The Annual Audit Letter
for Croydon Health Services 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 Croydon Health Services 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 the 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 20 May 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 19 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
• a qualified adverse conclusion in respect of your arrangements for securing economy, efficiency and effectiveness in your use of resources as a result of you delivering a £27.5m deficit in 2014/15 (this being £9.6m worse than your original budget forecast), achieving only 62% of your £13.9m QIPP programme in 2014/15 and setting a budget deficit of £25.0m in 2015/16. You have also not yet identified £3.5m of your challenging £10.5m QIPP target for 2015/16.

We also issued a qualified limited assurance report in respect of your Quality Account. We qualified our opinion on the basis that we were unable to obtain a complete audit trail for the maternity cases included in the percentage of patients risk-assessed for venous thromboembolism (VTE) indicator for part of the year.
Key areas for your attention

Our review of what you have achieved in the year is bound up within our review of your financial performance, financial resilience and the economy, efficiency and effectiveness with which you have used your resources to achieve your outcomes. We consider whether these achievements have been made in a way that is financially resilient and sustainable within your current financial environment.

Many of the theme areas are rated red which reflects, in many cases, the scale of challenges that you continue to face, both operationally and financially.

You are in severe financial difficulty. You delivered a £27.5m deficit in 2014/15, meaning you are in cumulative financial deficit of £35.4m. The outturn deficit was significantly worse than your original planned £17.9m budget deficit. This was the third year in a row your actual outturn was significantly worse than your forecast outturn, and the second year the actual deficit was significantly worse than the planned deficit.

You are forecasting a significant financial deficit of £25.0m in 2015/16. The financial uncertainty you face undermines your future. Your maintenance backlog alone may require circa £25m of expenditure to bring your facilities up to the required standard. The forecast deficit for 2015/16 of £25.0m is subject to significant potential risk, and the trend over previous years has been for the outturn position to deteriorate significantly from the planned position at the start of the year. It is not clear what circumstances are different in 2015/16 from previous years to prevent a similar outturn deterioration as that experienced in previous years. Should this be the case, the outturn deficit in 2015/16 could be significantly worse than £25.0m.

You remain committed to investing in quality and performance to bring these up to the required national standards. Relations with your main commissioner, Croydon CCG, are good but are impacted by the fact that the CCG is also financially challenged, with a cumulative deficit of £18m to be addressed by 2017.

Along with regional partners, you have started to look at strategic solutions for the longer term sustainability of the South-West-London health economy. The South-West London Pathology partnership is one example of this. This was set up to deliver a single, integrated, streamlined, high-quality, NHS-led pathology service to hospitals and GPs across South West London, and went live on 1st April 2014.

A&E remains a significant issue which you are committed to addressing. You have sought to improve the services, with positive feedback received from patients in respect of the introduction of tea-rounds for patients and faster access to pain relief when needed. You have been given the approval by the NHS TDA for a £21.5m redevelopment of the Emergency Department, which is due to complete in the Spring of 2017. You hope this will address many of the issues raised by the Care Quality Commission during an inspection two years ago (2013), which found the old Emergency Department to be badly designed, in a poor state of repair, understaffed and crowded, as it was too small to treat the current number of patients it regularly sees.

You have also demonstrated a positive direction of travel in other areas that aims to improve the quality of service provided. Your Listening into Action scheme was awarded a national kite-mark of recognition and has continued to help improve staff morale and keep staff engagement higher than the average in the national staff survey.

You have, after several years and considerable effort, managed to slow the continual rise of bank and agency staff costs over the previous five years, through tighter management of rotas and approval of new staffing requests through the weekly staffing panel. The overall cost of non-permanent staff has fallen by £1.7m from £29.7m in 2013/14 to £28.0m in 2014/15, although this is still in excess of your planned target for the year and contributed to missing the revised £23.4m budget deficit target.
You remain, however, at the mercy of national and local market factors which caused cost pressures from December 2014 and increase the challenges for recruitment and retention of staff. This has in part contributed to higher than planned usage of agency and bank staff in A&E, Acute Medical Unit and Critical Care. Changes at Board level, whilst not necessarily avoidable, can also distract leadership efforts as new members seek to integrate and understand the issues and the Board re-adjusts to a new membership status quo and changes in corporate memory. There have been three Chief Operating Officers in post throughout the year, which may have undermined the speed with which you have been able to push forward and embed some of the more transformative change. You plan to appoint a new Medical Director, a new Director of Nursing and a new Director of Planning and Information in 2015 too.

You recognise that you need to identify further improvements in productivity and efficiency – necessary to return to recurrent financial balance – and that this is extremely challenging without significant transformation. In some cases, management is of the view that the service delivered is efficient, but that the income provided from commissioners is not sufficient to deliver that service without creating a deficit. Overcoming differences in views with the commissioners is essential in resolving some of the financial challenges faced.

You have challenged some areas of potential underfunding in your discussions over forming the 2015/16 budget. This in itself stretches management capacity further, as commissioners request detailed costing and benchmarking work to support your position.

You reported two never events; one in December 2014 relating to a medication error and one in February 2015 relating to wrong-site surgery. You also declared an internal major incident on 6 January 2015.

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'. We presented our detailed report to the Audit Committee on 20 May 2015. Following consideration of our report, the Audit Committee recommended the accounts for approval to the Board.

We summarise in this Letter only the key messages arising from our work:

Preparation of the accounts

You presented us with draft accounts on 23 April 2015, in accordance with the national deadline. We received some accompanying working papers at the commencement of our work and the remaining working papers two days later.

You employed effective processes for producing accurate and high quality draft financial statements which were supported by good working papers.

The changes made to the accounts were very minor. They were either textual or presentational in nature or were where you were relying on information from a third party that did not arrive before you were required to submit the draft statements for audit. No amendments were made to the prime statements or to the financial position you reported in your draft statements.

Annual Governance Statement and Annual Report

You updated your AGS during the audit to clarify and enhance some of the issues that occurred during the year. The final 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.

Other

Under section 19 of the Audit Commission Act 1998, we are required to report to the Secretary of State for Health when it becomes clear that you will not meet the statutory requirement to break even over a three year rolling period. Your intention to set a deficit budget for the third year in a row in 2015/16 means you have therefore breached this statutory requirement, as you will have delivered a deficit position in 2013/14, 2014/15 and 2015/16. Accordingly we reported this to the Secretary of State on 3 June 2015.

Conclusion

We issued an unqualified opinion on your 2014/15 accounts on 3 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

**Financial performance 2014/15**
Your performance against your financial targets is set out in the table below:

<table>
<thead>
<tr>
<th></th>
<th>Target</th>
<th>Actual</th>
<th>Met?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus/ (deficit)</td>
<td>Breakeven</td>
<td>£27.5m deficit</td>
<td>No</td>
</tr>
<tr>
<td>Capital cost absorption rate</td>
<td>3.5%</td>
<td>3.5%</td>
<td>Yes</td>
</tr>
<tr>
<td>Capital resource limit</td>
<td>Not to exceed £8.35m</td>
<td>£8.315m</td>
<td>Yes</td>
</tr>
<tr>
<td>External finance limit</td>
<td>Not to exceed £24.141m</td>
<td>£24.103</td>
<td>Yes</td>
</tr>
</tbody>
</table>

**Looking forward**
You failed to meet your statutory target of breakeven for 2014/15 and the deficit of £27.5m that you delivered was £9.6m worse than your original budget forecast.

You are setting a budget deficit of £25.0m for 2015/16. This means you will not meet the statutory requirement for breaking even over a three year period. It is not yet known whether permission will be given to extend this to a 5 year period. As a result of this, we issued a referral to the Secretary of State under Section 19 of the Audit Commission Act 1998 on 3 June 2015.
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

We reported our detailed findings in our Value for Money report, and summarised our findings in our Audit Findings Report. Our work highlighted significant weaknesses in all three characteristics. We concluded that you do not have proper arrangements in place for securing financial resilience.

Challenging economy, efficiency and effectiveness
We have reviewed whether you have prioritised your 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.

We reported our detailed findings in our Value for Money report, and summarised our findings in our Audit Findings Report. Our work highlighted significant weaknesses in these characteristics. We concluded that you do not have proper arrangements in place for challenging economy, efficiency and effectiveness.

Overall VfM conclusion
On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, the matters reported above prevented us from being satisfied that in all significant respects you put in place proper arrangements to secure economy, efficiency and effectiveness in your use of resources for the year ending 31 March 2015.
Value for Money

Summary of findings and key residual risk
You will continue to face challenges in the coming years. In our view, some of the most significant risk areas are:

Risk of non-delivery of the 2015/16 QIPP:
• Identifying transformational efficiencies is extremely challenging. You achieved only 62% of your revised £13.9m QIPP savings in 2014/15. Not all of the savings achieved were recurrent, meaning not all of those achieved will provide you with on-going benefit into 2015/16. You have set a £10.5m planned savings target for 2015/16. The size of the savings requirement in itself is a significant risk based on previous performance, heightened further by the fact that one month into the financial year, work is still on-going to validate the financials and develop detailed implementation plans with key dates for delivery for £5m of the £7m schemes that have been 'identified'. A further 33% of the overall plan remains completely unidentified. In addition, the PMO post has been vacant since January 2015, although the position has been covered by interims and an external consultant. This creates a high degree of uncertainty over whether the savings requirement can be delivered in the remainder of the year. You plan to backload the savings delivery towards the end of the year, which further increases the risk. Failure to deliver this challenging QIPP programme will impact on your ability to deliver the planned £25.0m deficit.
• You have not successfully delivered your planned QIPP programme in any of the previous 4 years. This indicates there may be significant weaknesses in either your arrangements to identify realistic, achievable savings, or your programme management arrangements to implement the schemes identified, or both. These weaknesses, in turn, may be driven by deeper-seated cultural and working practices, and it is these causes, and not just the symptoms, which will need addressing if you are to improve the adequacy, achievability and delivery of QIPP savings schemes. Addressing these factors, the effectiveness of the arrangements to produce realistic, achievable and properly risk-assessed QIPP savings schemes, and the effectiveness of the arrangement to properly programme manage and implement such schemes, should be a key focus for the Board in the coming year

Risk of under-forecasting the scale of the planned deficit:
• Considerable work has been undertaken by finance to understand the financial challenge and the drivers behind the increasing deficit position. The financial position is well understood, as are the risks to achieving future plans. Wider NHS expectations over the acceptable size of the 2015/16 deficit may not match the reality of what the Trust is able to deliver given the current situation.
• This increases the risk of the planned deficit not being achieved for the third year in a row. The risks in the 2015/16 financial plans mean that there is a realistic possibility you could exceed the planned £25.0m deficit. Your track record over the previous two years demonstrates a recurring trend. You exceeded the originally planned deficit by £9.6m in 2014/15 and by £11m in 2013/14. In the year before that (2012/13), you forecast a planned surplus of £2.4m but only managed a surplus of £19k with the help of £8.7m one-off additional funding.
• Even if you deliver the planned budget deficit of £25.0m in 2015/16, the cumulative deficit to March 2016 would be significant. Producing a sustainable recovery plan for such a significant cumulative deficit would be extremely difficult.
Risk of cultural barriers to change:

• The causes of the inability to arrest and gain control of the financial position do not stem from a lack of understanding of the financial reality. This suggests deeper underlying causes, potentially related to cultural or working practices, and the arrangements in place to transform and embed change. Your current arrangements are not producing the desired effect as you seek, without success, to implement successive recovery and turnaround plans, whilst at the same time savings schemes go undelivered and the forecast deficit continues to grow. Whilst some of the causes are external to the Trust, including expectations over what is and isn't an acceptable planned deficit from strategic NHS organisations and expectations from commissioners facing their own significant financial challenges (such expectations not necessarily being realistic in the context of the Trust's current circumstances), some causes are internal, and require significant leadership and drive to transform working practices to deliver real change and financial turnaround.

• You have shown considerable commitment to improve and the positive impact that schemes such as Listening into Action have had within the Trust is noticeable. It will be key though for the management team to ensure short term positive responses to any new approach are embedded within the organisation to effect long term cultural change. You are aware for example that processes and practices are not always being routinely followed by the workforce, which temporarily improve under management's close scrutiny and then revert back to old habits once that scrutiny passes. This cultural barrier will need to be robustly tackled to ensure hearts and minds are won and continued improvement in the long term is embedded. Changing behaviours will ultimately impact on the costs incurred and the experience patients receive and will need to be considered in moving the Trust from a period of 'recovery and turnaround' to long term, sustainable working practices.

Recommended areas of focus for the Board in the coming year

The recommended areas of focus below are not exhaustive, nor do they seek to indicate the Board has not involved itself with these areas to date. We list them here by way of summary of what, in our view, are crucial areas of focus for the Board given the financial situation it faces and the performance history of the Trust over the current and previous years.

• effectiveness and adequacy of arrangements to identify realistic, achievable and sustainable QIPP savings schemes
• effectiveness and adequacy of arrangements to articulate planned benefits and savings
• effectiveness and adequacy of project and programme management arrangements to deliver agreed QIPP savings schemes and realise the benefits envisaged
• robust challenge of assumptions underpinning the planned 2015/16 deficit, particularly in light of failures to deliver financial plans in previous years, with robust scrutiny over what has changed 'on the ground' to make the delivery of this year’s plan more realistic than in previous years, and detailed consideration of the realism of the planned deficit in light of the Trust’s current circumstances, against the expectations from strategic NHS organisations.
• robust scrutiny over the reasons for failure in previous years, particularly in respect of unachieved QIPP schemes, to 'learn the lessons' from the previous experiences and identify actions to address underlying factors which have led to failure to achieve financial plans. This should include consideration of 'on the ground' working practices, cultural norms and reasons for previous implementation failure and change resistance to previous QIPP schemes.
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 30 June 2015. The key matters arising from our work are:

* We tested two indicators; the rate of clostridium difficile infections and percentage of patients risk-assessed for venous thromboembolism (VTE)
* For the indicator reporting the percentage of patients risk-assessed for VTE we have been unable to obtain an audit trail for the maternity cases included in this indicator because the Trust's Information Department only receives data on the total number of VTE assessments from maternity. We were therefore unable to gain sufficient assurance to conclude that the indicator is reasonably stated in all material respects in accordance with the Regulations and the six dimensions of data quality set out in the Guidance.

* For the fourth year running, your Quality Account was finalised at the end of June. This left only 1 working day before the deadline of 30 June 2015 for the final audit procedures to be performed and the quality account to be published. You should look to strengthen and build more time into the process of preparing the Quality Account. This is necessary to reduce the risk of the deadline for submission of the final version being missed.

**Conclusions**
We provided a qualified limited assurance opinion on your Quality Account, in accordance with requirements, on 30 June 2015, as a result of the issues identified within the VTE audit trail.
Appendix A: Reports issued and fees

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

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<th>Fees for audit services</th>
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<td><strong>Per Audit plan</strong></td>
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<td><strong>Audit related services</strong></td>
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<td>Quality Accounts</td>
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<td><strong>Non-audit related services</strong></td>
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<td>Audit Findings Report</td>
<td>20 May 2015</td>
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<tr>
<td>Quality Account Limited assurance opinion</td>
<td>30 June 2015</td>
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<td>July 2015</td>
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