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Sandwell and West Birmingham NHS Trust

Annual Audit Letter 2014-15

July 2015

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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 issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is applicable to 2014/15 audits and is available on the Public Sector Audit Appointment's website (www.psa.co.uk).

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.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrew Bostock, the engagement lead to the Trust, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Trevor Rees (on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

Background

This Annual Audit Letter (the letter) summarises the key issues arising from our 2014-15 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)	<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> <p>We set out on page 4 that we concluded that the Trust has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p>
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. We issued this opinion on 4 June 2015 as set out on page 5.</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 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>

Adding value from the External Audit service

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

- 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; 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.

Fees

Our audit scale fee for 2014-15 was £101,107 excluding VAT (2013-14: £111,107). This was in line with the fee agreed at the start of the year with the Trust's board.

We have also completed the following pieces of work at the Trust during the year:

<p>Quality Account</p>	<ul style="list-style-type: none"> ■ In March 2015 the Department of Health issued guidance to trusts regarding the required external assurance on the 2014/15 Quality Account and recommended that trusts use their external auditors to provide a limited assurance report on the Quality Account. We provide a limited assurance opinion on the Trust's report against the Department of Health 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. This work is covered by a separate engagement letter with the Trust and we have issued the limited assurance report to the Trust on 29 June 2015. ■ Our fee for this work was £15,000 (excluding VAT).
<p>VAT recovery review</p>	<ul style="list-style-type: none"> ■ Our VAT team reviewed a potential contract for the procurement of Cardiac Catheterisation equipment to identify the VAT recovery position for the Trust. A short report was produced which identified the key VAT issues that the Trust needed to consider for the contract and similar procurement initiatives. ■ The contract was not material to the financial statements and the work was completed by a team independent to the audit team. ■ Our fee for this work was £6,076 (excluding VAT).

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 2014-15.

Overall financial results and other key messages

- Financially, 2014-15 was another challenging year for the Trust. The Trust reported a surplus of £4.6 million and recognise this included in year use of non-recurrent resources, such as the utilisation of provisions and specific funding during the year. The underlying outturn exceeded breakeven.
- The Trust has reported the achievement of its cost improvement plans totalling £20.6 million in 2014/15 following the establishment of its Trust wide Project Management Office (PMO) to manage its CIPs. Of this delivery, the Trust has reported that £8.5 million (40%) is non recurrent with the main element being the release of transition enabling funding and funding for the Midland Metropolitan Hospital.
- The Trust has achieved the majority of its key performance targets throughout the year. It achieved 92.5% for the Emergency Care four hour maximum wait, below the target of 95%.

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.
- As part of our review of the Trust's financial governance, financial planning and financial control arrangements we specifically considered the delivery of the Trust's cost improvement plans totalling £20.6 million in 2014/15. The Trust's long term financial model and Appointment Business Case for the Midland Metropolitan Hospital include continued delivery of cost improvement plans totalling £85.9 million between April 2015 and March 2020. In the short term, these equate to savings of 4% per annum and decreases to 3.5% and lower from 2019/2020. The sector is striving to achieve this level of savings, but finding it challenging and the Trust needs to continue to make a stepped change in relation to the timely development, sign off and delivery of CIP schemes.
- In addition to completing local risk based work to understand the Trust's delivery of saving plans we have also made the following considerations in forming our conclusion:
 - The Trust published its detailed improvement plan and response alongside the CQC publication of its recent inspection which provided an overall rating of "requires improvement".
 - The Trust has documented in its Appointment Business Case the safeguards it has put in place to consider securing value for money with respect to a single bidder situation on the procurement of the Midland Metropolitan Hospital. It has identified additional requirements for the single bidder in procurement documentation and received Department of Health approval in March 2015 subject to three additional conditions which have been incorporated.

Financial Statements including the Annual Governance Statement

- We issued an unqualified opinion on the Trust's accounts on 4 June 2015. 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 2014/15 year.
- 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.
- We reported to those charged with governance our concerns with regard to 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 has significantly reduced since last year to £1.8m. These items were not adjusted in the financial statements and are not material in the context of the accounts as a whole. The Trust has continued to apply this consistent accounting treatment in 2014/15, but the treatment as provisions excludes this funding received in advance from being included in the agreement of balances exercise.
- In addition, we reported that the Trust was required to undertake a review of some accrual balances to evaluate whether the liability was actually due to the relevant suppliers. The Trust took a prudent approach to recognise a liability for goods or services where a purchase order had been raised and goods or services recorded as received but not yet matched to the receipt and payment of an invoice from the relevant supplier.
- We note that the Trust significantly enhanced its annual reporting timetable in 2014-15 and brought forward its Annual General Meeting to June from September to present its Annual Report. This presented information on the Trust's performance in a more timely manner and the style adopted was more accessible to stakeholders. However, the Trust needs to further strengthen its arrangements to present a high quality annual report that includes all content prescribed by the Department of Health's manual for accounts in time for audit review at the end of May.
- No significant adjustments were required to the Annual Governance Statement. There was a new requirement in the year for Trusts to disclose how they obtain assurance over the data quality of waiting times for which the Trust made an appropriate disclosure.

Recommendations

- As part of our audit we raised no "high" risk recommendations to replicate in this letter. We raised seven recommendations for improvement as a result of our 2014/15 financial statements audit work of which five were "medium" and two were "low" risk.
- The Trust has been proactive at implementing agreed audit recommendations from prior years. We identified 2 prior year recommendations out of the 6 raised that were partially implemented and still require further action by management.

Quality Accounts

From our work on the Trust's Quality Accounts:

- 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.

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 highest possible level of assurance available.

Detailed testing was undertaken on two of the performance indicators included in the quality account. The two indicators tested were:

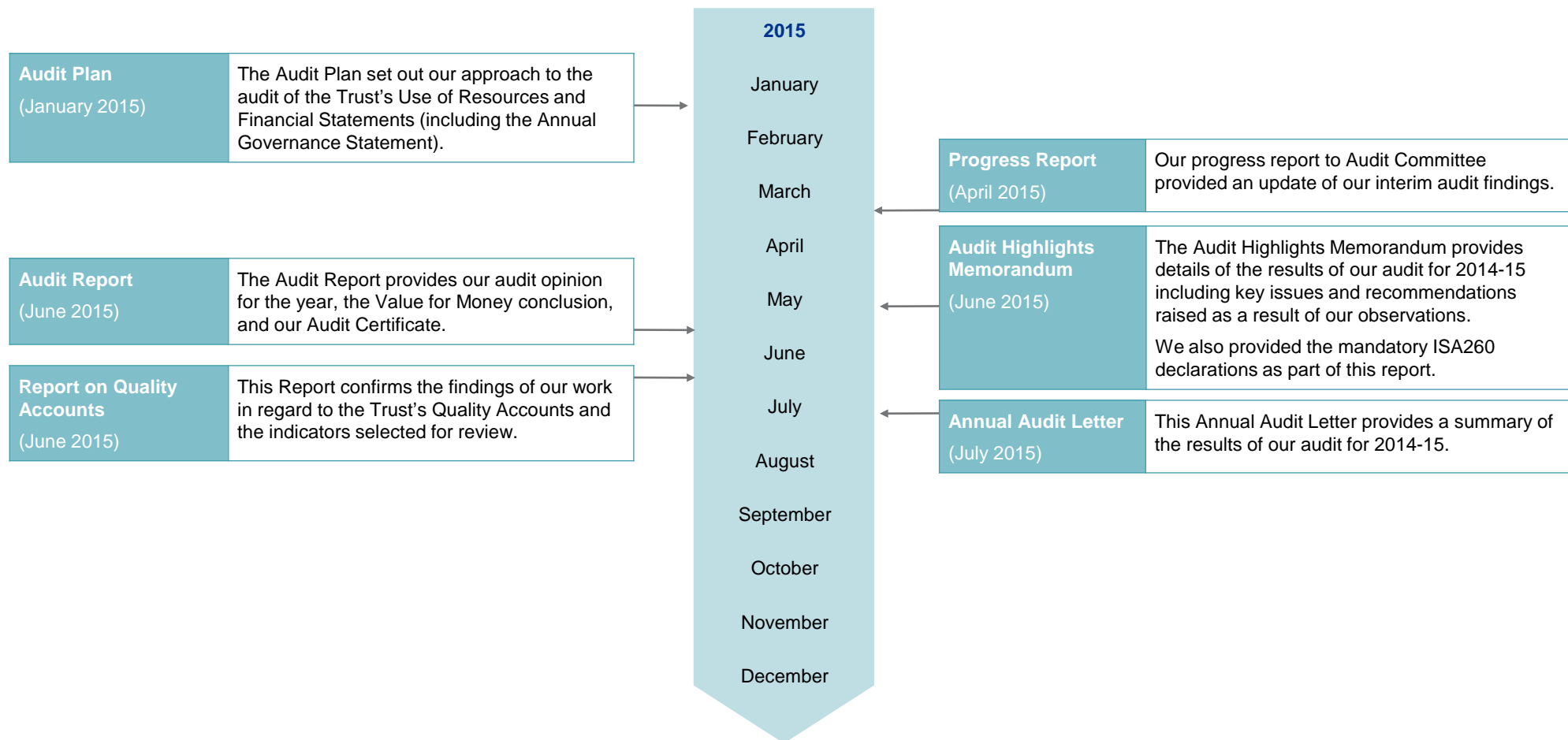
- Rate of clostridium difficile infections; and
- Percentage of patients risk-assessed for venous thromboembolism (VTE).

The Trust met the statutory deadline of 30 April 2015 to share a draft of the Quality Account with stakeholders. However, there were a number of omissions against requirements not included in the first draft. Our 5 recommendations included:

- the further development of the Trust's timetable for the production of the Quality Account in 2015/16 to meet an earlier completion date as an aspiring Foundation Trust; and
- updating the Trust's VTE policy to include its definition of undertaking an assessment on admission in line with the national indicator definition.

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 did not issue a report in the public interest or refer any matters to the Secretary of State in 2014-15.





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