



Annual Audit Letter 2017-18

Epsom and St. Helier University Hospitals NHS Trust

August 2018

Contents

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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 2017-18 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 the letter on the Trust's website. In the letter we highlight areas of good performance and also explain where we have raised recommendations to help the Trust improve performance. 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 Annual 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 also confirm that the Trust has complied with the Department of Health (DoH) 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 (VFM) arrangements	We conclude on the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the Trust's use of resources.

Adding value from the External Audit service

We have added value to the Trust from our service throughout the year through our:

- Attendance at meetings with members of the Executive Team and Audit Committee to present our audit findings, broaden our knowledge of the Trust and to provide insight from sector developments and examples of best practice;
- A proactive and pragmatic approach to issues arising in the production of the financial statements to ensure that our opinion is delivered on time; and
- Building a strong and effective working relationship with Internal Audit to maximise assurance to the Audit Committee, avoid duplication and provide value for money.

Fees

Our fee for the audit was £45,874 plus VAT. This fee was in line with that highlighted within our audit plan agreed by the Audit Committee in January 2018. Our fee for the external assurance on the quality accounts was £7,000 plus VAT. 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.

Headlines

This section summarises the key messages from our work during 2017-18.

Value for Money (VFM) conclusion

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:

- 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.

In 2017/18 the Trust exceeded (i.e. did better than) its agreed control total of a £17.8m deficit by £4.4m. The Trust's actual outturn was closely aligned to its original forecast, showing the Trust has appropriate processes in place for forecasting financial performance and managing in year performance. The Trust forecast CIPs savings of £15m for 2017/18 and surpassed this by making £15.75m in savings.

The Trust faces significant challenges due to the condition of its estate, particularly at the St. Helier site, which was highlighted by the CQC in their previous inspection in May 2016. The Trust has an Estates strategy which focuses on reducing the level of backlog maintenance that is required across both sites by 2021. The condition of the Trust's estate puts significant financial pressure on the Trust for the 2017/18 and future years. This is acknowledged by the CQC, and reflected in the deficit budget for 2018/19 that the Trust has agreed with NHS Improvement.

The Trust has delivered deficit positions six of the last seven financial years, and has agreed a deficit budget with NHS Improvement of £13.7m for 2018/19. The Trust has analysed the cause of the underlying deficit, the main underlying reason being the level of backlog maintenance required to the Trust's estate. The plan submitted to NHSI for the 2018/19 financial year is based on a reduction in the underlying deficit of £4.3m compared to 2017/18.

As a result of this financial pressure across multiple years, we issued a qualified opinion to the Trust. The Local Audit and Accountability Act requires us to express this as: *'We are unable to satisfy ourselves that, in all significant respects Epsom and St. Helier University Hospitals NHS Trust put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources for the year ended 31 March 2018'.*

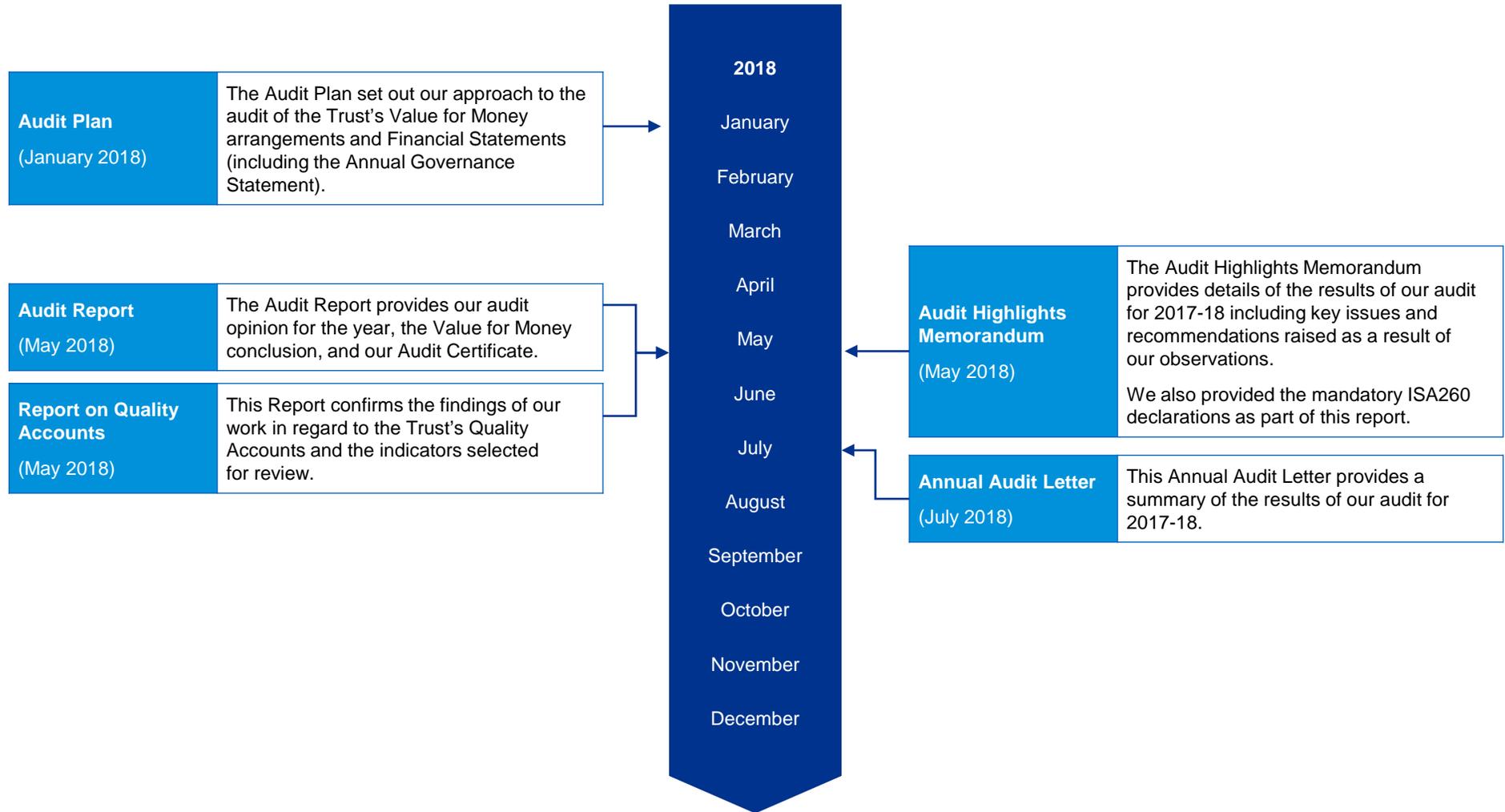
Headlines (cont.)

<p>Value for Money conclusion risk areas</p>	<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.</p> <p>Our work identified one significant risk relating to long term financial stability. The NHS provider sector as a whole faces increasing financial pressure as the level of income received is not increasing in line with demand. This pressure means that deploying resources in a sustainable manner is an increasing challenge across the sector. The Trust has agreed a control total of £17.8m deficit with NHS Improvement for 2017/18. The Trust exceeded its in-year budget agreed with NHSE by posting an in-year deficit of £13.4 million against a turnover of £398.6 million.</p> <p>In response to this risk we considered how the Trust is managing its long term financial position. We found that the Trust monitors financial sustainability risks and risks relating to the estate through its risk register, which is monitored by the Trust's Audit Committee and Board of Directors. The Trust has developed a recovery plan to address these known issues.</p>
<p>Financial Statements audit opinion</p>	<p>We issued an unqualified opinion on the Trust's accounts on 25 May 2018. 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>The Trust has agreed a control total with NHSI and will continue to provide services to the public over the next financial year. The Directors of the Trust, in line with public sector reporting requirements, highlighted the financial position of the Trust as leading to a material uncertainty over the Trust's ability to continue as a going concern due to additional cash support of £14.1m required from the Department of Health, which had not been confirmed at the date of the accounts. As part of our opinion we sought to emphasise these uncertainties so that it was clear the financial pressure the Trust is required to work within.</p> <p>We received a good quality first draft of the accounts and annual report from the Trust. We did not identify any significant audit adjustments through our work.</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 £7.8m (2016-17: £7.1m).</p> <p>We identified the following risk of material misstatement in the financial statements as part of our External Audit Plan 2017-18:</p> <ul style="list-style-type: none"> — Valuation of Land and Building Assets - We found that depreciation had been appropriately calculated, and that additions and disposals could be agreed to underlying records. We found the note to be complete and accurate based on our reconciliation to the FAR. We also reviewed the impairment exercise carried out by management. We found the process that had been undertaken to identify all assets that indicated signs of impairment was robust, and our valuation specialist found that the judgements made by the third party valuer were appropriate. — Going Concern - The Trust has disclosed that there is a material uncertainty over the Trust's ability to continue as a going concern. We found the disclosure to be accurate and appropriately reflected the Trust's position. We suggested that income risks could be more clearly articulated, which was incorporated into the final version of the accounts.

Headlines (cont.)

Financial statements audit work undertaken	<ul style="list-style-type: none"> — Fraud risk from revenue recognition - Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. As the Trust's additional STF funding is contingent on it meeting a pre-agreed control total, there is increased incentive around revenue recognition. We performed the following procedures to assess the completeness, existence and accuracy of revenue. We have no findings to note from these procedures — Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our procedures, including testing of journal entries, accounting estimates and significant transaction outside the normal course of business, did not identify any instances of material fraud.
Annual Governance Statement	<p>We have also confirmed that the Trust have complied with the Department of Health requirements in the preparation of the Trust's Annual Governance Statement. No significant adjustments were required to the Annual Governance Statement.</p>
Recommendations	<p>We are pleased to report that there are no new high risk recommendations arising from our 2017-18 audit work.</p> <p>The Trust has been good at implementing agreed audit recommendations from prior years.</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 referred the Trust to the Secretary of State under s30 of the Local Audit and Accountability Act 2014, as the Trust has breached it's breakeven duty over a five year period.</p>

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.

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