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SWBAR (10/13) 050

Sandwell and West Birmingham Hospitals NHS Trust

Annual Audit Letter 2012/13

August 2013

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This report is addressed to Sandwell and West Birmingham Hospitals 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 2012-13 audit at Sandwell and West Birmingham Hospitals NHS Trust (the Trust). Although this letter is addressed to the directors of the Trust, it is also intended to communicate these issues to external stakeholders, such as members of the public. It is the responsibility of the Trust to publish the letter on the Trust’s website.

In the letter we highlight areas of good performance and also provide recommendations to help the Trust improve performance. We have included a summary of our key recommendations in Appendix A. We have reported all the issues in this letter to the Trust during the year and we have provided a list of our reports 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.
Financial Statements including the Annual Governance Statement	<p>We provide an opinion on the Trust’s accounts. That is whether 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> <p>We also confirm that the Trust has complied with the Department of Health (DoH) requirements in the preparation of its Annual Governance Statement. We provide a certification to the National Audit Office (NAO) to provide assurance on inputs to the DoH’s Resource Accounts. We also confirm that the balances you have prepared for consolidation into the Whole of Government Accounts (WGA) are not inconsistent with our other work.</p>

The Audit Commission also mandated its appointed auditors to carry out assurance work on the 2012-13 quality accounts , as part of their duties under section 5(1) of the Audit Commission Act 1998. We provide a limited assurance opinion on the Trust’s report against the guidance, their consistency with other specified documentation and over detailed testing on two performance indicators. The ‘limited’ reference relates to the limited procedures we were required to complete rather than any limitations on the assurance opinion given.

Adding value from the External Audit service

We have added value to the Trust from our service throughout the year through our:

- Attendance at meetings with members of the Executive Team and Audit Committee to present our audit findings, broaden our knowledge of the Trust and to provide insight from sector developments and examples of best practice;
- A proactive and pragmatic approach to issues arising in the production of the financial statements to ensure that our opinion is delivered on time;

- A review of general IT controls in place at the Trust highlighting any control weaknesses and areas for improvement; and
- Building a strong and effective working relationship with Internal Audit to maximise assurance to the Audit Committee, avoid duplication and provide value for money.

Audit Fees

Our final audit scale fee in 2012/13 was £116,786 (plus VAT). This fee was above the scale fee highlighted within our audit plan and communicated to the Audit Committee of £111,107 plus VAT. The increase in costs against the agreed fee related to additional work needed to give our opinion on the Quality Account.

In addition to our scale fee, we also provided:

- additional audit testing in relation to potential redundancy cases for which we billed the Trust £10,065 (plus VAT); and
- the following piece of non-audit work at the Trust during the year:

RTT 18 weeks root causes analysis review

- The fee for our RTT18 weeks root cause analysis review was £35,000 (plus VAT).
- This work was subject to approval by the Audit Commission based upon an assessment of our arrangements to secure our independence and objectivity as your external auditors. The scope of the work and fees were approved by the Audit Commission.
- We reported this work to you in our Audit Committee update reporting throughout the year and we are confident that there were no conflicts of interest or independence issues relating to this work.

Acknowledgement

We would like to take this opportunity to thank the officers of the Trust for their continued support throughout the year.

This section summarises the key messages from our work during 2012/13.

<p>Overall financial results and other key messages</p>	<ul style="list-style-type: none"> ■ Financially, 2012-13 was another challenging year for the Trust. ■ The Trust achieved its 2012-13 CIP target of £24.08 million. ■ Whilst the Trust achieved the majority of its key performance targets throughout the year it did not meet those in relation to: <ul style="list-style-type: none"> ■ Emergency care 4 hour maximum wait; and ■ Ambulance turnaround – clinical handover completed within 15 minutes. ■ We noted that the Trust has plans in place to improve its performance and arrangements in place to monitor delivery of these plans.
<p>Use of Resources</p>	<ul style="list-style-type: none"> ■ We concluded that the Trust had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Based on the work we have completed we concluded that: <ul style="list-style-type: none"> ■ The Trust has robust systems and processes to effectively manage financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future; and ■ The Trust demonstrates prioritisation of its resources within tighter budgets including the achievement of cost reductions.
<p>Financial Statements including the Annual Governance Statement</p>	<ul style="list-style-type: none"> ■ We issued an unqualified opinion on the Trust's accounts on 6 June 2013. 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 2012/13 financial year. ■ We also confirmed that the Trust had complied with the Department of Health requirements in the preparation of the Trust's Annual Governance Statement. ■ We reported our concerns with regard to two balances in the accounts which are accounted for as provisions but do not in our view meet the definition of a provision as set out in International Accounting Standard (IAS) 37 – Provisions, Contingent Liabilities and Contingent Assets. The total value of these balances was £5.1m. These items were not adjusted in the financial statements but are not material in the context of the accounts as a whole. As shown in Appendix A, we made recommendations about these balances in 2011/12 and have repeated them in 2012/13. ■ No significant adjustments were required to the Annual Governance Statement.
<p>Whole of Government Accounts</p>	<ul style="list-style-type: none"> ■ We issued an unqualified Group Audit Assurance Certificate to the National Audit Office regarding the Trust's Whole of Government accounts submission.

Recommendations	<ul style="list-style-type: none"> ■ We raised 1 “high risk” audit recommendation as a result of our 2012/13 audit work. This related to processes around the identification and classification of deferred income. This recommendation is included in Appendix A. ■ We raised 3 further recommendations for improvement in 2012/13 but these were “low” risk and related to more minor matters. We have not therefore replicated these in this letter. ■ We identified one prior year audit recommendation (from 2011/12) that still requires further action by management. This recommendation is also included in Appendix A and relates to processes around the identification and classification of deferred income.
Quality Accounts	<p>From our mandated work on the Trust’s Quality Account:</p> <ul style="list-style-type: none"> ■ The Trust achieved a limited assurance opinion on compliance with the Quality Accounts Regulations. ■ The Trust achieved a limited assurance opinion on consistency with other specified information. ■ The Trust achieved a limited assurance opinion on the indicators in the quality account. <p>The ‘limited’ reference relates to the limited procedures we were required to complete rather than any limitations on the assurance opinion given. Achieving a limited assurance opinion is the best possible level of assurance available.</p> <p>Detailed testing was undertaken on two of the Trust’s performance indicators included in its Quality Account. The two indicators tested were:</p> <ul style="list-style-type: none"> – Percentage of patients readmitted within 28 days – Percentage of patient safety incidents resulting in severe harm or death. <p>We reported a completeness risk at every Trust relating to the data collected for patient safety incidents. This is because the indicator relies on every incident being reported as the denominator in the basis of indicator calculation. It is not possible to obtain sufficient audit assurance that the data used to calculate the indicator is complete. The correct calculation of the indicator relies heavily on clinical judgements in the classification of incidents as “severe harm”. Within the scope of our work we have not deployed clinical expertise to challenge and assess these clinical judgements there is therefore an inherent uncertainty in the presentation of the indicator.</p> <p>There were no other significant findings from our work.</p>
Audit Certificate	<p>On 28 June 2013 we issued our Audit Certificate confirming the completion of our audit responsibilities in respect of the 2012/13 financial year. This was issued following the completion and reporting of our Quality Accounts work.</p>
Public Interest Reporting	<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. We did not issue a report in the public interest or refer any matters to the Secretary of State in 2012/13.</p>

Future challenges

- 2012/13 was a period of significant structural change in the NHS - including the abolition of Primary Care Trusts and Strategic Health Authorities and the creation of the new NHS England and of Clinical Commissioning Groups across the Country. The embedding of these changes across local health and social care systems will take time and 2013/14 will present a more challenging commissioning environment for the Trust.
- Whilst the Trust has a history of sound financial management, the scale of the NHS efficiency challenge is heightened by increased demand driven by demographic pressures and intense public and media scrutiny on quality of care following the impact of the Francis Inquiry and the recent Keogh reviews. The Trust needs to continue to identify transformational efficiency programmes within and across its organisational boundaries to deliver controlled savings that support quality and safety.
- The Trust continues to progress its “Right care, Right Here” programme, the centrepiece of which will be the new Midland Metropolitan Hospital replacing the Trust’s existing City and Sandwell General sites. The programme may result in accounting issues for discussion and resolution in the coming period, in relation to the acquisition of assets and commencement of construction works. The Trust should ensure that the Board continues to be fully informed of any issues as the project progresses.

We will liaise with the Trust regarding these and any other issues as they emerge. We will work with you to continue to achieve a smooth accounts and audit process.

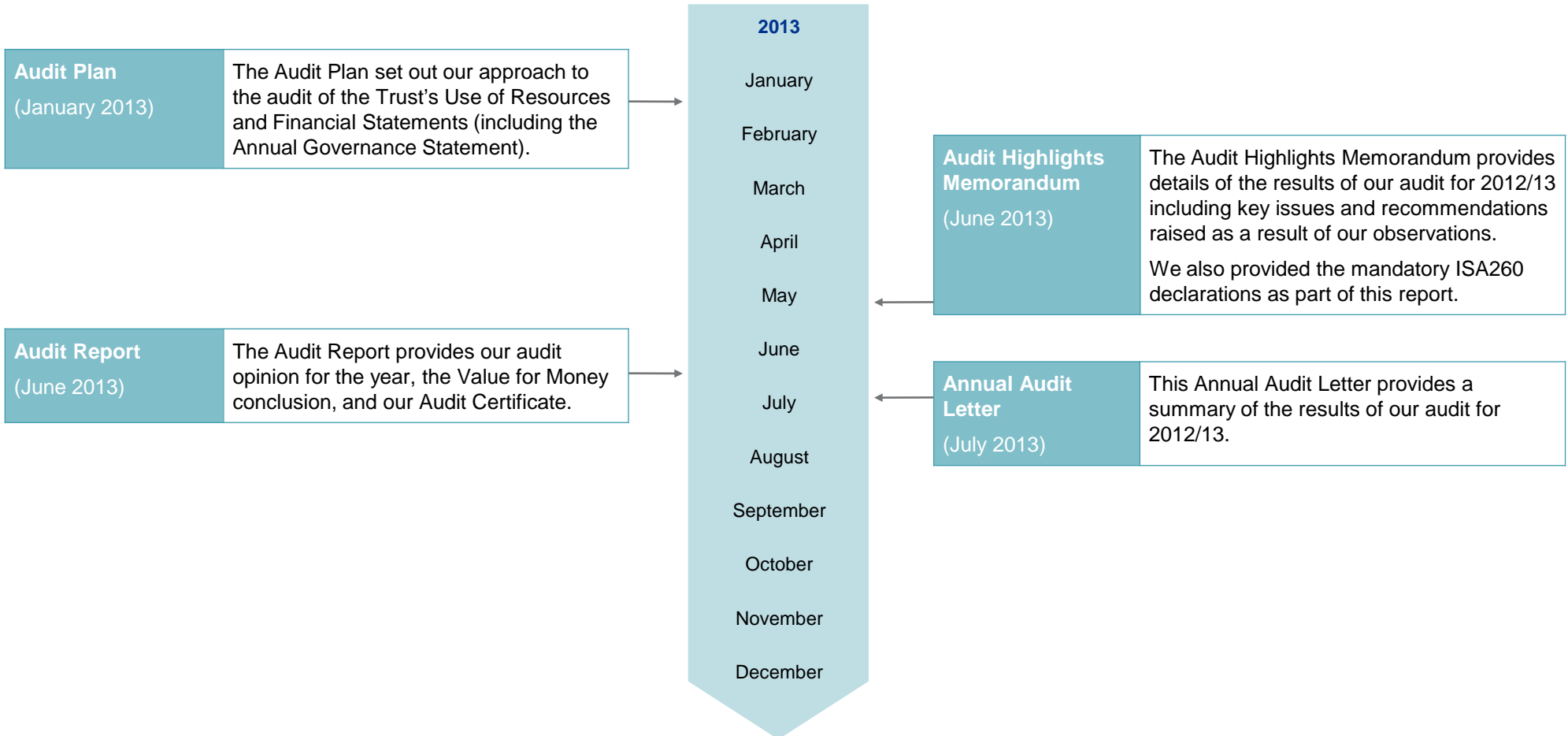
This appendix summarises all high risk recommendations raised in 2012-13 and the outstanding recommendation from previous years.

Recommendations Raised in 2012-13

No.	Risk	Issue, impact and recommendation	Management response/responsible officer/due date
1	<p>●</p> <p>High</p>	<p>Identification and classification of Deferred Income and Accruals</p> <p>Our audit testing identified balances of £3.7m relating to Transformation Funding, and £1.4m relating to incomplete treatments which have been classified as provisions, but do not meet the definition of a provision as set out in IAS 37 – Provisions, Contingent Liabilities and Contingent Assets.</p> <p>£5.1m of income received in both 2012/13 and previous financial year has been incorrectly recorded as a provision in the statement of financial position.</p> <p>An assessment should be made on the correct treatment and presentation using IAS18 Revenue Recognition and IAS 37 Provisions. Where income has been received from another NHS body, the accounting treatment should be agreed by the counterparty to ensure consistency.</p> <p>This recommendation was also made in our 2011/12 ISA260 report.</p>	<p>The Trust's view is that a potential liability exists to incur expenditure on the projects for which funding was given and therefore it is not appropriate to release these monies to the Statement of Comprehensive Income under IAS18. However, the Trust will review accounting treatment during 2013/14 with a view to recognition where appropriate within the overall income and expenditure position, thus reducing or eliminating such balances at 31st March 2014.</p> <p>Director of Finance and Performance Management</p>

Recommendations from previous years

No.	Risk	Issue, impact and recommendation	Management response/responsible officer/due date
1	<p style="text-align: center;">●</p> <p>Medium</p>	<p>Identification and classification of Deferred Income and Accruals</p> <p>During our audit testing we have identified classification errors in relation to deferred income, accruals and provisions.</p> <p>The Trust should undertake an exercise as part of the closedown process to ensure that all intra-NHS balances that are outside the scope of the agreement of balances exercise are correctly classified.</p> <p>This should include understanding the purpose of the income received, when the associated expenditure is likely to be incurred and whether the Trust has a right to defer the income.</p> <p>An assessment should then be made on the correct treatment and presentation under IAS18 Revenue Recognition and IAS 37 Provisions. Where possible this treatment should be agreed by the counterparty to ensure consistency.</p>	<p>The Trust will build upon the work undertaken to prepare its 11/12 accounts ensuring that these recommendations are put in place so that all intra-NHS balances are correctly classified. A review will be undertaken prior to the interim audit in the final quarter of 12/13 and ahead of the accounts finalisation process.</p> <p>Due Date – February 2013</p> <p>Director of Finance and Performance Management</p>





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