

Imperial College Healthcare
NHS Trust

Annual Audit Letter

Year ended 31 March 2015

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Executive summary

We have pleasure in setting out in this Annual Audit Letter the main findings and conclusions from our external audit work for Imperial College Healthcare NHS Trust ("the Trust") for the year ended 31 March 2015.

This executive summary highlights the most significant matters which we would like to bring to your attention. It should, therefore, be read in conjunction with the following sections of this letter and the appendices thereto.

Status	Description	Detail
Audit of the financial statements		
We issued an unmodified opinion on the Trust's financial statements for the year ended 31 March 2015	<p>We are pleased to report that we issued an unmodified opinion on the Trust's 2014/15 financial statements on 4 June 2015, within the deadline set by the Department of Health of 5 June 2015. Our opinion confirmed that the financial statements gave a true and fair view of the Trust's financial position and of the income and expenditure for the year ended 31 March 2015. We reported the findings of our audit to the Trust's Audit Committee on 27 May 2015. Control recommendations that were raised as a result of our audit work have been summarised in Appendix 3.</p> <p>We received a complete set of draft financial statements in advance of the 23 April 2015 deadline set by the Department of Health. The main areas of audit focus included, but were not limited to:</p> <ul style="list-style-type: none">• recognition of NHS revenues including impairment of NHS receivables;• property valuation;• management override of controls; and• recognition of provisions. <p>Based on our procedures, we concluded that the Trust's financial statements were not materially misstated.</p>	Page 6
Certificate		
We issued our certificate on 4 June 2015	<p>We certify that we have completed the audit of the accounts of Imperial College Healthcare NHS Trust in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.</p>	

Executive summary (continued)

Status	Description	Detail
Accounting policies		
No significant issues were noted during our procedures	As part of our audit, we considered the quality and acceptability of the Trust's accounting policies and financial reporting and no significant issues were identified from our procedures.	
Value for Money		
The Trust has forecast an £18.5m deficit in its annual plan for 2015/16. We have therefore qualified our value for money conclusion in this respect	<p>We are required to issue a value for money ("VfM") conclusion within our report on the financial statements. We are required to base our VfM conclusion on two criteria specified by the Audit Commission:</p> <ul style="list-style-type: none">• the organisation has proper arrangements in place for securing financial resilience; and• the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness. <p>In accordance with the Audit Commission's Code of Audit Practice we have performed our work based on the significant risks to our VfM conclusion. As part of our planning procedures we completed a risk assessment and designed our procedures to respond to the risks identified, being:</p> <ul style="list-style-type: none">• the ability of the Trust to deliver its 2014/15 and 2015/16 cost improvement plans ("CIPs");• the implementation of Cerner Millennium, a new patient administrations system; and• delivery of quality patient care in light of recent CQC findings. <p>We have obtained an understanding of the Trust's arrangements for securing value for money. Our procedures included:</p> <ul style="list-style-type: none">• discussions with management;• review of minutes of key meetings; and• review of supporting documentation. <p>The Trust achieved an adjusted surplus of £15.4m in the year following the agreement reached in relation to Project Diamond funding, where the Trust has booked income of £24.4m. This funding is not expected to recur in 2015/16. The Trust achieved £34.4m of the planned £49.3m of CIP in the year. However, the Trust's plan for 2015/16 shows an £18.5m deficit and we are required to highlight this issue in our VfM conclusion.</p>	Page 9
Qualification of the value for money opinion		
We have identified an exception to our value for money conclusion, in relation to the Trust's plan for 2015/16 which shows that it will not achieve a 2015/16 in-year break-even position.		

Executive summary (continued)

Status	Description	Detail
Quality Accounts		
The Quality Account was prepared in accordance with the relevant guidance	<p>No issues came to our attention that would cause us to believe that the content of the Quality Account was not in accordance with the relevant guidance.</p> <p>We have also performed sample data testing of two performance indicators; the rate of Clostridium Difficile and incidents resulting in severe harm or death. Our work considered:</p> <ul style="list-style-type: none">• The quality of the data supporting the indicator, compared to the six dimensions of data quality.• Whether the indicators have been reported in accordance with the Department of Health requirements.• Whether recommendations from last year have been implemented. <p>As a result of our work we have issued a limited assurance report in accordance with the guidance issued by the Audit Commission.</p>	Page 10
Independence and objectivity		
We remain independent and objective	<p>An analysis of audit fees for the year ended 31 March 2015 is shown in the appendices to this letter.</p> <p>In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit partner and audit staff is not impaired.</p>	Appendix 2

1. Introduction

Purpose of this letter

The purpose of this Annual Audit Letter is to summarise the key issues arising from the audit work that we have carried out during the year. Although this letter is addressed to the directors of the Trust, it is also intended to communicate the significant issues we have identified, in an accessible style, to key external stakeholders, including members of the public. The letter will be published on the Audit Commission website and on the Trust's website.

This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued on the Audit Commission website.

Responsibilities of the auditor and the Trust

We have been appointed as the Trust's independent external auditor by the Audit Commission, the body responsible for appointing auditors to local public bodies in England, including NHS Trusts.

As the Trust's external auditor, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key risks to the Trust achieving its objectives. It is the responsibility of the Trust to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

Scope of our work

Our main responsibility as your appointed auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice ("the Code"). Under the Code, we are required to review and report on:

- the Trust's financial statements;
- whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness ('value for money') in its use of resources; and
- examine the content of the Quality Account to ensure that it complies with the Quality Account Regulations.

This letter summarises the significant issues arising from these areas of work and highlights the key recommendations that we consider should be addressed by the Trust. A list of all reports issued to the Trust in relation to the 2014/15 audit is provided in Appendix 1.

Qualification of the value for money opinion

We have identified an exception to our value for money conclusion, in relation to the Trust's plan for 2015/16 which shows that it will not achieve a 2015/16 in-year break-even position.

2. Audit of the financial statements

We issued an unqualified opinion on the Trust's accounts on 4 June 2015 in advance of the deadline set by the Department of Health. Our opinion confirmed that the financial statements gave a true and fair view of the Trust's financial position and of the income and expenditure recorded by the Trust for the year ended 31 March 2015.

Please refer to Appendix 3 for a summary of recommendations made as a result of our work in relation to the financial statements for the year ended 31 March 2015.

Before we give our opinion on the financial statements, we are required to report to the Trust's Audit Committee significant matters arising from the audit. A detailed report was presented to the Trust's Audit Committee on 27 May 2015. Set out below is a summary of the points issued in that report:

Unadjusted audit misstatements

Uncorrected misstatements identified decrease the surplus by £0.2 million and decrease net assets by £0.2 million. Management has concluded that the total impact of the uncorrected misstatements, both individually and in aggregate, is not material in the context of the financial statements taken as a whole.

Disclosure deficiencies

Auditing standards require us to highlight significant disclosure deficiencies to enable Audit Committees to evaluate the impact of those matters on the financial statements. No significant disclosure deficiencies were noted during our audit.

Financial standing

NHS Trusts have a number of key statutory financial duties (summarised below), all of which the Trust met:

- Cumulative breakeven on income and expenditure:
 - The Trust achieved a cumulative surplus, since formation, (after adjusting for impairments and restatements) of £68,851k;
- Keep within the capital resource limit (CRL) of £33,000k:
 - The Trust recorded an underspend against the CRL of £120k; and
- Remain within the external financing limit (EFL) of £6,235k:
 - The Trust recorded an undershoot against the EFL of £820k.

The 2015/16 financial plan presents a budgeted deficit (before technical adjustments) of £18.5 million for the year (2014/15 surplus (before technical adjustments) of £15.4 million). We recommend that the Trust continues to monitor progress against its cost improvement plan and takes action to identify any additional savings that may be required.

2. Audit of financial statements (continued)

Areas of audit focus

Recognition of NHS revenues including provision for the impairment of NHS receivables

We identified recognition of NHS revenue and the impairment of receivables as a significant risk due to the complexity of the payment by results regime and the new relationships with major funders (NHS England and Clinical Commissioning Groups) for 2014/15, in particular:

- determining the level of activity above the contracted amount to recognise;
- the judgemental nature of provisions for disputes with commissioners, including those in respect of outstanding activity above the contracted amount; and
- the risk of revenue not being recognised at fair value due to adjustments agreed in settling current year disputes and agreement of future year contracts.

In the prior year we concluded that the provision for NHS receivables was towards the lower end of an acceptable range. In the current year, the provision has remained at this end of the acceptable range, being:

- 15% (2013/14: 15%) for agreed NHS debtors;
- 10% (2013/14: 10%) for accrued debtors; and
- 25% (2013/14: 25%) for disputed debtors.

The increased level of NHS debt at 31 March 2015 (£85.5 million) compared with prior year (£59.7 million) has a direct effect on the year end cash balance. Since the PDC dividend calculation excludes cash held in Government banking service (GBS) accounts, this has meant an increase in the PDC payable of approximately £0.9m compared with the prior year position. No significant issues were identified in our testing.

Property valuation

International Financial Reporting Standards requires revaluations to be made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. During 2014/15 the Trust commissioned an external valuer, GVA, to perform a full valuation of its land as at 31 July 2014, followed by a desktop revaluation of its land and buildings as at 31 December 2014. This resulted in the recognition of an impairment charge to operating expenses of £123.8 million, and a debit of £39.1 million to the revaluation reserve.

We engaged our property specialists, Deloitte Real Estate, to challenge the assumptions and review the methodology used to value the Trust's estates. The large impairment of land is primarily owing to a change of estimate to revalue the land based on a hypothetical alternative site. This has resulted in a significant reduction in the land value as recorded in the financial statements. Whilst we have concluded that this is acceptable under the current valuation and accounting requirements and standards, we have not seen this treatment elsewhere and consider the Trust to be an outlier in this respect.

We do not consider the Trust's valuation of property, plant and equipment in the current or prior year to be materially misstated.

2. Audit of financial statements (continued)

Areas of audit focus (continued)

Management override of controls

International Standards on Auditing require us to identify a presumed significant risk in relation to management override of key controls.

Our audit work is designed to test management override of controls and key estimates. We have discussed separately above the work we have performed in relation to the significant risks identified for specific accounting estimates for revenue recognition and property valuations. Additionally, we performed testing on a sample of journal entries which exhibit higher risk factors, for example those of unusually high value, posted on non-working days, or those posted by infrequent posters. No issues have been identified from our procedures.

Recording of provisions

Provisions by their nature require a significant degree of management judgement, and as such is an area of focus for our audit. The overall provision balance of the Trust at 31 March 2015 was £40.8 million (2013/14: £42.2 million), which comprised legal claims of £0.1 million, other provisions of £40.5 million and redundancy provisions of £0.2million.

We have assessed the overall level of provisions held by the Trust, and consider them to be appropriate.

3. Value for money conclusion

Scope of work

We are required to issue a Value for money ("VfM") conclusion within our report on the financial statements. We are required to base our statutory VfM conclusion on two criteria specified by the Audit Commission:

- the organisation has proper arrangements in place for securing the financial resilience; and
- the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Work performed

The guidance issued by the Audit Commission requires the auditors to perform a risk assessment on factors that may affect their value for money consideration. The following risks were identified as part of our procedures:

Financial resilience

- the ability of the Trust to deliver its 2014/15 and 2015/16 cost improvement plans ("CIPs").

Economy, efficiency and effectiveness

- the implementation of Cerner Millennium, a new patient administrations system; and
- quality of care and recent CQC report findings.

We completed our work in accordance with the Audit Commission guidance in respect of the Trust's arrangements to secure financial resilience and economy, efficiency and effectiveness in its use of resources. Our audit procedures included interviews of Trust management and review of supporting documentation to enable us to form a conclusion on the Trust's arrangements, in accordance with the VfM conclusion guidance set out by the Audit Commission.

Qualification to our conclusion

We obtained the updated annual plan (issued on 15 May 2015), which shows a forecast deficit for the year ending 31 March 2016. The value for money guidance is such that it states that an example demonstrating that appropriate arrangements were in place would include a balanced budget for the following year, and as such, we ***consider this to be an exception to our conclusion.***

4. Quality Accounts

Scope of procedures

Under the Health Act 2009 and the National Health Service (Quality Accounts) Regulations 2010, providers of NHS care are required to prepare and publish Quality Accounts for each financial year from 2009/10. Auditors are required to examine the content of the Quality Accounts to ensure that it complies with the Quality Accounts Regulations.

In addition, guidance issued by the Audit Commission for 2014/15 set out that auditors of acute trusts would be required to test:

- two of the following four indicators, to be agreed with the Trust's management:
 - percentage of patients risk-assessed for venous thromboembolism (VTE);
 - rate of clostridium difficile (C. Diff) infections;
 - percentage of patient safety incidents resulting in severe harm or death; or
 - FFT (friends and family test) patient element score.

The Trust selected C. Diff and the percentage of patient safety incidents resulting in severe harm or death as their indicators to be subjected to our limited assurance procedures. Our procedures in relation to these indicators involve comparing trust data to the underlying records. We do not undertake to make any clinical judgements in relation to the accuracy of the data.

We have completed our responsibilities in respect of the Quality Account for the year to 2014/15.

Results of our procedures

Arrangements review

No issues came to our attention that would cause us to believe that the content of the Quality Account was not in accordance with the relevant guidance.

Performance indicator testing

We undertook detailed data testing of the indicators set out above and have no issues to report.

The results of the Quality Account review and our own procedures, set out above, support the value for money conclusion in Section 3.

5. Closing remarks

We have discussed this letter with the Interim Chief Financial Officer.

We would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the course of the audit. Our aim is to deliver a high standard of audit which makes a positive and practical contribution and supports the Trust's own agenda. We recognise the value of your co-operation and support.

We view this report as part of our service to you for use as Directors of Imperial College Healthcare NHS Trust for Corporate Governance purposes and it is to you alone that we owe a responsibility for its contents.

The matters raised in this report are only those that came to our attention during our audit and are not necessarily a comprehensive statement of all weaknesses that exist or of all improvements that might be made. You should assess recommendations for improvements for their full implications before they are implemented. In particular, we would emphasise that we are not responsible for the adequacy and appropriateness of the national use of resources study data and methodology as they are derived solely from the Audit Commission.

It is the responsibility of audited bodies to maintain adequate and effective financial systems and to arrange for a system of internal controls over the financial systems. Auditors should evaluate significant financial systems and the associated internal controls and, in doing so, be alert to the possibility of fraud and irregularities. Our findings are based upon an assessment of the design of controls at the time of review. We did not necessarily review the operation of controls throughout the financial year.

Deloitte LLP
Chartered Accountants

29 June 2015

Appendix 1: Reports issued in relation to the 2014/15 audit

Report	Audit Committee date/report date
Annual audit letter for the year ended 31 March 2014	22 July 2014
Planning report including Value for money risk assessment for the year ended 31 March 2015	28 August 2014
Interim update report to the Audit Committee (1)	3 December 2014
Interim update report to the Audit Committee (2)	3 March 2015
Final report to the Audit Committee on the 31 March 2015 audit, including Value for money conclusions	27 May 2015
Quality Accounts External Assurance Report for year ended 31 March 2015	27 May 2015

Appendix 2: Analysis of professional fees

The professional fees earned by Deloitte in the period from 1 April 2014 to 31 March 2015 are as follows:

	Current year £'000	Prior year £'000
Audit of the Trust	182.4	182.4
Other audit related services – Quality accounts work	19.4	15.0
Other audit related services – redundancy letters	-	0.8
Additional audit work performed around Cerner implementation as part of the VFM conclusion	22.1	10.0
Additional audit work performed in relation to the multiple asset revaluations	2.5	-
Total assurance services	226.4	208.2
Non-audit services		
Total non-audit services (below)	25.0	77.0
Total fees	251.4	285.2

At the date of the Audit Committee meeting no future services have been contracted for or written proposals submitted.

In addition to the above audit fees, the Trust has commissioned Deloitte to conduct the following:

	Current year £'000	Prior year £'000
Real Estate advisory services	-	2.0
Board evaluation and development*	25.0	30.0
Board effectiveness review	-	25.0
Self-assessment processes around Board Governance Memorandum	-	10.0
Additional reporting to Management around Cerner implementation	-	10.0
Total fees for non-audit services provided to the Trust	25.0	77.0

* The Board evaluation and development fees billed in the current year related to services approved in the previous year.

In March 2014 the Audit Commission agreed a rebate to be distributed across local audit bodies. The announcement came following a meeting of the Audit Commission's Board, who met to discuss the strategy for managing any retained earnings prior to its closure at the end of March 2015. The decision was made as part of the Board's role in setting the Commission's strategy and objectives and for determining its budget and the way it carries out its functions. The rebate was set at 13.7 per cent of the 2012/13 annual audit fee. The rebate sent to Imperial College Healthcare NHS Trust was £26,330.

Appendix 3: Annual summary of recommendations

Internal control observations

In addition to the recommendations provided in relation to significant audit risks, we also identified a number of risk management and control observations, the most significant of which are detailed below.

Area	Deloitte Recommendation	Management Response	Priority (H/M/L)
Accounts payable ("AP")	<p>Outsourcing of AP functions to East Lancs Financial Services (ELFS)</p> <p>The Trust has outsourced parts of the AP function to ELFS in the year. There are risks around delayed payments or duplicated payables associated with the transition process.</p> <p>We would therefore recommend:</p> <p>That supplier statement reconciliations are carried out on a regular basis for key suppliers. This could be either by Trust or ELFS personnel.</p> <p>The Trust should monitor the value of duplicate payments and should report these periodically to the Board.</p> <p>The Head of Transactions' time should be spent on strategic projects or innovations rather than dealing with exceptions created by the ELFS process.</p>	<p>Targeted resource to resolve on-going issues of process compliance, both internally and externally, and to facilitate timely payment of invoices has already been put in place in recent months.</p> <p>The Trust has agreed that it will carry out supplier reconciliations for key suppliers and has already allocated resources accordingly.</p> <p>A periodic report will be provided to the Audit, Risk and Governance Committee if duplicate payments are considered material.</p> <p>The Head of Transactions will continue to support on improving compliance with AP processes, internally and externally. As the recently focussed resource becomes embedded, their role will move to an overarching programme management and performance role.</p> <p>Responsible Officer: Head of Transactions</p> <p>Timeline: During 2015/16</p>	Medium
Cerner implementation	<p>Gateway 7</p> <p>The Trust should continue to track data quality issues to support the Trust in achieving efficiencies made available through the use of Cerner. The ability to achieve efficiencies may be increased with the use of multiple Cerner modules i.e. those implemented in Phase Two functionality.</p>	<p>On-going tracking of data quality issues is in place. The presentation for the May 2015 Cerner Programme Steering Committee describes the process that is being implemented to support this.</p> <p>Responsible Officer: Business Intelligence</p> <p>Timeline: During 2015/16</p>	Medium

Appendix 3: Annual summary of recommendations (continued)

Area	Deloitte Recommendation	Management Response	Priority (H/M/L)
Cerner implementation	<p>Go / No-go assurance criteria</p> <p>The status of assurance criteria was not documented following 8 March 2015, when the latest documented Assurance Criteria matrix was produced. Calls were scheduled for the SurgiNet and FirstNet Go/No-go decision, however matrix updates were not completed. As such, confirmation that each assurance criteria was achieved prior to go-live for SurgiNet and FirstNet across hospital sites is not available.</p> <p>The performance of new functionality should be monitored to enable any issues with adoption and operation to be identified and addressed.</p>	<p>The performance of existing Phase 2 functionality (ED and Theatres) and the future rollout of ePA and Clinical Documentation and phases that follow will be monitored and action taken to address any issues identified.</p> <p>Responsible Officer: Head of ICT programmes</p> <p>Timeline: Ongoing</p>	Medium
Cerner implementation	<p>Overdue risk mitigation actions</p> <p>Overdue risk mitigation actions for Phase 2 functionality risks remain overdue following Phase 2 go-live. Furthermore, risks and mitigating actions are not up-to-date and reflective of the current status.</p> <p>The risk register should be updated to reflect the current status of programme risks and associated mitigating actions.</p>	<p>The risk register has been updated, with those that are no longer relevant closed and new risks identified during operational use of the system added.</p> <p>Responsible Officer: Head of PMO</p> <p>Timeline: Ongoing</p>	Medium

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