



# The Annual Audit Letter for Epsom and St Helier University Hospitals NHS Trust

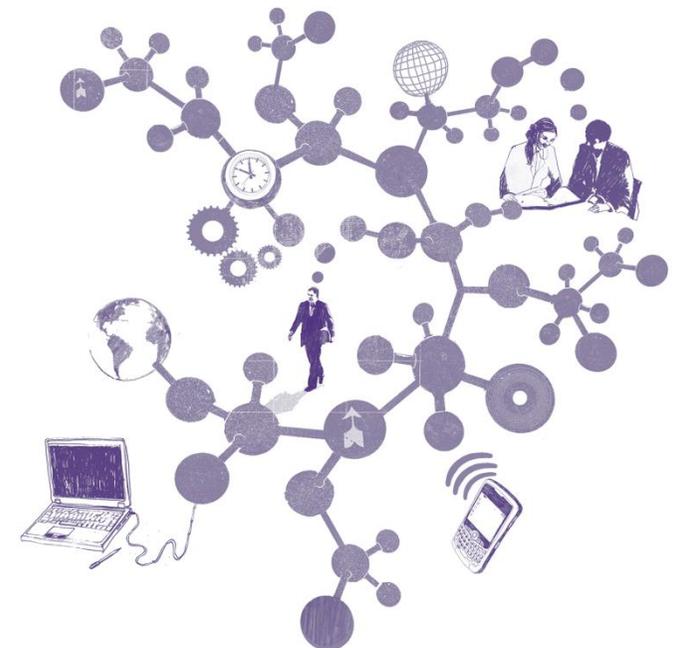
**Year ended 31 March 2016**

July 2016

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# Executive summary

## **Purpose of this letter**

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Epsom and St Helier University Hospitals NHS Trust (the Trust) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Trust and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Trust's Audit Committee, as those charged with governance, in our Audit Findings Report on 31 May 2016.

## **Our responsibilities**

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Trust's financial statements (section two)
- assess the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money (VFM) conclusion) (section three).

In our audit of the Trust's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISA (UK&I)s) and other guidance issued by the NAO.

## **Our work**

### **Financial statements opinion**

We gave an unqualified opinion on the Trust's financial statements on 2 June 2016.

### **Value for money conclusion**

We were satisfied that the Trust put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources except for weaknesses in arrangements for financial management resulting in the financial deficit in 2015/16 and the planned deficit for 2016/17. We therefore qualified our value for money conclusion in our report on the financial statements on 2 June 2016

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### **Consolidation template**

We also reported on the consistency of the consolidation schedules submitted to the Department of Health with the audited financial statements. We concluded that these were consistent.

### **Use of statutory powers**

We referred a matter to the Secretary of State under section 30 of the Local Audit and Accountability Act 2014. On 27 May 2016, we reported to the Secretary of State that the Trust would breach its statutory breakeven duty, that is the requirement for it to achieve a balanced financial position over a three year period.

### **Certificate**

We certified that we have completed the audit of the accounts of Epsom and St Helier University Hospitals NHS Trust in accordance with the requirements of the Code of Audit Practice.

### **Quality Accounts**

We completed a review of the Trust's Quality Account and issued our report on this on 27 June 2016. We concluded that the Quality Account and the indicators we reviewed were prepared in line with the Regulations and guidance.

### **Working with the Trust**

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 2016**

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# Audit of the accounts

## **Our audit approach**

### **Materiality**

In our audit of the Trust's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Trust's accounts to be £6,580,000, which is 1.75% of the Trust's gross revenue expenditure. We used this benchmark as in our view, users of the Trust's financial statements are most interested in where it has spent the income it made in the year.

We also set a lower level of specific materiality for certain areas such as cash, senior officer remuneration and auditors remuneration.

We set a lower threshold of £250,000, above which we reported errors to the Committee in our Audit Findings Report.

### **The scope of our audit**

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the Trust's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the annual report to check it is consistent with our understanding of the Trust and with the accounts on which we give our opinion.

We carry out our audit in line with ISA(UK&I)s and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Trust's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p><b>Financial support and going concern</b></p> <p>The Trust received financial support from the Department of Health due to the deficit incurred in 2015/16. It will require further support in 2016/17 to support the planned deficit budget.</p>	<p>As part of our audit work we considered:</p> <ul style="list-style-type: none"> <li>the 2015/16 outturn and cash funding requirements. In addition, we considered the setting of the 2016/17 budget and the impact of this on our audit responsibilities regarding the accounts and VFM work.</li> <li>how management obtained assurance that the Trust is a going concern for the foreseeable future and performed our own assessment of the appropriateness of the going concern assumption including consideration of the assurances obtained from the Trust Development Authority (TDA) as to the availability of cash support to meet liabilities in the next 12 months.</li> <li>the appropriateness of the disclosures to be made in the financial statements and Annual Governance Statement (AGS).</li> </ul> <p>We reported that:</p> <ul style="list-style-type: none"> <li>The Trust produced the accounts on a going concern basis as the Directors concluded that they had a reasonable expectation that the services provided by the Trust will continue for the foreseeable future.</li> <li>The Trust incurred an adjusted retained deficit of £25.8m for the year ended 31 March 2016. This final position was in line with the TDA control total of £25.8m, following a non-recurrent capital to revenue transfer of £2.6m.</li> <li>We tested both revenue and expenditure, concluding that we had sufficient and appropriate assurance that the reported year end deficit was not materially misstated.</li> <li>The Trust continues to face challenges uncertainties in relation to its financial position. The current 2016/17 budget anticipates a deficit of £31.9m, with a requirement for £15.5m of savings.</li> <li>The Trust requires significant cash support in 2016/17. At the time of audit, discussions were on-going with TDA around further access to loan funding to ensure that cash is available to enable liabilities to be met. However, TDA provided written assurances of support on the availability of cash to ensure the Trust is able to meet its liabilities over the next 12 months.</li> <li>Additional disclosures were requested and made within the financial statements and the AGS.</li> </ul>

# Audit of the accounts

Risks identified in our audit plan	How we responded to the risk
<p><b>Occurrence of healthcare income</b></p> <p>The Trusts received the majority of its income from NHS commissioners for healthcare services. The Trust invoices commissioners throughout the year based on agreed service level agreements. It reached year end agreement with key commissioners and accrues for activity in the final quarter.</p> <p>The Trust also received material and Education, Training and Research revenue.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• Documented our understanding of management's accounting policies and controls over revenue recognition of material revenue streams</li> <li>• Performed walkthrough testing to ensure controls were operating in line with our understanding</li> <li>• Reviewed and tested the Trust's revenue recognition policies</li> <li>• Review of Service Level Agreements and year end agreement with significant commissioners</li> <li>• Tested material revenue streams to supporting documentation and subsequent payment</li> <li>• Reviewed the results of the NHS Agreement of Balances exercise and investigated significant variances</li> </ul> <p>We identified one control issue in relation to revenue. There are no signed signature pages noting contract values for Hammersmith &amp; Fulham, Hounslow and Slough CCG's. There is therefore a risk that the Trust would not be able to enforce the agreement should the contract price be challenged, although we note that these were not significant contracts. We were however satisfied that the relevant income was correctly accounted for in the Trust's accounts.</p>
<p><b>Property, Plant and Equipment – Assets Under Construction valuation</b></p> <p>In our 2014/15 Audit Findings Report we reported to the Audit Committee the significant judgments made by management in respect of the Assets Under Construction balance. The Audit Committee and Board agreed to keep this under review and as a result of the review in 2015/16 and developments in the Estates Strategy the Trust impaired this balance in 2015/16.</p>	<ul style="list-style-type: none"> <li>• We held early discussions to consider and agree the accounting treatment of the Assets under Construction balance held by the Trust at 31 March 2015</li> <li>• We ensured that the agreed treatment of the impairment of the Assets Under Construction balance was correctly reflected in the financial statements.</li> </ul> <p>We did not identify any issues to report.</p>

# Audit of the accounts (continued)

Risks identified in our audit plan	How we responded to the risk
<p><b>Operating expenses</b> Expenditure on goods and services represent 38% of the Trust's total expenditure.</p> <p>Management uses judgement to estimate accruals of expenditure for amounts un-invoiced at the year end.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• Performed walkthrough testing to gain assurance that in-year controls were operating in accordance with our documented understanding</li> <li>• Documented the process in place for month and year end accruals</li> <li>• Reviewed control accounts</li> <li>• Performed cut-off and unrecorded liabilities testing</li> <li>• Reviewed the results of the Department of Health agreement of balances exercise</li> <li>• Tested a sample of expenditure items to gain assurance that it has occurred, been correctly classified, is accurate and relates to 2015/16</li> <li>• Tested a sample of creditors and accruals to gain assurance that these were accurate, existed at the year end and were correctly classified.</li> <li>• Considered the findings of the Independent Service Auditor's Report on Controls Placed in Operation and Tests of Operating effectiveness for the Period 1 April 2015 to 31 March 2016.</li> </ul> <p>We reported that:</p> <ul style="list-style-type: none"> <li>• Our audit work did not identify any significant issues in relation to the risk identified.</li> </ul>

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# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on the Trust's financial statements on 2 June 2016, in advance of the national deadline.

The Trust made the accounts available for audit in line with the national timetable for submission, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

## **Issues arising from the audit of the accounts**

We reported the key issues from our audit to the Trust's Audit Committee on 31 May 2016.

## **Annual Governance Statement and Annual Report**

We are also required to review the Trust's Annual Governance Statement and Annual Report. It provided the Annual Governance Statement on a timely basis. However we experienced delays in receiving a final version of the Annual Report for review which led to delays in issuing our opinion. We will work with the Trust to ensure that its Annual Report production timetable aligns more closely to the financial statements timetable in the future.

## **Whole of Government Accounts (WGA)**

We issued a group assurance certificate to the NAO in respect of Whole of Government Accounts, which did not identify any issues for the group auditor to consider

## **Other statutory duties**

We are also required to refer certain matters to the Secretary of State under section 30 of the Local Audit and Accountability Act 2014. On 27 May 2016, we reported to the Secretary of State that the Trust would breach its statutory breakeven duty, that is the requirement for it to achieve a balanced financial position over a three year period on the following basis:

- The Trust recorded a deficit of £25.8m in its financial statements, although this was in line with the revised agreed control total of a £25.8m deficit.
- In March 2016, the Trust agreed a draft deficit budget of £31.9m for the year ending 31 March 2017.
- Given the planned deficit in 2016/17 and the deficit accumulated to 31 March 2016, the Trust's expenditure exceeded income for the three year period ending 31 March 2016 and is likely to exceed income for the three year period ending 31 March 2017.

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# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

## Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work. The key risks we identified were:

- the Trust's financial performance for the year ending 31 March 2016 and
- projected financial performance over the medium term and
- the Trust's performance in respect of the Care Quality Commission's findings.

In arising at our conclusion our main consideration were:

## Financial performance

The Trust originally set a break even budget for 2015/16. However during the year the Trust undertook an exercise to review the underlying deficit of the Trust and identified significant non-recurrent measures utilised in previous years which increased the underlying deficit position.

In addition, the Trust faced significant challenges within the financial year as a result of:

- cost pressures/ unplanned costs - including cost pressures arising from the CQC inspection, new consultant posts, and non-pay costs
- income shortfalls relating to private patient income and use of penalties
- a shortfall against the Cost Improvement Plan

A revised control total was agreed with the Trust Development Authority. The Trust's financial statements reported an adjusted retained deficit of £28.4m which was achieved the agreed control total following a £2.6m capital to revenue transfer and other non-recurrent measures.

To address the resulting impact on the Trust's cashflow it agreed in principle a loan agreement with the Department of Health for £39.6m, although formal agreement has not been received at the time of our audit.

The Trust's Operational plan forecasts a deficit of £31.9m in 2016/17, around 8% of expenditure. The budget is based on the work in 2015/16 on the underlying deficit and has taken into account investments as a result of the CQC inspection and other cost pressures. The key contracts agreed with the Trust's main commissioners are in line with the agreed budget.

Whilst the Trust achieved its revised control total in 2015/16, this was a significant variation from the original budget and required the use of non-recurrent measures. The Trust's budget for 2016/17 shows a deterioration in the 2015/16 outturn position and as a result the Trust continues to face financial challenges. We therefore concluded that this was evidence of weaknesses in proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

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# Value for Money conclusion (cont)

## Quality

The CQC visited the Trust during November 2015 and reported in May 2016, prior to the conclusion of our audit.

The overall rating for the Trust was assessed as "requires improvement". We considered the issues raised in the report particularly those areas identified as requiring improvement and the Trust's response communicated in the Quality Summit. In a number of areas, the Trust was already taking action to address to addressed issues raised by the inspection prior to the issue of the report.

We were satisfied that the report did not highlight any additional significant risks in relation to inadequate arrangements relevant to our conclusion and responsibilities.

## Overall VFM conclusion

We are satisfied that, in all significant respects, except for the weaknesses in proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions, the Trust had proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

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# Quality Accounts

## The Quality Account

The Quality Account is an annual report to the public from NHS Trusts about the quality of services they deliver. It allows Trust Boards and staff to show their commitment to continuous improvement of service quality, and to explain progress to the public.

## Scope of work

We carry out an independent assurance engagement on the Trust's Quality Account, following Department of Health (DH) guidance. We give an opinion as to whether we have found anything from our work which leads us to believe that:

- the Quality Account is not prepared in line with the DH criteria;
- the Quality Account is not consistent with other documents specified in the DH guidance; and
- the two indicators in the Quality Account where we carry out detailed work are not compiled in line with the DH regulations and meet expected dimensions of data quality.

## Key messages

- We confirmed that the Quality Account had been prepared in line with the requirements of the Regulations.
- We confirmed that the Quality Account was consistent with the sources specified in the Guidance.

- We confirmed that the commentary on indicators in the Quality Account was consistent with the reported outcomes.
- Our testing of two indicators included in the Quality Account found that these were materially reasonably stated in accordance with the Regulations and six dimensions of data quality.

## Quality Account Indicator testing

We tested the following indicators:

- percentage of patients risk-assessed for venous thromboembolism (VTE) and
- rate of clostridium difficile infections.

We reviewed the process used to collect data for the indicator. We checked that the indicator presented in the Quality Report reconciled to the underlying data. We then tested a sample of patient records to check the accuracy, completeness, timeliness, validity, relevance and reliability of the data, and whether the calculation is in accordance with the definition.

Based on the results of our procedures, nothing came to our attention that caused us to believe that the indicators we tested were not reasonably stated in all material respects.

## Conclusion

As a result of this we issued unqualified conclusion on your Quality Account.

# Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and provision of non-audit services.

## Fees

	Planned £	Actual £
Statutory audit	72,077	72,077
Charitable fund	2,081	2,081
<b>Total fees</b>	<b>74,158</b>	<b>74,158</b>

## Fees for other services

Service	Fees £
Quality Accounts	10,000

## Reports issued

Report	Date issued
Audit Plan	8 April 2016
Audit Findings Report	31 May 2016
Annual Audit Letter	26 July 2016



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