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The Shrewsbury and Telford Hospital NHS Trust

Annual Audit Letter 2010/11

September 2011

Contents

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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 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.

Introduction

Background

This Annual Audit Letter (the letter) summarises the key issues arising from our 2010/11 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 the 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:

Use of Resources (UoR)	We conclude on the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the Trust's 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: – In considering the Trust's arrangements for challenging how it secures economy, efficiency and effectiveness, we identified that the Trust does not have robust systems and processes to manage effectively actions to achieve cost reductions. The Trust achieved only 30% of its total cost improvement plan of £12.1m in 2010/11, and required non-recurrent financial support to achieve breakeven in 2010/11. – The Trust are reviewing their strategy at the moment through the "Keeping it in the County" agenda. The successful delivery of this will be key for the provision of sustainable clinical services.
Financial Statements including the Statement on Internal Control	We provide an opinion on the Trust's accounts. We issued an unqualified opinion on the Trust's accounts on 9 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.

Fees

Our fee for 2010/11 was £180,000 excluding VAT (2009/10: £179,200). 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 £5,000 for the additional work required in the Quality Account review.

Headlines

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: – In considering the Trust's value for money arrangements we reviewed the Trust arrangements for securing financial resilience and economy, efficiency and effectiveness. As part of this we considered the findings from our review of the Trust's Cost Improvement Programme, the Trust's performance against its original budget and any significant variances. – We identified that the Trust does not have robust systems and processes to manage effectively actions to achieve cost reductions. The Trust achieved only 30% of its total cost improvement plan of £12.1m in 2010/11, and required non-recurrent financial support of £5m to achieve breakeven in 2010/11. – The Trust are reviewing their strategy at the moment through the "Keeping it in the County" agenda. The successful delivery of this will be key for the provision of sustainable clinical services. ■ The Trust did not deliver its original budgeted surplus of £2.6m, and out turned a surplus of £0.026m after the receipt of £5m of non recurrent funding from the Strategic Health Authority (SHA).
Financial Statements including the Statement on Internal Control	■ We issued an unqualified opinion on the Trust's accounts on 9 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 Statement on Internal Control (SIC). It is consistent with the financial statements and following our feedback and that received from the Strategic Health Authority(SHA), we discussed with the Trust the need for the SIC to incorporate the failure to deliver a £2.6m surplus, its reliance on £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 SIC. ■ We undertook our review of the Trust's Annual Report for consistency with the financial statements in August 2011. The Trust have put a timetable in place for 2011/12 to produce the Annual Report alongside the Financial Statements. ■ We 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 2010/11 audit work at Appendix A. In addition, we made 11 recommendations (4 high, 5 medium, 2 low risk) within our CIP report and eight recommendations (3 medium and 5 low risk) as part of our review of the Quality Account.

Headlines (cont.)

Whole of Government Accounts	■ This is the first year NHS Trusts have participated in the Whole of Government Accounts (WGA) process. This requires the disclosure of all transactions and balances with government bodies outside of the NHS. ■ We identified a small number of transactions for which the Trust did not include within as balances with government bodies and recommended that the Trust reviews its process for identifying such transactions and balances, including an assessment of its supplier set-up structure and the link to WGA coding. This will aid the production of the disclosure, making it more efficient and ensuring the completeness of transactions and balances reported.
Quality Accounts	■ Our work on the Trust's quality accounts included: – a review of the Trust's arrangements for satisfying itself that the quality account is fairly stated, and in accordance with relevant requirements; and – testing of the two specified performance indicators (Clostridium difficile infections and Maximum waiting time of 62 days from urgent GP referral to first treatment for all cancers) included in the quality account. ■ In our report addressed to the Executive Management Team, we reported that the Trust needed to refine its overall arrangements for preparing and publishing the Quality account and make improvements to its processes for assuring the quality of data underpinning the specified performance indicators in order to seek a limited assurance opinion in future periods. Our review was limited to the data quality arrangement linked to the Quality Accounts production and the two specific indicators and not the Trust's wider data quality arrangements. A small number of improvement observations were identified and accepted by the Trust.
Public Interest Reporting	■ 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. ■ We reported in our various reports to the Trust over the course of the year, that the 5 year break even duty requires the Trust to breakeven by the end of 2011/12. The Trust has disclosed in Note 39.1 to its accounts that in its Long Term Financial Model it aims to achieve cumulative break-even in 2016 and therefore we anticipate that the 5 year break-even duty will not me met. As a result we have to consider our options under s19 of the Audit Commission Act 1998. This is likely to result in us reporting this breach to the Secretary of State.
Fraud	■ 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.
Audit Commission Reference Costs Audit	■ Based on the scope of our work nothing came to our attention that led us to believe that the 2009/10 reference costs submission was materially misstated but identified a number of areas for development , particularly around robust data quality, in advance of the 2010/11 reference cost submission process. ■ We raised 6 recommendations, all of which were accepted by the Trust and targeted for implementation by June 2011.

Headlines (cont.)

High profile issues	Financial Standing	

The Trust has been reliant on non recurrent sources over recent years to allow a breakeven position to be achieved. However, without this non recurrent funding the Trust's normalised surplus would be around £12 to £14 deficit.

2010/11Financial Position

- The Trust forecast a surplus of £2.6m for 2010/11 in its original budget, however a surplus of £0.026m was actually out turned for the year. This was partly as a result of the underachievement against the £12.1m CIP included within the 2010/11 budget.
- The actual Cost Improvement Programmes (CIPs) delivered totalled £3.7m against the £6.8m improvement programme target. The Trust overspent on its pay budget by £12.3m thus not achieving the £5.3m of planned payroll savings for the year. The total CIP delivered was, therefore, only 30% of the original CIP target of £12.1m.
- The £0.026m surplus was achieved after the receipt of a significant amount of non recurring income in the year including £5m from the Strategic Health Authority (SHA).
- The Trust is at the end of the fourth year of its five year breakeven plan. The Trust's break-even budget for 2011/12 will result in the Trust not meeting its 5 year break-even duty to recover its cumulative deficit by the end of the five year extended period during 2011/12.

2011/12 Financial Position

- The Trust Board approved a financial recovery plan in June 2011 to address the projected deficit of £10.6m for 2011/12. To achieve break-even, the Trust identified that it will need to deliver a CIP of £7.9m in 2011/12 which follows on from the £3.7m delivered in 2010/11. The Trust's breakeven budget is also predicated on the receipt of non-recurrent funding of £6.5m from the SHA, which compares with £3m and £5m received in 2009/10 and 2010/11 respectively.
- At the end of July 2011 the Trust reported a cumulative deficit of £1.125m against a planned deficit of £0.75m for the three month period. The Trust reported to Board in August 2011 that without management actions the forecast year-end deficit will be £2.9m.
- The Trust continues to overspend on agency staff, having overspent by £1.5m in the period April to July 2011. The management actions identified to mitigate the forecast year-end deficit include tighter controls over pay budgets, particularly the establishment of a dedicated medical staffing team responsible for agency medical staffing. In addition, the Trust now plans to accelerate the second phase of ward closures from January 2012 to November 2011, reduce overtime working and place tighter controls on non-pay expenditure.
- The Trusts liquidity remained fragile at the end of the first quarter of 2011/12 with the Trust's cash balance of £0.2m achieved due to the deferral of creditor payments. However, the Trust's Better Payment Practice Code (BPPC) performance has increased markedly during 2011/12 to 80% (2010/11: 43%) for Non NHS invoices paid within 30 days and 93% (2010/11: 42%) NHS invoices paid within 30 days. The cash position has been further strengthened by the receipt of the £6.5m SHA support in full. The cash balance is anticipated to increase by £1m by the end of 2011/12 as a result of the Trust's planned reduction in capital programme.
- The Trust continues to work with external consultants to create a Project Management Office (PMO) to formulate and deliver its CIP, which is anticipated to have a full year effect of £12.9m in 2012/13, following on from a plan of £7.9m in 11/12. However, key to the delivery of savings is the need to balance quality to ensure that there is no deviation in quality metrics as a result of savings programmes.
- Key to the achievement of financial forecasts is the availability of reliable data within the Trust. We have identified risks within our PbR work and Quality Accounts review which should be addressed to ensure that performance is underpinned by good quality data.

Key recommendations

Key Recommendations Raised in 2010/11

No.	Risk	Issue, impact and recommendation	Management response/responsible officer/due date
1	High	**2011/12 Financial plans and breakeven duty** The Trust has forecast a breakeven budget for 2011/12 which is dependent on 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. On this basis, the Trust will not meet its five year breakeven duty to recover its cumulative deficit by the end of the five year extended period during 2011/12. In addition, the Trust will be required to deliver a cost improvement plan (CIP) with a part year effect of £7.9m in 2011/12, and full year effect in 2012/13 of £12.9m. The Trust must ensure that robust plans are put in place and assign accountability for the delivery of its CIP to ensure that it achieves its financial plan in 2011/12 and demonstrate a recurring financial position that is not reliant on non recurrent external funding going forward.	The Trust has instructed external consultants to assist the Trust in delivering its improvement programme for 2011/12 and the years that follow. The initial phase is due to last 8-10 weeks and includes the creation a Project Management Office (PMO) to ensure the formulation and delivery of robust cost improvement programmes. This first stage will ensure improvement programmes are well defined, have clear lines of responsibility and ownership and ensure the key milestones are defined. A performance management regime will be implemented to ensure progress is maintained and monitored **Finance Director 2011/12**
2	Medium	**Payroll Nominal Roll** We raised a recommendation in our Interim Audit Report for the Trust to undertake a full nominal roll check as at 31 March 2011 in response to the Trust's identification of staff overpayments. The positive response to confirm that the nominal rolls are accurate and only include bona fide employees was poor and ranged between 23% and 50% across the divisions. The Trust should ensure that at the earliest opportunity in 2011/12, and on a bi-annual basis going forward, it receives positive confirmation from all budget managers that the nominal rolls are accurate and only include bona fide employees in order to reduce the scope of an overpayment. This will support the Trust's drive to reduce payroll overspending and to eliminate the risk of the Trust chasing for recovery of overpayments at a time when liquidity is severely pressured.	The Finance Team will raise the profile of the nominal roll check and it will form part of the normal month end process for budget holders. Changes to the nominal rolls will be implemented from month 1 in 2011/12 and will be adapted to show by month, cumulative positions to ease trend analysis and identify month to month movements. This will also be a focus of the revised offering that the Finance team will supply in the move to a Centre structure. **Finance Director2011/12**

Appendix B

Summary of reports issued

2010
December
2011
January
February
March
April
May
June
July
August
September

Cost Improvement Plan Review (December 2010)	This report was conducted in line with our 2010-11 audit plan to review identification, implementation and assessment of progress for a sample of the Trust's CIP schemes.
Financial Statements Audit Plan (February2011)	The Audit Plan set out our approach to the audit of the Trust's Use of Resources and Financial Statements (including the statement on internal control).
Interim Audit report (April 2011)	The Interim Audit Report summarises our work on the evaluation of Internal Audit and key risks identified
Reference Cost Review (April 2011)	The Reference cost review report was mandated by the Audit Commission under the PbR framework and undertook a review of the 2009/10 reference cost submission by the Trust and identified areas where the Trust could improve its 2010/11 submission.
Audit Report (June 2011)	The Audit Report provides our audit opinion for the year, the Value for Money conclusion, and our Audit Certificate.
Audit Highlights Memorandum (June 2011)	The Audit Highlights Memorandum provides details of the results of our audit for 2010/11 including key issues and recommendations raised as a result of our observations. We also provided the mandatory ISA260 declarations as part of this report.
Quality Report (June 2011)	The Quality Report was addressed to the Trust's management team on reviewing the content of the Quality Report and testing two performance indicators.
Annual Audit Letter (September 2011)	This Annual Audit Letter provides a summary of the results of our audit for 2010/11.

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