

Imperial College Healthcare  
NHS Trust

Annual Audit Letter

Year ended 31 March 2013

# Contents

Executive summary	2
1. Introduction	5
2. Audit of the financial statements	6
3. Value for money conclusion	9
4. Quality Accounts	10
5. Closing remarks	11
Appendix 1: Reports issued in relation to the 2012/13 audit	12
Appendix 2: Analysis of professional fees	13
Appendix 3: Annual summary of recommendations	14

# 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 2013.

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
<b>Audit of the financial statements</b>		
<b>We issued an unmodified opinion on the Trust's financial statements for the year ended 31 March 2013</b>	<p>We are pleased to report that we issued an unmodified opinion on the Trust's 2012/13 financial statements in line with the deadline set by the Department of Health of 6 June 2013. Our opinion confirmed that the accounts gave a true and fair view of the Trust's financial position and of the income and expenditure for the year ended 31 March 2013. We reported the findings of our audit to the Trust's Audit Committee on 5 June 2013. 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 22 April 2013 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"><li>• recognition of NHS revenues including impairment of NHS receivables;</li><li>• recognition of grant revenue;</li><li>• property valuation;</li><li>• accounting for capital expenditure;</li><li>• management override of controls; and</li><li>• recognition of provisions.</li></ul> <p>Based on our procedures, we concluded that the Trust's financial statements are not materially misstated.</p>	Page 6

## Certificate

**We issued our certificate on 22 July 2013**

In our report dated 7 June 2013, we explained that we could not formally conclude the audit on that date until we had completed the work to provide assurance on the Trust's annual quality accounts. We have now completed this work. As noted in Section 4, no matters have come to our attention since that date that would have a material impact on the financial statements on which we gave an unqualified opinion or a significant impact on our conclusion on the Trust's arrangements for securing economy, efficiency and effectiveness.

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.

# Executive summary (continued)

Status	Description	Detail
<b>Accounting policies</b>		
<p><b>No significant issues were noted during our procedures</b></p>	<p>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.</p>	
<b>Value for Money</b>		
<p><b>Nothing has come to our attention to indicate that the Trust does not have appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources</b></p>	<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"> <li>• the organisation has proper arrangements in place for securing the financial resilience; and</li> <li>• the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</li> </ul> <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.</p> <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"> <li>• discussions with management;</li> <li>• review of minutes of key meetings; and</li> <li>• review of supporting documentation.</li> </ul> <p>As a result of our procedures we are satisfied that nothing has come to our attention to indicate the Trust does not have appropriate ongoing procedures to secure financial resilience and to secure economy, efficiency and effectiveness.</p>	<p>Page 9</p>

# Executive summary (continued)

Status	Description	Detail
<b>Quality Accounts</b>		
<b>The Quality Account was prepared in accordance with the relevant guidance</b>	<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 data testing of two performance indicators; the rate of C. Difficile and incidents resulting in severe harm or death. Our work considered:</p> <ul style="list-style-type: none"><li>• The quality of the data supporting the indicator, compared to the six dimensions of data quality.</li><li>• Whether the indicators have been reported in accordance with the Department of Health requirements.</li><li>• Whether recommendations from last year have been implemented.</li></ul> <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
<b>Independence and objectivity</b>		
<b>We remain independent and objective</b>	<p>An analysis of audit fees for the year ended 31 March 2013 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 2012/13 audit is provided in Appendix 1.

## 2. Audit of the financial statements

We issued an unqualified opinion on the Trust's accounts on 7 June 2013 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 2013.

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 ending 31 March 2013.

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 5 June 2013. Set out below is a summary of the points issued in that report:

### Unadjusted audit misstatements

Uncorrected misstatements identified increase the deficit by £3.0 million and decrease net assets by £3.0 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 £38,318k;
- Keep within the capital resource limit (CRL) of £25,212k;
  - The Trust recorded an underspend against the CRL of £171k; and
- Remain within the external financing limit (EFL) of £51,948k
  - The Trust recorded an undershoot against the EFL of £1,622k.

The 2013/14 financial plan presents a budgeted surplus (before technical adjustments) of £14.5 million for the year (2012/13 surplus (before technical adjustments) of £9.0 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

The replacement of Primary Care Trusts ("PCTs") by the Clinical Commissioning Groups ("CCGs") and NHS England potentially increases the risks associated with the recognition of overperformance and CQUIN revenue and the level of associated provisions required during the transitional period. The Trust's revenue from NHS bodies in 2012/13 was £715.3 million (2011/12: £696.8 million).

We have identified recognition of NHS revenue as a key risk due to:

- the complexity of the payment by results regime, in particular in determining the level of overperformance and CQUIN revenue to recognise;
- the judgemental nature of provisions for disputes with commissioners, including in respect of outstanding overperformance income for quarters 3 and 4; 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 more prudent end of the acceptable range. In the current year, the policy has been changed from 100% to 25% for disputed and adjusted receivables, and from 25% to 15% for not-yet-authorised, no-responses, and unbilled NHS receivables. We consider this to be towards the less prudent end of the acceptable range.

#### Revenue recognition in respect of research, development, education and training grants

In 2012/13 the Trust recognised £122.7 million (2011/12 £118.6 million) of research, development, education and training income as part of other operating income. The majority of this related to grant income. Accounting for grant income can be complex as the timing for recognising income in the accounts will depend on the scheme rules for each grant and also upon the timing of the expenditure related to the grant. 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 2012/13 the Trust commissioned an external valuer, Montagu Evans, to perform a desktop review of its land and buildings (including dwellings). This resulted in the recognition of an impairment charge to operating expenses of £47.5 million, and a credit of £31.4 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. We do not consider the Trust's valuation of property, plant and equipment in the current or prior year, to be materially misstated.

#### Accounting for capital expenditure

The Trust has an extensive capital programme, with total capital spend in 2012/13 of £23.5 million (excluding donated and government granted additions), including £8.1 million of additions to assets under construction. The Trust's repairs and maintenance expenditure in the year was £22.9 million.

Key judgements include determining whether expenditure should be capitalised, when to commence depreciation, whether previously capitalised works have been replaced and should be impaired and whether there is a "day one" impairment under the "modern equivalent use" valuation rules.

Our testing did not identify any issues.



## 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, property valuations, and capital expenditure. 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 2013 was £37.4 million, which comprised legal claims of £0.2 million other provisions of £33.5 million and redundancy provisions of £3.7 million.

We have assessed the overall level of provisions held by the Trust and identified a potential understatement of £3.1 million and have concluded that overall the provision balance held by the Trust is not materially misstated.

# 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 2012/13 and 2013/14 cost improvement plans ("CIPs"); and
- the ability of the Trust to achieve an in-year break even position for 2012/13, and also for future periods as forecast by the 2013/14 Annual Plan and the Medium Term Financial Plan ("MTFP").

### Economy, efficiency and effectiveness

- reporting of 18 week referral to treatment ("RTT") and Cancer Waits; and
- governance review recommendations (Terry Hanafin report May 2012).

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.

As a result of our procedures we are satisfied that nothing has come to our attention to indicate the Trust does not have appropriate ongoing procedures to secure financial resilience and to secure economy, efficiency and effectiveness.

## 4. Quality Accounts

### Scope of procedures

Under the Health Act 2009 and the National Health Service (Quality Accounts) Regulations 2010, providers of NHS care were 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 2012/13 set out that auditors of acute trusts would be required to test:

- one of the following three indicators, to be agreed with the Trust's management:
  - percentage of patients readmitted within 28 days;
  - percentage of patients risk-assessed for venous thromboembolism (VTE); or
  - rate of clostridium difficile infections.

For the Trust it was agreed we would test the rate of clostridium difficile infections; and

- percentage of patient safety incidents resulting in severe harm or death.

We have completed our responsibilities in respect of the Quality Account for the year to 2012/13.

### 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 Director of Finance.

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

22 July 2013

# Appendix 1: Reports issued in relation to the 2012/13 audit

Report	Audit Committee date
Annual audit letter for the year ended 31 March 2012	10 September 2012
Audit planning report for the year ending 31 March 2013	26 November 2012
Value for money risk assessment for the year ending 31 March 2013	26 November 2012
Audit update report for the year ended 31 March 2013	10 April 2013
Report to the Audit Committee on the 2012/13 audit	5 June 2013
Quality Accounts External Assurance Report 2013	5 June 2013

# Appendix 2: Analysis of professional fees

The professional fees earned by Deloitte in the period from 1 April 2012 to 31 March 2013 are as follows:

	Current year £'000	Prior year £'000
Audit of the Trust (before PY rebate from audit commission)	182.4	354.0
Other assurance services – Quality accounts work	15.0	17.0
Other assurance services – redundancy letters	0.8	-
2011/12 rebate from the audit commission	-	(24.0)
<b>Total assurance services</b>	<b>198.2</b>	<b>347.0</b>
<b>Non-audit services</b>		
Total non-audit services (below)	50.0	59.0
<b>Total fees</b>	<b>248.2</b>	<b>406.0</b>

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
Advise on lease renegotiation	10	15
Dilapidation advice	15	4
Due diligence work relating to the transfer of the National Learning and Reporting Service (NRLS) from the National Patient Safety Agency (NPSA)	-	40
Planning and property development advice around St Mary's Hospital	25	-
<b>Total fees for non-audit services provided to the Trust</b>	<b>50</b>	<b>59</b>

The 2012/13 fees that the Audit Commission has set include reductions of up to 40% on 2011/12 fees. These result from savings generated from the outsourcing of the Audit Commission's in-house Audit Practice and internal efficiency savings that the Commission is passing on to audited bodies. Under our new arrangements with the Audit Commission, our net reimbursement for external services provided remains unchanged from those previously agreed. The fee reductions do not therefore have an impact on our ability to continue offering a high quality service to you.

# 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.

G	Low	A	Medium	R	High
<b>Non-pharmacy stock</b>					<b>Priority – G</b>
<b>Description</b>	Non-pharmacy stock is valued using the last in first out method which is disallowed under IFRS. This creates an immaterial difference in the valuations based on current stock levels, and therefore no adjustment or disclosure deficiencies have been recorded.				
<b>Recommendation</b>	We recommend that management review their non-pharmacy stocks and revalue their stocks using the first in first out (FIFO) method.				
<b>Management response</b>	Management plan to undertake this review.				
	<b>Timeframe:</b>	During 2013/14			
	<b>Owner:</b>	Financial Controller			
<b>Asset held at Imperial College site</b>					<b>Priority – G</b>
<b>Description</b>	One of the assets selected for verification was at an Imperial College research building at Hammersmith. Management at Imperial College who had taken us to verify the asset were not aware that it belonged to the Trust. As a result there is a risk that this could be disposed of and the finance department at the Trust would not be informed as ownership is not clear. We verified that this asset did belong to the Trust by inspecting the relevant documentation.				
	The risk of an item being disposed of which was not fully depreciated is low. The Trust does not believe that there is a materially significant value of items located in Imperial college sites. However, currently these are not separately identified on the fixed asset register and therefore it is not possible to quantify these.				
<b>Recommendation</b>	The Trust should reinforce the message to Imperial College that, where they hold assets on the behalf of the Trust, the College must inform the Trust of their disposal. These assets should be physically labelled as Imperial College Healthcare NHS Trust property and a location reference should be added to the fixed asset register.				
<b>Management response</b>	Management will flag all such assets on their register, and will obtain annual confirmations for these assets. Management note that there are very few assets held in such circumstances as they are usually those funded by specific capital grants.				
	<b>Timeframe:</b>	During 2013/14			
	<b>Owner:</b>	Financial Controller			

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