Imperial College Healthcare NHS Trust

Annual Audit Letter

Year ended 31 March 2014

22 July 2014

Contents

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 2014.

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 2014	We are pleased to report that we issued an unmodified opinion on the Trust's 2013/14 financial statements on 3 June 2014, within the deadline set by the Department of Health of 9 June 2014. 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 2014. We reported the findings of our audit to the Trust's Audit Committee on 28 May 2014. Control recommendations that were raised as a result of our audit work have been summarised in Appendix 3. We received a complete set of draft financial statements in advance of the 23 April 2014 deadline set by the Department of Health. The main areas of audit focus included, but were not limited to: • recognition of NHS revenues including impairment of NHS receivables; • recognition of grant revenue; • property valuation; • management override of controls; and • recognition of provisions. Based on our procedures, we concluded that the Trust's financial statements were not materially misstated.	Page 5
Certificate		
We issued our certificate on 3 June 2014	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
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		
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	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: • 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. 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: • the ability of the Trust to deliver its 2013/14 and 2014/15 cost improvement plans ("CIPs"); • data quality around referral to treatment ("RTT") waiting time statistics; and • the implementation of Cerner Millennium, a new patient administrations system. We have obtained an understanding of the Trust's arrangements for securing value for money. Our procedures included: • discussions with management; • review of minutes of key meetings; and • review of supporting documentation. 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.	Page 8

Executive summary (continued)

Status	Description	Detail
Quality Accounts		
The Quality Account was prepared in accordance with the relevant guidance	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. 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: • 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. As a result of our work we have issued a limited assurance report in accordance with the guidance issued by the Audit Commission.	Page 9
Independence and objectivity		
We remain independent and objective	An analysis of audit fees for the year ended 31 March 2014 is shown in the appendices to this letter. 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.	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 2013/14 audit is provided in Appendix 1.

2. Audit of the financial statements

We issued an unqualified opinion on the Trust's accounts on 3 June 2014 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 2014.

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 2014.

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 28 May 2014. Set out below is a summary of the points issued in that report:

Unadjusted audit misstatements

Uncorrected misstatements identified decrease the deficit by £0.4 million and increase net assets by £0.4 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 £53,446k;
- Keep within the capital resource limit (CRL) of £30,264k:
  - The Trust recorded an underspend against the CRL of £69k; and
- Remain within the external financing limit (EFL) of £2,189k:
  - The Trust recorded an undershoot against the EFL of £123k.

The 2014/15 financial plan presents a budgeted surplus (before technical adjustments) of £11.2 million for the year (2013/14 surplus (before technical adjustments) of £15.1 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 2013/14, 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% (2012/13: 0%) for agreed NHS debtors; • 10% (2012:13: 15%) for accrued debtors; and • 25% (2012/13: 25%) for disputed debtors. We note that the Trust excluded NHS England receivables of £9.8 million when calculating the provision for agreed NHS debtors as these amounts were deemed recoverable. The increased level of NHS debt at 31 March 2014 (£59.7 million) compared with prior year (£23.4 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 £0.6m compared with the prior year position. No significant issues were identified in our testing.
Revenue recognition in respect of research, development, education and training grants	In 2013/14 the Trust recognised £119.5 million (2012/13 £122.7 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.

2. Audit of financial statements (continued)

Areas of audit focus (continued)	
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 2013/14 the Trust commissioned an external valuer, GVA, to perform a full valuation of its land and buildings (including dwellings). This resulted in the recognition of an impairment charge to operating expenses of £117.1 million, and a credit of £2.4 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. Previous valuations were carried out by Montagu Evans (ME), and there are differences in the assumptions made by the different valuers. GVA's valuation was at a more detailed level than ME's valuation in 2012/13, and GVA also applied different build costs to reflect the fit out of different uses. This resulted in a lower average build cost in the GVA valuation. GVA has also used significantly lower values for external costs than ME as a result of consulting with their building surveying team; we consider this an appropriate methodology. We do not consider the Trust's valuation of property, plant and equipment in the current or prior year to be materially misstated.
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 2014 was £42.2 million (2012/13: £37.4 million), which comprised legal claims of £0.1 million, other provisions of £41.5 million and redundancy provisions of £0.7 million. We have assessed the overall level of provisions held by the Trust and identified a potential overstatement of £0.4 million in relation to redundancy provisions 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 2013/14 and 2014/15 cost improvement plans ("CIPs").

Economy, efficiency and effectiveness

- data quality around referral to treatment ("RTT") waiting time statistics; and
- the implementation of Cerner Millennium, a new patient administrations system.

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 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 2013/14 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 Friends and Family Test (FFT) as the indicators for our limited assurance procedures. Inherent limitations were identified nationally in the data available for the FFT indicator; this affected our ability to conclude on our work in relation to this indicator. Therefore we were instructed by the Audit Commission to test an alternative indicator; the Trust selected Severe Harm and Death as the alternative indicator to test.

We have completed our responsibilities in respect of the Quality Account for the year to 2013/14.

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

Deloitte LLP
Chartered Accountants

22 July 2014

Appendix 1: Reports issued in relation to the 2013/14 audit

Report	Audit Committee date/report date
Annual audit letter for the year ended 31 March 2013	22 July 2013
Planning report including Value for money risk assessment for the year ended 31 March 2014	4 December 2013
Interim update report to the Audit Committee	11 March 2014
Final report to the Audit Committee on the 31 March 2014 audit, including Value for money conclusions	28 May 2014
Quality Accounts External Assurance Report for year ended 31 March 2014	28 May 2014

Appendix 2: Analysis of professional fees

The professional fees earned by Deloitte in the period from 1 April 2013 to 31 March 2014 are as follows:

	Current year £'000	Prior year £'000
Audit of the Trust	182.4	182.4
Other assurance services – Quality accounts work	15.0	15.0
Other assurance services – redundancy letters	0.8	0.8
Additional audit work performed around Cerner implementation as part of the VfM conclusion	20.0	-
Total assurance services	218.2	198.2
Non-audit services		
Total non-audit services (below)	77.0	50.0
Total fees	295.2	248.2

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	50.0
Board evaluation and development	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	77.0	50.0

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.

Review of NHS debtors provision policy	**Medium**
Description	Currently the annual debtors' provision policy does not explicitly consider the ageing of NHS debtors or historical outturn of the previous years' provision.
Recommendation	We consider the above factors important in arriving at a suitable provision policy, in particular given the ageing profile of debtors has increased in 2013/14 and quantum of credit notes raised against 2012/13 debtors suggests a larger provision was required at 31 March 2013.
Management response	2013/14 has been an exceptional year due to the reorganisation within the NHS and the delays in ageing contracts. There has been a lack of clarity surrounding responsibility for certain elements of healthcare resulting in delays in payment and a higher-than-normal closing NHS debtors figure. These issues are being resolved and it is anticipated that NHS debtors will decrease significantly. The NHS bad debt provision has been calculated consistently between the two financial years. The major factor influencing the change in the figure was that a block contract agreement was in place for 2012-13 with North West London PCTs, which had very little outstanding debt at year end. For 2013-14 full Payment by Results service level agreements existed resulting in significant overperformance income still outstanding at year end. There is no evidence to suggest that a larger provision for 2012-13 was required and the Trust is satisfied that the methodology used to calculate NHS bad debt is robust. For Non-NHS debt an aging debt profile is used and has been more than adequate for the Trusts' needs, as follows: greater than a year at 100%; quarter 1 2013-14 at 75%; quarter 2 2013-14 at 50% and quarter 3 2013-14 at 25%
Timeframe:	During 2014/15
Owner:	Deputy Director of Finance (Financial Services)

Audit of Coding Department	**Low**
Description	The sampling method for the audit of coding is not statistically random and does not ensure coverage of all coders. If each coder is not audited regularly there is a risk of poor performance or training and development needs not being detected which can ultimately lead to a loss of revenue for the Trust.
Recommendation	Whilst it is sufficient to pick a risk-focussed sample, the coding department may wish to ensure that each coder is audited on a rotational basis.
Management response	A "per coder" audit sample has been included in the internal audit programme since March 2014. This will be accumulated on a monthly basis building up a healthy overall coding data quality snapshot per coder per site.
Timeframe:	During 2014/15
Owner:	Head of Coding