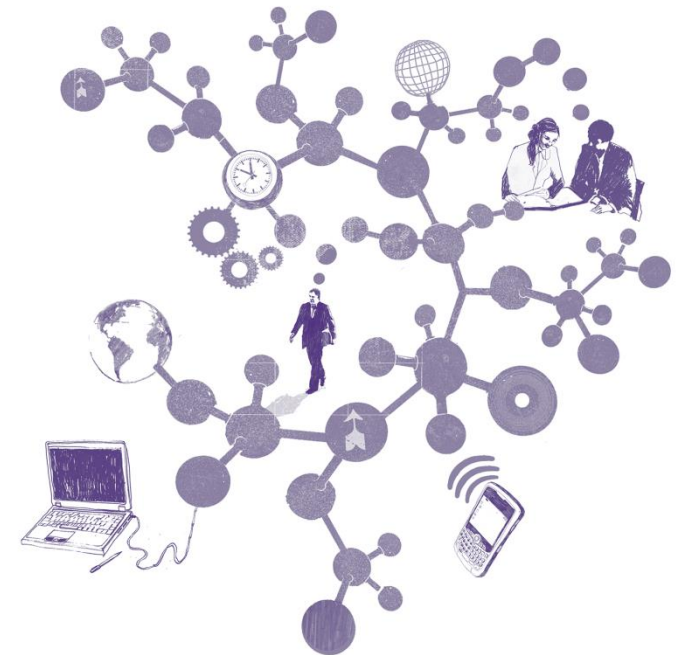
Year ended 31 March 2014

30 July 2014

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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 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 4 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).

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 24 February 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 the Trust's financial position. The Trust did not achieve its statutory break even target, recording a deficit of £4.68m in 2013/14. It has not been able to recover its cumulative deficit position which stood at £7.59m at 31 March 2014. The Trust's current two year financial plan shows a worsening financial position, with forecast deficits of £4.95m for 2014/15 and £8m for 2015/16.
- a qualified limited assurance report in respect of the Trust's Quality Account. Contrary to the relevant guidance, the Trust's calculation of the percentage of patients risk assessed for venous thromboembolism (VTE) did not exclude patients admitted with a diagnosis or signs of Deep Vein Thrombosis or pulmonary embolism. This led to uncertainty over the accuracy of the indicator, and therefore failed to meet the 'Relevance' dimension of data quality.

Executive summary (continued)

- 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.

Key areas for Trust attention

Overall our work highlighted that the Trust remains in a difficult financial position. The Trust planned to make a deficit of £4.95m in 2013/14 and its actual deficit was within plan at £4.68m. As a result, it did not achieve its statutory break even objective and the cumulative deficit increased to £7.59m at 31 March 2014.

In its current form the Trust is not financially viable. The current two year outline business plan shows a predicted worsening financial position, with deficits of £4.95m for 2014/15 and circa £8m for 2015/16.

The Trust received written confirmation from the Trust Development Authority (TDA) on 19 May 2014 confirming that the TDA will provide financial support to address any shortfall in cash funding for 2014/15. As a result of this confirmation we issued our audit opinion without modification in respect of the going concern criteria.

The Trust has worked hard this year to maintain services at the level that it has achieved, despite some significant difficulties. It scored poorly in the Care Quality Commission (CQC) inspection in April 2013, but invested in recruiting additional nurses and took action to improve services and by November 2013 had remedied the earlier problems. The CQC scored the Trust at level 5, its second best rating in its Intelligent Monitoring report of March 2014.

The TDA winter report placed the Trust in the category "Concerns requiring investigation", its third escalation category. There were 25 trusts in this category with 33 trusts in a higher risk escalation category.

The Trust has encountered problems in recruiting medical staff affecting the sustainability of key services, that if not addressed in the next twelve months will have an increasingly adverse effect on the Trust's ability to maintain quality services.

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
11 July 2014

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 draft financial statements and the supporting working papers were again prepared to a high standard. We identified no material errors in the draft financial statements. The Trust benefits from a sound financial control environment supported by an experienced and stable finance team. The financial statements requiring little amendment as a result of the audit process.

Issues arising from the audit of the accounts

We identified no material errors in the draft financial statements

Annual Governance Statement and Annual Report

Our review of these reports did not identify any issues except for a request to change the senior managers remuneration disclosures in the Annual Report.

Other

Because of the Trust's financial position we were obliged to make a S19 report to the Secretary of State on 17 March 2014.

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 2014.

Weston Area Health NHS Trust's expenditure exceeded income for the five year period ended 31 March 2013, as reported last year, and there are no plans to recover this deficit within any defined period. The cumulative deficit as at 31 March 2013 was £2.9 million.

The Trust also set a deficit budget for 2013/14 of £4.95 million and the cumulative deficit at 31 March 2014 amounted to £7.59 million.

The Trust is unable to prepare a financial recovery plan because of the uncertainty over its organisational form.

The Trust had therefore taken a course of action which gave rise to a duty on us to report to you under section 19 of the 1998 Act.

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 Audit and Assurance Committee on 4 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?
Surplus/ (deficit)	Breakeven	(£4.68m)	No
Capital cost absorption rate	3.5%	3.5%	Yes
Capital resource limit	Not to exceed £3654K	£3644K	Yes
External finance limit	Not to exceed £6990K	£6572K	Yes

The Trust planned to make a deficit of £4.95m in 2013/14 and its actual deficit was within plan at £4.68m. It did not achieve its statutory break even objective and the cumulative deficit increased to £7.59m at 31 March 2014. Despite this we found that the Trust has good systems in place for financial governance and financial control.

The Trust was not able to achieve its Improvement Programme (SIP.) The Trust achieved savings of £2.53m for the year against the plan of £4.5m.

Looking forward

The Trust's difficult position has been recognised by the Trust Board, the TDA and its main commissioners.

In early June 2014 the Trust announced that with the support of local health commissioners and the TDA, it had decided to seek a partner from within the NHS.

Since this announcement three different NHS Trusts, University Hospitals Bristol NHS Foundation Trust, Taunton and Musgrove Park NHS Foundation Trust and Somerset Partnership NHS Foundation Trust have expressed an interest in joining forces with Weston Area Health NHS Trust. The Trust expects to announce the successful bidder in autumn 2014.

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.

Overall our work highlighted that the Trust is in a difficult financial position. The Trust planned to make a deficit of £4.95m in 2013/14 and its actual deficit was within plan at £4.68m. As a result, it did not achieve its statutory break even objective and the cumulative deficit increased to £7.59m at 31 March 2014.

In its current form the Trust is not financially viable. The current two year outline business plan shows a predicted worsening financial position, with deficits of £4.95m for 2014/15 and circa £8m for 2015/16. The TDA has confirmed that it will provide financial support to address any shortfall in cash funding for 2014/15.

Improvement Programme (SIP) savings were not made in accordance with the plan. The Trust achieved savings of £2.53m for the year against the plan of £4.5 million.

Despite this we found that the Trust has good systems in place for financial governance and financial control.

Value for Money

Value for Money conclusion

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.

Overall our work highlighted that the Trust has worked hard this year to maintain services at the level that it has achieved, despite some significant difficulties. It scored poorly in the Care Quality Commission (CQC) inspection in April 2013, but invested in additional nurses and took action to improve services and by November 2013 had remedied the earlier problems.

The CQC scored the Trust at level 5, its second best rating in its Intelligent Monitoring report of March 2014.

The TDA winter report placed the Trust in the category "Concerns requiring investigation", its third escalation category. There were 25 trusts in this category with 33 trusts in a higher escalation category.

The latest national reference costs suggest the Trust is broadly in line with national averages. However the Trust's internal monitoring report showed that it was not always achieving its targets in some key areas including Clostridium difficile (Cdif) and cancer targets.

The Trust has encountered problems in recruiting medical staff and the sustainability of key services, that if not addressed in the next twelve months will have an increasing adverse effect on the Trust's ability to maintain quality services.

The Trust has called for an early resolution to the Trusts' organisational form to address their urgent problem.

Overall VfM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, 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's financial position.

The Trust did not achieve its statutory break even target, recording a deficit of £4.68m in 2013/14. It has not been able to recover its cumulative deficit position which stood at £7.59m at 31 March 2014. The Trust's current two year financial plan shows a worsening financial position, with forecast deficits of £4.95m for 2014/15 and £8m for 2015/16.

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

Percentage of patients admitted assessed for VTE

The Trust had not excluded patients admitted with a diagnosis or signs of Deep Vein Thrombosis or pulmonary embolism from the calculation of the indicator, leading to uncertainty over the accuracy of the indicator.

We recommended that the effectiveness of the processes for capturing the required information should be reviewed, and that the relevant cases are correctly excluded from the calculation of the Performance Indicator for each month from April 2014, with re-submission of revised data if required.

Percentage of Patient Safety incidents resulting in severe harm or death

The Trust had not submitted a number of patient safety incidents recorded on its Datix incident reporting system to the NRLS database during the year.

The Trust has since reviewed all of the patient safety incidents recorded on its Datix incident reporting system in 2013-14, and identified a number of cases which should have been submitted.

We concluded that this issue did not change the calculated indicator sufficiently to affect the user of the Quality Account. We raised a number of recommendations to provide additional controls to ensure that all relevant cases are submitted to the database in line with guidance

Conclusions

We provided a qualified limited assurance opinion on the Trust's Quality Account, in accordance with requirements, on 24 June 2014 as a result of the following:

- Contrary to the relevant guidance, the Trust had not excluded patients admitted with a diagnosis or signs of Deep Vein Thrombosis or pulmonary embolism from the calculation of the indicator, leading to uncertainty over the accuracy of the indicator, and therefore failed to meet the 'Relevance' dimension of data quality.

Appendices

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit.

Fees

	Per Audit plan £	Actual fees £
Trust audit	72,954	72,954
Charitable fund audit	3,210	3,210
Total audit fees	76,164	76,164

Fees for other services

Service	Fees £
None	Nil

Reports issued

Report	Date issued
Audit Plan	28 January 2014
Audit Findings Report	30 May 2014
Quality Account Report	24 June 2014
VfM – Financial Resilience Report	30 May 2014
Annual Audit Letter	July 2014



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