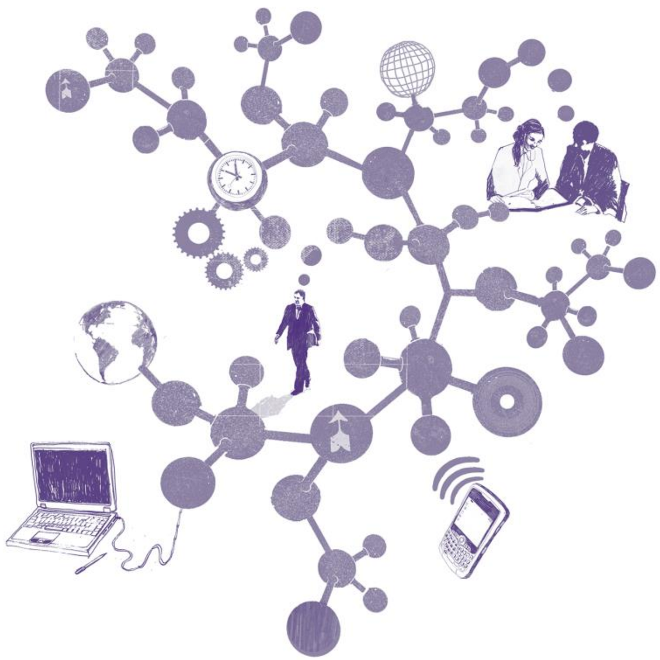
The Annual Audit Letter for Epsom and St Helier University Hospitals NHS Trust

Year ended 31 March 2017

28 July 2017



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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 2017.

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 30 May 2017.

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 1 June 2017.

We included an emphasis of matter paragraph in our report on the Trust's financial statements to draw attention to the note which explains the basis on which the Trust has determined that it is still a going concern. This does not affect our opinion that the statements give a true and fair view of the Trust's financial position and its income and expenditure for the year.

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 the Trust's underlying financial deficit. We therefore qualified our value for money conclusion in our report on the financial statements on 1 June 2017.

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, as required by section 30 of the Act, on 27 May 2016 because we have reason to believe that the Trust has taken a course of action that, if followed to its conclusion, will lead to a breach of the Trust's statutory breakeven duty, that is the requirement for it to achieve a balanced financial position over a three year period.

Certificate
We certify 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 29 June 2017. We concluded that the Quality Account and the indicators we reviewed were prepared in line with the Regulations and guidance.

Working with the Trust

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in May, delivering the accounts 3 days before the deadline, with the sign off taking place of 1 June 2017 following the finalisation of the Annual Report.
- Understanding your operational health – through the value for money conclusion we provided you with an independent review of your operational effectiveness.
- Providing assurance over data quality – we provided assurance over two key indicators.
- Sharing our insight – we held regular liaison meetings with management, provided regular audit committee updates covering best practice and shared our thought leadership reports.

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
28 July 2017

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 £7,125k, which is 1.75% of the Trust's gross revenue expenditure. We used this benchmark because we considered users of the Trust's financial statements were most interested in how it has spent the income it has 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 £250k, above which we would have reported errors to the Audit 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 ISAs (UK and Ireland) 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 in table 1 the work we performed in response to these risks and the results of this work.

Audit of the accounts (continued)

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	Work completed	Assurance gained and issues arising
1.	**Under ISA(UK&I)240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.** For this Trust, we have concluded that the greatest risk of material misstatement relates to the occurrence/ existence of Healthcare revenue and receivables and Education, Training and Research revenue.	• Documented our understanding of management's accounting policies and controls over revenue recognition of material revenue streams • Reviewed and tested the Trust's revenue recognition policies • Reviewed the results of the NHS Agreement of Balances exercise and investigated significant variances • Reviewed documentation and evidence of year-end agreements with significant commissioners • Tested other material revenue streams	Our audit work has not identified any issues to date in respect of revenue recognition. We have requested that the Trust provide further disclosure on the capital to revenue transfer which the Trust has agreed to amend. We have not identified any control issues.
2.	**Management override of controls** Under ISA(UK&I)240 there is a presumed risk that management will over-ride controls. This risk is present in all entities.	• Reviewed significant accounting estimates, judgments and decisions made by management • Tested journal entries including closedown journals • Reviewed unusual and/or significant transactions	Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries to date has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgements.

Audit of the accounts (continued)

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	**Going Concern** We are required to consider the appropriateness of management's use of the going concern assumption in the preparation of the financial statements and consider whether there are material uncertainties about the entity's ability to continue as a going concern that need to be disclosed in the financial statements. The Department of Health Group Accounting Manual 2016/17 requires trading entities to consider whether it is appropriate to continue to prepare its financial statements on a going concern basis where it is being, or is likely to be, wound up. However it also requires that where an entity ceases to exist, it should consider whether or not its services will continue to be provided (using the same assets, by another public sector entity) in determining whether to use the concept of going concern in its final set of financial statements. IAS 1 Presentation of Financial Statements requires that when management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties.	Throughout the course of our audit we performed the following: • We considered the final 2016/17 outturn and cash funding requirements. In addition, we considered the setting of the 2017/18 budget and the impact of this on our audit responsibilities regarding the accounts and VFM work. • We considered how management has 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. These processes included an assessment of the ability of the Trust to discharge its liabilities as they fall due for a period of at least 12 months after the date of the signing of the accounts. • We have reviewed the Trust's cashflow forecasts for the 14 month period to May 2018. The forecast is based on delivery of the required savings of £15 million and includes the need for additional support; £17.438 million if all savings are achieved. Further detail around the various scenarios, using the Trust's own figures are set out in appendix B. These show a range of possible outcomes from a deficit of £17.8 million, if all savings are delivered, to a deficit of £33.1 million if £10 million of savings are delivered. The likely impact of no savings being delivered is a reduction in cash or an increase in creditors or a combination of the two.	• The Trust has produced the accounts on a going concern basis as the Directors have a reasonable expectation that the services provided by the Trust will continue for the foreseeable future. • The Trust incurred an adjusted retained deficit of £12,687m for the year ended 31 March 2017. This final position was less than the NHSI control total of £15,053m. • We have tested both revenue and expenditure, concluding that we have sufficient and appropriate assurance that the reported year end deficit is not materially misstated. • We have completed a review of the financial performance of the Trust as part of our VFM work. This has identified that that Trust has been able to deliver savings of £13.2m in 2016/17, in line with plan. • The Trust continues to face challenges and uncertainties in relation to its financial position. The current 2017/18 budget anticipates a deficit of £17.832m, with a CIP savings requirement for £15m. This budget includes £10.332 m of Sustainability and Transformation Funding. • We have reviewed the cash flow forecast prepared by the Trust up to May 2018 which highlights a requirement for £17.438m cash support in the year through access to an Uncommitted Term Loan. The Trust can draw down the loan on a monthly basis up to a maximum of the planned deficit for the month as per the plan submission on 30th March 2017. • Additional disclosures have been included within the financial statements and the AGS to reflect the current position of the Trust. These disclosures have been reviewed and are considered to be appropriate. We have yet to complete our review of the disclosures in the annual report. • The Trust has considered the material uncertainties in respect of going concern, underpinned by sensitivity analysis, and has made the appropriate disclosures required in the financial statements. We have drawn attention to these disclosures in our Auditor's Report as an Emphasis of Matter (see Appendix A).

Audit of the accounts (continued)

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
		• The Trust has included additional disclosure in the accounts in relation to the financial position. This disclosure has been added to Note 1.1 - Accounting Policies – Going Concern. • We have considered the appropriateness of the disclosures made in the financial statements and AGS.	See above
4.	**PPE (Land Disposal)** There is a risk that the sale of land to the London Borough of Sutton is not disclosed accurately.	• We inspected the relevant documents that support the sale (signed contracts, transfer deeds, etc.) • We have recalculated the profit on sale of the asset. • We have agreed the sales price to the contract as well as cash receipts. • We have ensured depreciation associated with the disposed assets has been appropriately written off. • We have ensured disclosure around the sale is adequate and appropriate.	Our work has not highlighted any concerns with regards to the timing and potential cut-off issues related to the sale as the relevant documents reflect a completed sale prior to year end. Recalculation of the profit on sale has indicated that the profit has been correctly calculated and this has been adequately disclosed in the accounts. All depreciation related to the disposed assets has been eliminated as part of the sale with no issues identified.

Audit of the accounts (continued)

Audit opinion

We gave an unqualified opinion on the Trust's financial statements on 1 June 2017, 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 30 May 2017.

Annual Governance Statement and Annual Report

We are also required to review the Trust's Annual Governance Statement and Annual Report. No significant issues were noted from the completed reviews.

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.

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 risks identified were:

- Financial Performance. The Trust has a forecast year end deficit for 2016/17 of £15,1 million and as at Month 8 the Trust had a year to date deficit of £11,5 million. The Trust has a revolving working capital facility of £39.2 million which was fully utilised in August, however more funding has been arranged via an Uncommitted Term Loan (Approved). We will continue to consider the arrangements that are being put in place to work towards a sustainable financial future for the Trust. The Trust is planning to meet its control total through the non recurrent disposal of land.
- CQC inspection. The latest published report by the Care Quality Commission in June 2016 rated the Trust as requiring improvement overall.

In arriving at our conclusion, our main considerations were:

Financial performance:

Whilst the Trust came within its control total of £15.1m and reported a deficit of £12.687m, it required significant cash support to deliver this.

The Trust achieved this performance through a receipt of £13.142m of Sustainability and Transformation funding for delivering the financial and performance targets, £1.842m bonus and incentive payments for delivering the financial plan, the profit of £11.140m on disposal of surplus land at its Sutton site (a non-recurrent transaction) and saving £13.179m through its cost improvement programme.

The Trust has submitted its plan for 2017/18 with a forecast deficit of £17.832m. This includes receipt of £10.332m of funding from the Sustainability and Transformation Fund and a CIP requirement of £15m.

Further revenue support on a monthly basis up to a maximum of the planned deficit of £17.832m is required in 2017/18 and the final nature of this funding is yet to be agreed.

The Trust has a planned capital programme for 2017/18 of £42.5m, which will include £3.9m on new medical equipment, £2.8 on Information Technology, £10m on energy saving projects, £9m on addressing urgent repairs on Blocks B and C at St Helier and £5m on a new ITU/ HDU/CCU.

This will be funded from internally generated funds and subject to approval from NHS Capital Investment Loans or Public Dividend Capita. It also plans to secure a loan for energy saving projects from funding available to public sector to reduce its carbon foot print.

We have concluded that except for the scale of the deficit in 2016/17 and the significant CIP challenges in 2017/18, the Trust has proper arrangements in all significant respects.

CQC inspection:

- We reviewed the CQC Action Plan – Progress Report presented to the Trust Executive Committee on 17th May 2017.

- Whilst significant progress has been made across all divisions in the Trust and the most significant actions have been addressed, 12% of actions remain in progress.

Value for Money conclusion

The Trust has satisfactory arrangements in place and remains on course to address the findings raised by CQC.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that, except for the matter we identified in respect of the underlying financial position, the Trust had proper arrangements in all significant respects. We therefore propose to give a qualified 'except for' conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources.

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 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:

- C. difficile infection rate per 100,000 bed-days (patients aged 2 or over)
- Percentage of patients risk-assessed for VTE

We reviewed the process used to collect data for these indicators. We checked that the indicators presented in the Quality Report reconciled to the underlying data. We then tested a sample of patients in order to ascertain the accuracy, completeness, timeliness, validity, relevance and reliability of the data, and whether the calculations were in accordance with the definition.

Based on the results of our procedures, nothing came to our attention that causes us to believe that, for the year ended 31 March 2017, the indicators have not been reasonably stated in all material respects.

Conclusion

As a result of this we issued an 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 fees £
Statutory audit	72,077	72,077
Additional fees in respect of asset existence	0	10,000
Charitable fund audit	2,081	2,081
Total fees	**74,158**	**84,158**

Fees for other services

Audit related services	Fees £
Assurance on your quality report	10,000

Reports issued

Report	Date issued
Audit Plan	March 2017
Audit Findings Report	May 2017
Annual Audit Letter	July 2017

GrantThornton

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