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The Shrewsbury And Telford Hospital NHS Trust

Annual Audit Letter 2011/12

September 2012

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in connection with this
report are:**

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This report is addressed to The Shrewsbury and Telford Hospital NHS Trust (the Trust) and has been prepared for the sole use of the Trust. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrew Bostock who is the engagement lead to the Trust or Trevor Rees, the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. You can contact the Complaints Unit by phone (0844 798 3131), by email (complaints@audit-commission.gov.uk), through the audit commission website (www.audit-commission.gov.uk/aboutus/contactus), by textphone/minicom (020 7630 0421), or via post to Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR.

Background

This Annual Audit Letter (the letter) summarises the key issues arising from our 2011/12 audit at The Shrewsbury and Telford Hospital NHS Trust (the Trust). Although this letter is addressed to the directors of the Trust, it is also intended to communicate these issues to key external stakeholders, including members of the public. It is the responsibility of the Trust to publish the letter on the Trust’s website at www.sath.nhs.uk.

In the letter we highlight areas of good performance and also provide recommendations to help the Trust improve performance. A summary of our key recommendations is highlighted in Appendix A. We have reported all issues in this letter to the Trust throughout the year and a list of all reports we have issued is provided in Appendix B.

Scope of our audit

The statutory responsibilities and powers of appointed auditors are set out in the Audit Commission Act 1998. Our main responsibility is to carry out an audit that meets the requirements of the Audit Commission’s Code of Audit Practice (the Code) which requires us to report on:

<p>Use of Resources (UoR)</p>	<p>We conclude on the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the Trust’s use of resources.</p> <ul style="list-style-type: none"> ■ Based on the findings of our work, we concluded that the Trust has adequate arrangements to secure economy, efficiency and effectiveness in its use of resources. However, due to the conditions outlined below we considered an “except for” opinion to be necessary: <ul style="list-style-type: none"> – The Trust has achieved a small surplus of £0.059m for the year but only after the receipt of £6.5m of one off non repayable funding from the SHA. In addition, the Trust has now failed to meet its cumulative five year breakeven duty at 31 March 2012, with a cumulative deficit of £22m being reported within the Trust accounts.
<p>Financial Statements including the Statement on Internal Control</p>	<p>We provide an opinion on the Trust’s accounts.</p> <p>We issued an unqualified opinion on the Trust’s accounts on 8 June 2012. This means that we believe the accounts give a true and fair view of the financial affairs of the Trust and of the income and expenditure recorded during the year.</p>

Fees

Our fee for 2011/12 was £171,000 excluding VAT (2010/11: £180,000). This was inline with the fee agreed at the start of the year with the Trust’s board. In addition, we also invoiced the Trust £12,500 for the additional work required in the Quality Account review.

Use of Resources

- We concluded that the Trust has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources with the exception that:
 - **Financial resilience criteria** -In considering the Trust's arrangements for securing financial resilience, we identified that the Trust has achieved a small surplus of £0.059m only after the receipt of £6.5m of one off non repayable funding from the SHA. In addition, the Trust has failed to meet its cumulative five year breakeven duty this year with a cumulative deficit of £22m being reported. As a result of these issues identified, we issued an “except for” opinion on VFM. This was not a qualified opinion.
 - **Economy, efficiency and effectiveness criteria** - The Trust has enhanced its governance arrangements around the Cost Improvement Programme (CIP) in year with the introduction of a Programme Management Office. This more structure approach to CIP identification and monitoring has lead to the Trust achieving £6.459m of its total CIP target of £6.991m for the year. However, this represents only around 2.3% of Trust turnover against the generally recognised benchmarks for CIPs of 4% to 5% of turnover. Therefore, key to the future financial standing of the Trust is the delivery of long term sustainable CIPs. The Trust has initially agreed a CIP of £13.6m for 2012/13 with a recurrent effect of £27.145m. As a result of the CIP delivery and the plans for future CIPs, we consider this criteria to have been met.

Financial Statements including the Annual Governance Statement

- We issued an unqualified opinion on the Trust's accounts on 8 June 2011. This means that we believe the accounts give a true and fair view of the financial affairs of the Trust and of the income and expenditure recorded during the year.
- We have also confirmed that the Trust have complied with your regularity requirements in that in all material respects the expenditure and income have been applied to the purposes intended by Parliament.
- We have also confirmed that the Trust have complied with the Department of Health requirements in the preparation of the Trust's Annual Governance Statement (AGS). It is consistent with the financial statements and following our feedback we discussed with the Trust the need for the SIC to incorporate its reliance on £6.5m of support from the SHA and its failure to deliver its cost improvement plan. Having concluded on our Use of Resources opinion, the Trust ensured that our findings were adequately disclosed in the AGS.
- We undertook our review of the Trust's Annual Report for consistency with the financial statements in August 2012. The Trust has included a full set of financial statements within its annual report rather than summary financial statements as included in previous years. We did not identify any significant issues through our review of the Annual Report.
- We identified one material adjustment relating to a duplicated entry to reverse accumulated depreciation. Whilst the value of the error was £12.608m, the net value of fixed assets was not affected and there was no not effect on the balance sheet or the Income and Expenditure account. We also identified a small number of non-material adjustments and presentational adjustments required to the accounts which were amended.
- There were no significant matters which we were required to report to ‘those charged with governance’ in relation to the Annual Accounts.

Recommendations

- We have summarised the key recommendations arising from our 2011/12 audit work at Appendix A. In addition, we made two recommendations, both medium risk, as part of our review of the Quality Account.

Whole of Government Accounts

- We issued an unqualified Group Audit Assurance Certificate to the National Audit Office regarding the Whole of Government accounts submission with no exceptions. We identified a small number of transactions which the Trust did not include within the balances with government bodies, however, these were small in number and were corrected by the Trust.

<p>Quality Accounts</p>	<ul style="list-style-type: none"> ■ The Trust achieved a limited assurance opinion on compliance with the Quality Accounts Regulations. Detailed testing of three of the performance indicators included in the quality account highlighted two recommendations. The three indicators tested were: <ul style="list-style-type: none"> – Indicator 1 – MRSA – mandated indicator as part of the 2010/11 Quality Account review; – Indicator 2 – VTE Risk Assessment – indicator that the DoH plans to mandate for inclusion within the 2012/13 Quality Account; and – Indicator 3 – Hand Hygiene – locally selected indicator. ■ We identified that the Trust uses a hand held data collection tool for all of its VTE risk assessments in all Trust areas except Day Surgery where a paper based assessment is undertaken. From our testing, the two instances where there was no evidence of a risk assessment taking place were both in Day Surgery which may highlight a weakness over the completion of the paper based assessments within the unit. ■ The Trust wards undertake monthly audits of hand hygiene. However, we noted that a number of wards are failing to submit their hand hygiene audits to the Clinical Audit Department on a monthly basis which may lead to the indicator being mis-reported.
<p>Public Interest Reporting</p>	<p>We have a responsibility to consider whether there is a need to issue a public interest report or whether there are any issues which require referral to the Secretary of State.</p> <ul style="list-style-type: none"> ■ The Trust has a duty to breakeven, taking one year with the next, over a three yearly basis. However, this can be extended to a five yearly basis with the agreement of the Strategic Health Authority. The Trust agreed an extension to its breakeven duty in 2007/08 taking this to a rolling five years ending on 31 March 2012. ■ The Trust has reported a cumulative deficit of £22m within its accounts in 2011/12. As a result, the Trust has breached its five year breakeven duty. We have considered our responsibilities under S19 of the Audit Commission Act (1998) as a result of this breach, and as a result, we have formally notified the Secretary of State, via a letter, that the Trust is in breach of this duty.
<p>Fraud</p>	<ul style="list-style-type: none"> ■ We have a responsibility to consider fraud and we addressed this in our assessment of your controls framework. We have also reviewed your arrangements for the prevention and detection of fraud and corruption, alongside our use of resources work. ■ We have not identified any matters which we wish to draw to your attention.
<p>PbR Data Assurance Follow up</p>	<ul style="list-style-type: none"> ■ This review followed up on the recommendations arising from: <ul style="list-style-type: none"> – Our review of year 2009/10 reference costs submission to the Department of Health. – The 2009/10 clinical coding audit of admitted patient core activity (inpatients audits) / The 2009/10 data quality review of outpatient data. <p>We identified a number of areas of good practice and also raised 5 recommendations in relation to the areas in which the Trust can further strengthen arrangements.</p> <ul style="list-style-type: none"> ■ The need for the Trust to develop a robust system to record cost and activity for Multi-Disciplinary Teams, and make greater use of reference cost data to inform business planning; and ■ The need for the Trust to demonstrate consistency of Trauma & Orthopaedic coding across sites, improve the accuracy and legibility of procedure notes for clinical coding, and work with Pharmacy to improve the current system of collecting high-cost drug information for governance purposes.

High profile issues

Financial standing and future economic pressures

2011/12 Financial plans and breakeven duty

The Trust forecast a breakeven budget for 2011/12 which was dependent upon the receipt of significant non recurrent funding of £6.5m from the SHA, which compares with £3m and £5m received in 2009/10 and 2010/11 respectively.

Within the year, the Trust continued to overachieve against its income budget with a favourable variance of £6.877m being reported for the year. Much of this related to additional clinical income through the local PCTs but specifically £2.5m related to funding for excess costs associated with high cost drugs.

The Trust continued to report adverse variances on the pay budget in the year. This amounted to £0.862m, net of pay reserve transfer, and is as a result of the continued use of bank and agency staff. The Trust overspent on a number of non pay budgets, specifically drugs (£3.8m), utility costs (£1.3m) and consultants assisting the CIP delivery and bed reductions (£0.9m).

The Trust has enhanced its governance arrangements around the CIP in year with the introduction of a Programme Management Office. The PMO has ensured that a much more structured approach has been adopted for the identification, implementation and monitoring of CIPs. The plan for 2011/12 was to achieve savings of £6.881m (2.1% of turnover), of which the Trust have delivered £6.459m (94% of total CIP target) made up of £3.681m delivered by the Programme, and £2.841m delivered through non recurring savings

2012/13 budget and year to date performance

The Trust originally agreed a budgeted surplus of only £0.157m for 2012/13 predicted on the delivery of an in year CIP of £13.586m (Recurrent savings of £27.145m). This will enable the Trust to carry forward a recurrent surplus of £15.166m beyond 2012/13. The budget also includes non recurrent transitional funding of £4.9m. Within month one of 2012/13 the Trust revised its forecast to a £1.9m surplus.

At the end of July (M4), the Trust has outturned a cumulative deficit of £0.763m against a planned surplus of £0.008m. However, an in month surplus of £0.766m for July was reported against a planned surplus of £1.209m.

The main reasons for the adverse variance to date is that the pay budget is overspent by £1.239m primarily due to the failure to reduce the pay levels at a rate consistent with the CIP. The Trust has revised its most likely CIP forecast delivery for the year to £7.986m with a recurrent effect of £20.956m. This underachieves against the original target by £5.088m. The main reasons for this being the forecast failure to deliver temporary staff reductions, Waiting List Initiatives and medical consultants savings.

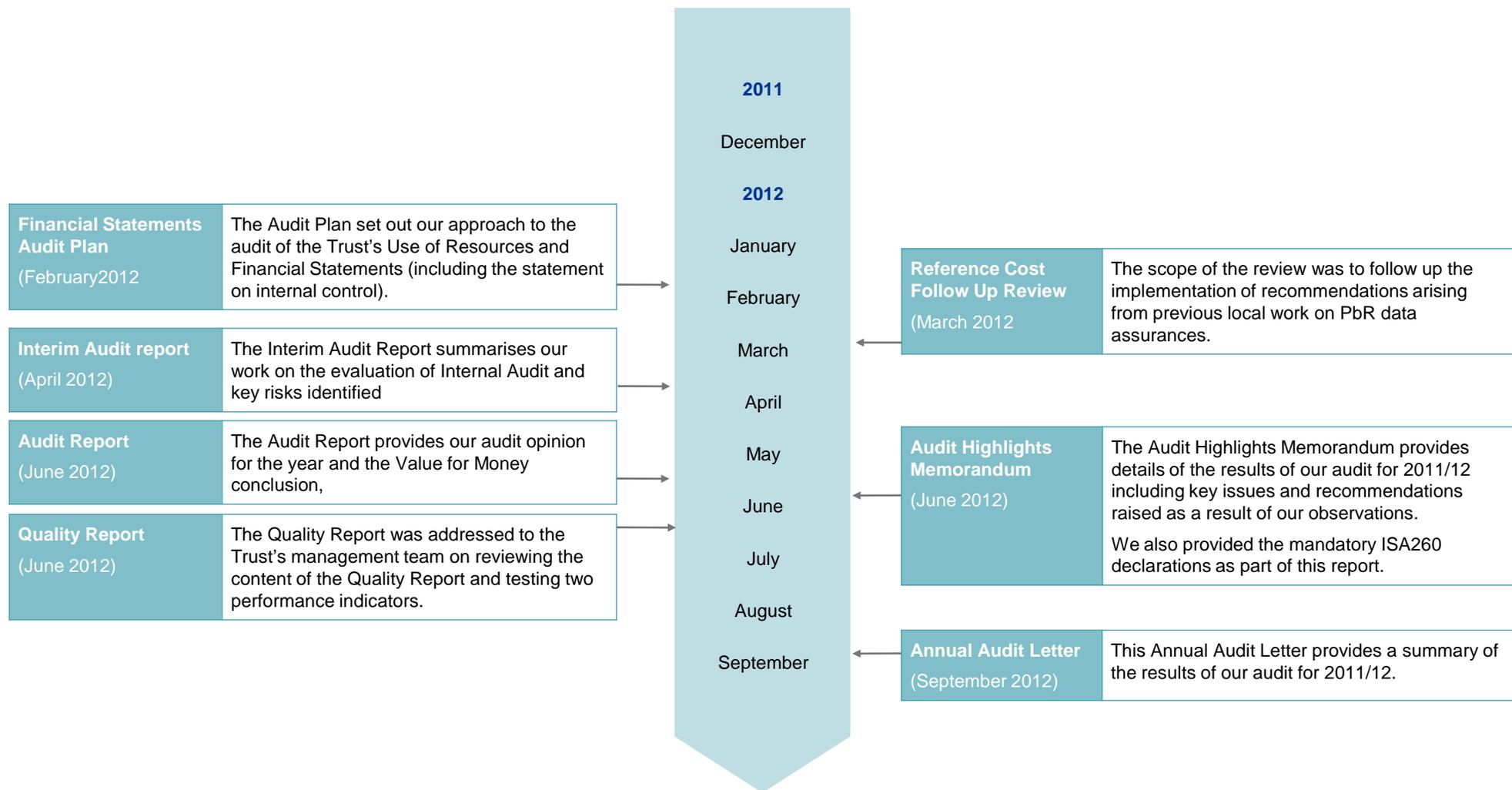
The above has resulted in a revised surplus forecast for the year of £0.972m however, further management actions are being reviewed to ensure that a surplus of £1.9m can still be delivered.

The Trust has enhanced its financial reporting with the introduction of service line reporting across eight clinical centres. Within the finance report to the Trust Board, the total financial contribution is reported to enable the Board to see the profitability of Trust clinical provision.

Recommendations Raised in 2011/12

No.	Risk	Issue, impact and recommendation	Management response/responsible officer/due date
1	<p>●</p> <p>Medium</p>	<p>Low rate of return of Nominal Roles</p> <p>We reviewed the process whereby lists of all staff paid each month per the payroll systems are circulated to appropriate managers so that they can confirm that all and only appropriate staff were listed on the payroll.</p> <p>We found that there was a low rate of return and that this had also been identified by Internal Audit who had deemed the control to be ineffective due to this.</p> <p>This relates to a medium priority recommendation raised in our 2010/11 ISA 260 report and action to ensure a higher rate of return should be taken swiftly to aid the identification of payroll discrepancies.</p>	<p>Agreed and areas of non compliance will be followed up on a regular basis to ensure the completeness of the nominal roles.</p> <p>Assistant Director of Finance - Immediately</p>
2	<p>●</p> <p>Medium</p>	<p>Responses to 2010/11 NFI matches</p> <p>The 2010/11 National Fraud Initiative results were issued mid way through 2011.</p> <p>At the present time, the Trust has not made adequate progress in investigating the potential matches of which it has been informed.</p> <p>The Trust should review all potential matches so that nay fraudulent transactions can be addressed in a timely manner.</p>	<p>Agreed, and all matches will be reviewed on a regular basis. This may be a task for the Local Counter Fraud Service going forward.</p> <p>Assistant Director of Finance – June 2012.</p>

This appendix summarises all medium risk recommendations raised as part of our audit in 2011/12. We did not raise any high risk recommendations.





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