



Annual Audit Letter 2019-20

DRAFT

Epsom and St Helier University Hospitals NHS Trust

June 2019

Contents

The contacts at KPMG in connection with this report are:

Neil Thomas
Partner
KPMG LLP (UK)

Mob: 07714 633339
neil.thomas@kpmg.co.uk

Jack Stapleton
Senior Manager
KPMG LLP (UK)

Mob: 07468 750 121
jack.stapleton@kpmg.co.uk

Page

Introduction

2

Headlines

4

Appendices

7

A. Summary of our reports issued

This report is addressed to Epsom and St. Helier University 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.

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.



Introduction

Background

This Annual Audit Letter (the letter) summarises the key issues arising from our 2019-20 audit at Epsom and St. Helier University 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 this 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 where appropriate. 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 A.

Scope of our audit

The statutory responsibilities and powers of appointed auditors are set out in the Local Audit and Accountability Act 2014. Our main responsibility is to carry out an audit that meets the requirements of the National Audit Office's Code of Audit Practice (the Code) which requires us to report on:

Financial Statements including the regularity opinion and Governance Statement	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 confirm that the Trust has complied with the Department of Health and Social Care (DHSC) 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.
Value for Money arrangements	We conclude on the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the Trust's use of resources.

Fees

Our fee for £85,063 plus VAT (£76,298 in 2018/19). This fee was below the fee agreed at the start of the year with the Trust's Audit Committee. This fee has been updated since our audit plan agreed in November 2019 due the reduced audit requirements on the quality report (fee reduction of £2k) and IFRS 16 (fee reduction of £5k). We have not completed any non-audit work at the Trust during the year.

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 2019-20.

<p>Financial Statements audit opinion</p>	<p>We issued an unqualified opinion on the Trust's accounts on 25 June 2020. 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.</p> <p>In previous years our opinion has included an Emphasis of Matter paragraph in relation to the financial position of the Trust, which refers the reader to the uncertainties referenced by the Directors of the Trust in of the financial statements in respect of the Trust's ability to continue as a going concern due to the Trust's reliance on revenue loan support from the Department of Health and Social Care. In 2019-20 the Trust achieved its financial control total by £0.2m. The Trust was not reliant on cash support from the DHSC during the year. It has been proposed that after the year end £120.6m of (revenue and capital) loans will be converted to Public Dividend Capital. Initial forecasts are that no future revenue support loans will be required and the Trusts pre-COVID budget forecasts a breakeven performance. We therefore concluded that no such material uncertainty exists in 2019-20.</p> <p>We also considered the impact of Covid-19 on the Trust's financial statements. We concluded that Covid-19 does not create a material uncertainty with regard to going concern and regulators have made public statements to indicate that NHS funding will continue at levels similar to those seen in the past.</p> <p>We received a good quality first draft of the accounts and annual report from the Trust. There were no significant adjusted or unadjusted audit differences identified as part of the audit.</p>
<p>Financial statements audit work undertaken</p>	<p>We are required to apply the concept of materiality in planning and performing our audit. We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. Our materiality for the audit was £9.2m (2018/19: £8.1m).</p> <p>We identified the following risks of material misstatement in the financial statements as part of our External Audit Plan 2019/20:</p> <ul style="list-style-type: none"> — Valuation of land and buildings - The value of the Trust's land and buildings contains inherent judgement based on a number of factors. In 2019-20 the Trust undertook a revaluation of it's entire estate in line with its accounting policy, which requires this every five years. The Trust's valuation specialist included a material uncertainty paragraph in their valuation report in respect of Covid-19. This means that while values are considered appropriate as at the 31 March there is less comparable information available to support the assumptions used to calculate the value of land and buildings due to Covid-19 and the valuation report can be relied on for a shorter time period. — Integration of community services – On 1 April 2019 the Trust took over two community services contracts, one run by Sutton CCG and another run by Surrey Downs CCG. We did not identify any issues that would materially impact the financial statements. — Revenue recognition – Professional standards require us to make a rebuttal presumption that there is a fraud risk from recognition of revenue. We tested the inter body agreement of balances exercise between government bodies and found no exceptions, and we reviewed a sample of other transactions and agreed them to underlying records. We did not identify any issues through our testing.

Headlines

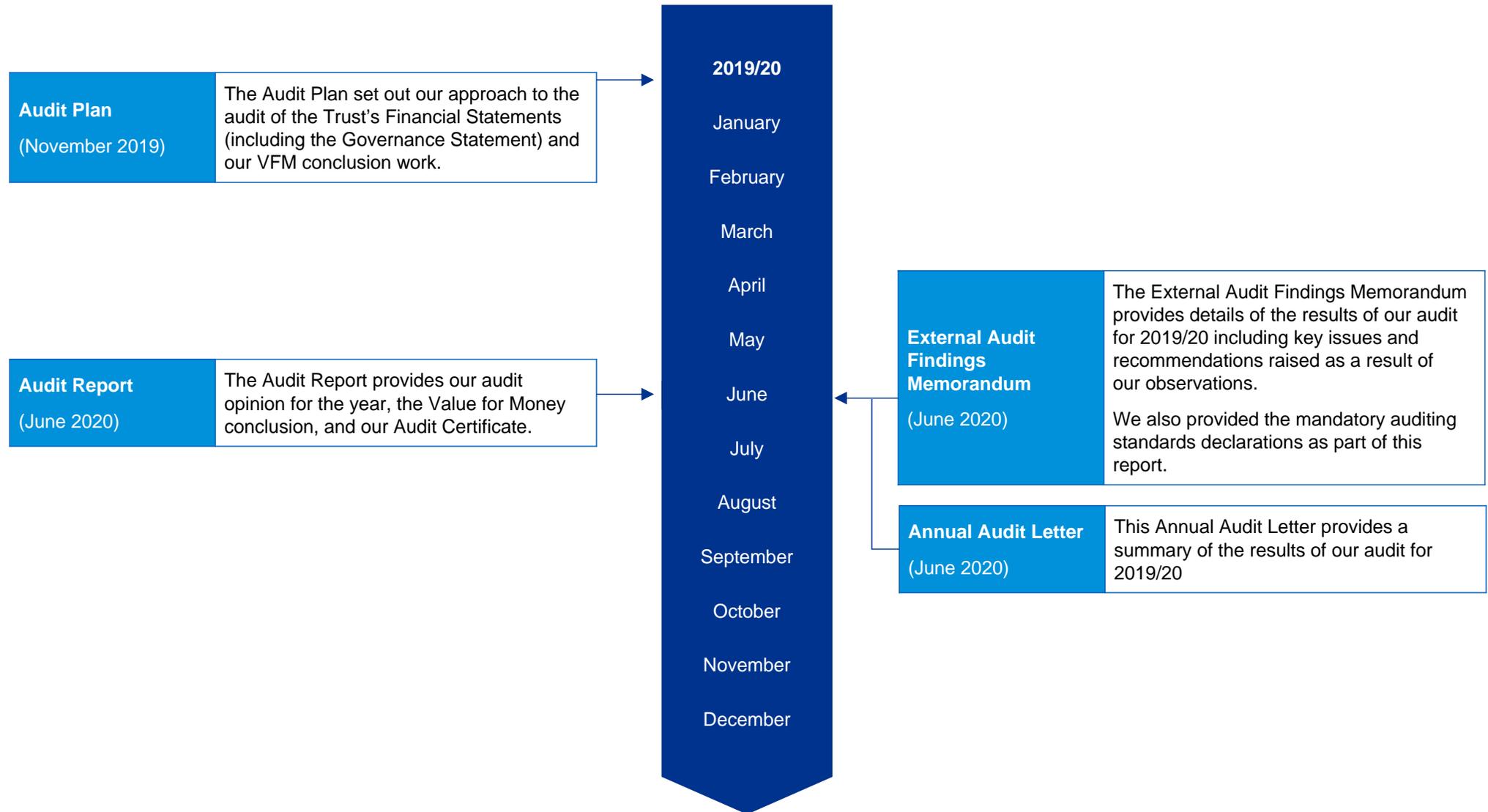
Financial statements audit work undertaken	<ul style="list-style-type: none"> — Management override of control – Professional standards communicate the fraud risk from management override of controls as significant. We performed testing of controls and substantive testing of journals posted and found no exceptions. We did not identify any significant unusual transactions or changes in accounting assumptions. — Expenditure recognition - We did not identify any expenditure transactions through our cut off procedures that had been classified in the wrong financial period. We did not identify any material errors in the Trust’s reporting of income or expenditure, and did not identify any inappropriate journals posted around year end that would inappropriately state the Trust’s financial position.
Governance Statement	<p>We confirmed that the Trust complied with the DHSC requirements in the preparation of the Trust’s Annual Governance Statement</p>
Whole of Government Accounts	<p>We issued an unqualified Auditor Statement on the Consolidation Schedules prepared by the Trust for consolidation into the Whole of Government Accounts with no exceptions.</p>
Value for Money (VFM) conclusion	<p>The Local Audit and Accountability Act 2014 requires auditors of NHS bodies to be satisfied that the organisation 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'. This means that we are required to conclude if the Trust has obtained value for money considering three key criteria: informed decision making, sustainable resource deployment and working with partners and third parties. Through this work we express our opinion in one of three ways, for which the wording of each is defined in statute:</p> <ul style="list-style-type: none"> • An unqualified opinion: Trusts that meet all three criteria receive an unqualified opinion. • An unqualified opinion 'except for': Trusts that have concern surrounding a limited number of criteria receive an unqualified opinion that highlights an except for an item. • A qualified opinion: Trusts that fail to meet multiple criteria, or a single criteria spanning multiple years, will likely receive a qualified value for money opinion. <p>In previous years we have issued a qualified opinion as the Trust continues to experience significant financial pressure due to its aged estate. The underlying position continues to be a deficit of £36.5m, and the Trust does not have plans to rectify this in the near future.</p> <p>In 2019-20 the Trust reported an in-year surplus of £0.7 million against a turnover of £512.4 million, after the application of FRF monies of £24.4m. The Trust met its financial target control total of a £6.7m deficit as agreed with NHS Improvement at the start of the financial year (before factoring in for adjustments related to Covid-19 which do not impact the Trust’s performance against target). In 2020/21 the Trust does not forecast needing revenue support from the DHSC. In advance of the suspension of the NHS funding regime on 17 March 2020, the Trust forecasted surplus for 2020/21 of £100k, but the Trust’s plans show it will continue to be unable to meet its breakeven duty in the coming years.</p>

Headlines (cont.)

Value for Money (VFM) conclusion (cont.)	<p>Based on the Trust's in year financial performance for 2019-20 and improved financial forecast for the 2020-21 financial year we have concluded that the Trust has appropriate arrangements in place to secure value for money except for its ability to meet its breakeven duty, and therefore provided a 'unqualified, except for' opinion in the current year.</p>
VFM conclusion risk areas	<p>We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks. Our work identified the following significant risks:</p> <ul style="list-style-type: none"> — Long term financial sustainability - The Trust met its financial target control total of a £6.7m deficit as agreed with NHS Improvement at the start of the financial year (before factoring in for adjustments related to Covid-19 which do not impact the Trust's performance against target). In advance of the suspension of the NHS funding regime on 17 March 2020, the Trust forecasted surplus for 2020/21 of £100k, which the Trust would achieve without the need for revenue loan support from the Department of Health and Social Care. Despite this the Trust's plans show it will continue to be unable to meet its breakeven duty in the coming years. — Integration of community services - We concluded that the Trust has appropriate controls in place to monitor the level and quality of activity provided as part of these services to ensure the services are effective, efficient and economical. — Capital commitments: The Department of Health and Social Care has pledged to provide £500m of support to the Trust to fund the redevelopment of the Epsom and St. Helier sites, and to support the creation of a new facility. We concluded that the Trust had appropriate arrangements in place to balance the level of funds it commits to this programme against the cash it has available. <p>We also updated our risk assessment to consider the impact of the COVID-19 pandemic on Trust operations. We have no matters to report in relation to our value for money conclusion.</p>
Recommendations	<p>We are pleased to report that there are no high risk recommendations arising from our 2019/20 audit work.</p> <p>The Trust has been good at implementing agreed audit recommendations from prior years. We have identified two prior year recommendations that still require further action by management.</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 have made such a referral under section 30 (b) of the Local Audit and Accountability Act 2014, as the Trust has breached its breakeven duty over a five year period.</p>

Appendix A

Summary of our reports issued





The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2020 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International. | Create Graphics: CRT061249A