

The Annual Audit Letter for the Royal National Orthopaedic Hospital NHS Trust

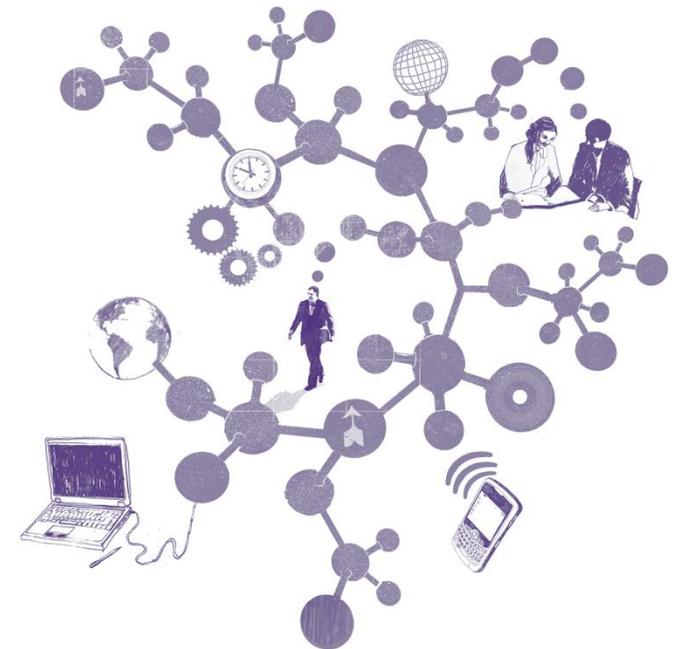
Year ended 31 March 2015

July 2015

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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 the Royal National Orthopaedic Hospital NHS Trust ('you') for the year ended 31 March 2015:

- auditing the accounts (section two)
- assessing your arrangements for securing economy, efficiency and effectiveness in your use of resources (section three)
- other audit related services carried out for you during the years, reviewing your Quality Account (section four).

The Letter is intended to communicate key messages to you and external stakeholders, including members of the public.

We reported the detailed findings from our audit work on the accounts and arrangements for securing economy, efficiency and effectiveness in your use of resources to those charged with governance in the Audit Findings Report on 2 June 2015.

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).

You are responsible for preparing and publishing your financial statements, accompanied by an Annual Governance Statement. You are also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in your 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 March 2015 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 2014/15 are as follows:

- an unqualified opinion on the accounts which give a true and fair view of your financial position as at 31 March 2015 and your income and expenditure for the year; and
- a qualified "except for" conclusion in respect of your arrangements for securing economy, efficiency and effectiveness in your use of resources as a result of setting £8m budget deficit in 2015/16 and not currently having a medium term financial plan that returns the Trust to breakeven.

Audit related services

We also issued an unqualified limited assurance report in respect of the your Quality Account in relation to this separate engagement.

Executive summary (continued)

Key areas for your attention

You face a significant financial challenge in the years ahead. You achieved a budget surplus of £0.23m in 2014/15 against an original planned budget surplus of £2m.

You achieved £2.73m of savings in 2014/15. However, this was only (48%) of your £5.67m Cost Improvement Plan (CIP) target, falling £2.94m short of the aspirational plan. You had £3.4m of potential transformational schemes that were not activated during the year, including £75k that remained unidentified throughout the year.

Your £1.7m CIP target in 2015/16 equates to an unambitious 1.2% of turnover, rather than the Department of Health recommended 3.5% and contributes to the size of the budgeted deficit in 2015/16. Further schemes are being investigated and your target may increase during the year.

Recent developments over the tariff and changes to forecast CIP schemes have significantly increased your forecast deficit position for 2015/16 from a £0.4m deficit prepared in January 2015, to the £8m deficit submitted to the NHS TDA in May 2015. Deficits are now forecast for each of the next 5 years in the Medium Term Financial Strategy (MTFS). Uncertainty over NHS funding and the timescales for your estates development plan means it is difficult to accurately forecast budgets for the period 2016/17 to 2018/19. You acknowledge that you face an uncertain and difficult future and that your current operating model may not be sustainable. It is imperative that you work through strategies to mitigate the financial shortfalls you envisage in the medium term.

We issued a qualified "except for" conclusion in respect of your arrangements for securing economy, efficiency and effectiveness in your use of resources as a result of this financial uncertainty.

You secured NHS TDA approval for the outline business case for the redevelopment of the Stanmore site in March 2015. You continue to review the best approach to financing the redevelopment of the site and the proposed land sale of the Western Development Zone remains key to this. In the mean time you are pressing ahead with the process towards selection of the preferred bidder with a view to completing the full business case and financial close by the target date of Spring 2016.

The pressing need for the redevelopment of the site was reflected in the main findings from the May 2014 Care Quality Commission (CQC) inspection which rated you as 'requires improvement' in August 2014.

The planned budget deficit, together with the CQC re-inspection and redevelopment plans has delayed any decision to proceed with your application for Foundation Trust status.

Acknowledgements

This Letter has been agreed with the Director of Finance and Chief Executive.

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
July 2015

Audit of the accounts

Audit of the accounts

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 Committee at the Trust). We presented our report to the Audit Committee on 2 June 2015 and summarise only the key messages in this Letter.

Preparation of the accounts

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the national deadline. The draft accounts were of a very good quality, supported by comprehensive working papers and staff responded promptly to our audit queries.

We highlighted a small number of adjustments and narrative changes to the notes to the accounts which are of a presentational nature only and have no overall net effect on your reported financial position, which is a retained surplus of £0.23m after technical adjustments. We made a number of adjustments to improve the presentation of the accounts.

Annual Governance Statement and Annual Report

The AGS was in line with Department of Health guidance and consistent with our understanding of your arrangements during the year.

Our review of your draft Annual Report concluded that the content of the Annual Report was in accordance with the Manual for Accounts and was consistent with our knowledge of the Trust.

Conclusion

We issued an unqualified opinion on your 2014/15 accounts on 2 June 2015, meeting the deadline set by the Department of Health. Our opinion confirms that the accounts give a true and fair view of your financial affairs and of the income and expenditure recorded by you.

Financial performance 2014/15

Your performance against your financial targets is set out in the table below:

	Target	Actual	Met?
Surplus/ (deficit)	Breakeven	£0.235m	Yes
Capital cost absorption rate	3.5%	3.5%	Yes
Capital resource limit	Not to exceed £11.21m	£10.511m	Yes
External finance limit	Not to exceed £4.944m	£4.504m	Yes

Whilst you met your statutory breakeven target achieving a £0.235m surplus, you did not meet your original control total target of £2m surplus for 2014/15.

Value for Money

Value for Money conclusion

The Code describes your responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in your 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:

Whether you have proper arrangements in place for securing financial resilience. Robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables you to continue to operate for the foreseeable future.

Whether you have proper arrangements for challenging how you secure economy, efficiency and effectiveness. Prioritising 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 your arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance
- Financial planning
- Financial control

The key findings from our review are:

- You achieved a £0.23m surplus (after technical adjustments) against a planned £2.0m surplus.
- You achieved only £2.7m (48%) of your £5.7m savings requirement for the year. The £5.7m target was too ambitious and nearly £3.4m of the plan was never activated.
- You set a £1.7m CIP savings target in 2015/16 and by mid-April 2015, managed to fully identify the target across 32 different schemes. Of these schemes, circa £1.1m (65%) have a green risk rating, £440k (25%) are amber and only £170k (£10%) are red risk rated.
- The £1.7m CIP target however equates only to an unambitious 1.2% of turnover, rather than the Department of Health recommended 3.5% and contributes to the size of the budgeted deficit in 2015/16. Further schemes are being investigated so this target may increase during the year.
- A planned deficit of £8m after technical adjustments has been agreed for 2015/16 with a similar planned deficit expected in 2016/17.
- As you work through the immediate impact of the forthcoming two budget deficits and as the plans for the redevelopment of the site unfold, you will be revisiting and refreshing your five year plan.

Overall, our work highlighted that the planned deficits and poor achievement of CIPs are evidence of weaknesses in your future financial resilience.

Challenging economy, efficiency and effectiveness

We have reviewed whether you have prioritised resources to take account of the tighter constraints you are required to operate within and whether you have achieved cost reductions and improved productivity and efficiencies.

Value for Money

The key findings from our work in addition to our key findings on CIP savings set out in the previous financial resilience section are:

- You secured NHS TDA approval for the outline business case for the redevelopment of the site in March 2015. You continue to review the best approach to financing the redevelopment of the Stanmore site and the proposed land sale of the Western Development Zone remains key to this. In the mean time you are pressing ahead with the process towards selection of the preferred bidder with a view to completing the full business case and financial close by the target date of Spring 2016.
- The pressing need for the redevelopment of the site is reflected in the main findings from the May 2014 Care Quality Commission (CQC) inspection which rated you as 'requires improvement' in August 2014. You have also taken prompt action on the 37 actions you identified to improve and are on track on most of these; the exception being the longer term asset management based actions. It should also be noted that you were assessed as outstanding for effective services and caring.
- The next step is an unannounced inspection which will take place in the future to provide assurance to the CQC that the areas of improvement since the inspection are consistent with revising the overall rating for the Trust.
- The planned budget deficit, together with the CQC re-inspection and redevelopment plans has delayed any decision to proceed with your application for Foundation Trust status.

Overall Vfm conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, with the exception of the matters reported in the basis for qualified conclusion paragraph above in respect of the Trust's strategic financial planning, we are satisfied that in all significant respects, the Royal National Orthopaedic Hospital NHS Trust put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

Audit related services

Quality Accounts

For 2014/15 you are required to obtain external audit assurance on your 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 2014/15* 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 you with a report setting out the detailed findings of our work on 25 June 2015. No significant issues were identified as a result of our work.

Conclusions

We provided an unqualified limited assurance opinion on your Quality Account, in accordance with requirements, on 25 June 2015.

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and other services.

Fees for audit services

	Per Audit plan £	Actual fees £
Trust audit	67,659	67,659
Total audit fees	67,659	67,659

Fees for other services

Service	Fees £
Audit related services	
• Quality Accounts	10,000
Non-audit related services	Nil

Reports issued

Report	Date issued
Audit Plan	24 March 2015
Audit Findings Report	2 June 2015
Quality Account Report	25 June 2015
Annual Audit Letter	July 2015



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