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NHS
Imperial College Healthcare
NHS Trust

Imperial College Healthcare NHS Trust

Annual Audit letter for the year ended 31 March 2018

Contents

Introduction

Purpose of this letter

We have pleasure in setting out in this Annual Audit Letter to the directors of the Trust the main findings and conclusions from our external audit work for Imperial College Healthcare NHS Trust ("the Trust") for the year ended 31 March 2018.

This annual letter summarises the key matters arising from the work that we have performed related to the year ended 31 March 2018. The letter is addressed to Imperial College Healthcare NHS Trust but it also serves the purpose of communicating the key findings identified during the audit process to key external stakeholders and members of the public. This letter will be published on the Trust's website.

This summary sets out the key matters which we would like to bring to your attention.

Key area	Description	Further information
Financial statement audit	We issued our audit opinion on the financial statements on 29 May 2018. Whilst our opinion reported that the financial statements were true and fair, our audit report drew attention to material uncertainties related to going concern, in particular, the financial impact of the condition of the Trust's estate and also risk to the trust's cash flows which cannot easily be mitigated. Our opinion was not qualified. Audit materiality was set at £13.6m (c. 1.2% of incoming resources). We reported any misstatements in excess of £250k. The Trust does not have any subsidiary entities, so consolidated accounts are not required.	**Section 1**
Value for money	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 criteria specified by the National Audit Office ("NAO") where we are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources. Our assessment is based on the following reporting criteria: "In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people." The following sub-criteria are then used to inform and guide our work and inform our overall judgement although there is no requirement to separate these nor to report against each sub-criteria: • Informed decision making • Sustainable resource deployment • Working with partners and other third parties.	**Section 2**

Key area	Description	Further information
	Our opinion in this respect was qualified as we were not able to satisfy ourselves that all proper arrangements were in place for planning finance effectively to support the sustainable delivery of the Trust's key objectives. The principal factors impacting this conclusion related to the matters which have given rise to NHSI taking enforcement actions in 2017/18 and, in addition, the ongoing financial sustainability concerns noted that we have made specific reference to in the section of our audit related to going concern.	
Audit Certificate	We issued our audit Certificate on 29 May 2018, confirming completion of the audit work, including our reporting to the National Audit Office (NAO) in relation to the Whole of Government Accounts (WGA). Note that the certificate does not reference work on the Quality Accounts as this is not deemed part of our audit.	**Not applicable**
Quality accounts	We issued our limited assurance conclusion on the Quality accounts on 26 June 2018. 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. There are also no issues that have come to our attention that would cause us to believe the Quality Account is not consistent with the sources specified in the NHS Quality Accounts Auditor Guidance. We have also performed sample data testing of two performance indicators: Venous Thromboembolism (VTE) 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. No issues have been identified that would cause us to believe the two performance indicators subjected to limited assurance review are not reasonably stated in all material respects in accordance with the Regulations and the six dimensions of data quality set out in the guidance. Our limited assurance report did not contain any exceptions.	**Section 3**
Independence and Objectivity	An analysis of audit fees for the year ended 31 March 2018 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 1**

Key area	Description	Further information
Responsibilities of the auditor and the Trust	We have been appointed as the Trust's independent external auditor following a competitive tendering process. This is the first year of our appointment following the end of the previous Public Sector Audit Appointments (PSAA) regime. It is the responsibility of the Trust to ensure proper arrangements, processes and controls are in place for the conduct of its business, that public money is safeguarded and properly accounted for and that the financial statements accurately reflect financial position and performance. Our responsibility is to plan and execute an audit that meets requirements of the NAO's Code of Audit Practice. We evaluate and report on: • The Trust's financial statements • Whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are also required to review and report on the annual report, annual governance statement, remuneration and staff report and the accounts consolidation schedules. We are also engaged to assess and report on the Trust's quality account, confirming that it has been prepared in line with requirements, that it is consistent with the views communicated by other stakeholders and testing the underlying data for two of the performance indicators. In our work on the above areas, we target aspects which are relevant to our responsibilities, aspects which involve significant amounts of public money and on the basis of our assessment of the key risks to the Trust achieving its objectives.	**Not applicable**

Section One – Audit of the financial statements

We issued an unqualified opinion on the Trust's accounts on 29 May 2018. 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 2018. Our audit report also included modification to draw attention to management's disclosures of material uncertainties with regards to going concern.

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 21 May 2018, followed up with letters issued on 22 May 2018 and 29 May 2018. Set out below is a summary of the points issued in our report to the Audit Committee.

Materiality

Our application of materiality	We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work. Based on our professional judgement, we determined materiality for the financial statements as a whole as £13.6m. The basis of this was a 1.25% rate against total operating income for the year. This benchmark was chosen as the Trust is a non-profit organisation and operating income is a key measure of financial performance for users of the financial statements. We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £250k, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.
Audit differences	We identified a small number of misstatements during our audit, the majority of which were corrected by management. Audit differences not adjusted by management included balance sheet classification misstatements amounting to £2,408k. Correcting these misstatements would not have any impact on the Trust's retained surplus for the year. We consider that unadjusted misstatements did not have a material impact on our opinion on the financial statements.

Scope

Scope of the audit of the financial statements	Our audit was scoped by obtaining an understanding of the Trust and its environment, including internal controls, and assessing the risks of material misstatement at trust level. Audit work was performed with the team based at the Trust’s main site at St Mary’s hospital directly by the audit engagement team, led by the audit partner. The other hospital sites were visited as required. The audit team included integrated Deloitte specialists bringing specific skills and experience in property valuations and information technology systems.
Other information	The accounting officer is responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor’s report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.
Responsibilities of accounting officer	As explained more fully in the accounting officer’s responsibilities statement, the accounting officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the accounting officer is responsible for assessing the Trust’s ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the accounting officer either intends to liquidate the Trust or to cease operations, or has no realistic alternative but to do so.
Auditor’s responsibilities for the audit of the financial statements	Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. A further description of our responsibilities for the audit of the financial statements is located on the FRC’s website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

Work performed on the significant financial statement risks

Significant risk	Description and work performed	Conclusion
Property Valuations	The Trust held £380m of property assets (land and buildings) at 31 March 2018. The Trust holds its properties under the Modern Equivalent Asset (MEA) model, using a hypothetical alternative site. There are a number of significant judgements and estimates with regards to the valuation, which can have a significant impact on the financial statements. The specific judgements with the largest potential impact are those around the location and values in relation to the hypothetical alternative site, and the useful economic lives of the assets, although there are also additional inputs which can have a large impact in their own right. The Trust's revaluation has increased land values by £7.9m (12.5%), and decreased buildings by £14.8m (3.9%) after additions, depreciation and reclassifications from assets under construction. The net impact of this is to decrease the PDC dividend payable by c. £0.1m in the current year, and £0.2m for next year assuming a full year effect. The valuation in the current year was a desktop review. **Response** • We tested the design and implementation of controls over the property valuation. • We involved our Real Estate specialists in auditing the key estimates and judgements in the valuation. • We challenged management as to whether any further adjustments to the valuation were required between the 31 December 2017 valuation date and the year end date to take into account any additions to the assets or movements in key valuation indices. • We tested the posting in the financial statements.	**Testing was satisfactory.**
Recognition of NHS Revenue	The risk of fraud in revenue recognition is a presumed risk under International Standards on Auditing. For our NHS Trust clients, we typically specify this significant risk as the risk that a Trust has recorded revenue that is not valid, accurate or valued appropriately. As with the majority of our NHS Trust audit clients, for Imperial College Healthcare NHS Trust we consider this risk to be greater (and therefore identified as a significant risk) for the NHS revenue that has been recognised in the year but that is yet to be settled by Commissioners. This typically includes Commissioning for Quality and Innovation (CQUIN) income, and Q3-Q4 over-performance. Our significant risk on unsettled debt was focused on the accrued income and invoiced receivables which had reported mismatches. In 2017/18, income also included Sustainability and Transformation Funding (STF) which is dependent on the Trust meeting certain financial performance and access standards. These elements of unsettled revenue can involve management judgement and estimation, including management consideration of any unresolved commissioner challenges. **Response** We identified significant management estimates that involved significant judgement in respect of recognition of unsettled revenue, and tested the design and implementation of the Trust's controls around the preparation and review of those estimates. We requested and obtained from management a schedule of unresolved commissioner challenges making up the contractual dispute provision and discussed those challenges, and the associated judgements used in estimating unsettled revenue amounts, with contract managers and relevant senior members of the Trust's finance team. We challenged management's	**Overall our testing was satisfactory. Some insights were raised to the Trust in this area including certain matters that led to adjustments in the presentation of the financial statements.**

Significant risk	Description and work performed	Conclusion
	assumptions and we sought to corroborate management explanations to documentary evidence, such as correspondence with commissioners, and minutes of relevant meetings. Where relevant, we also considered the Trust's history of settling similar matters. We selected a sample of differences between the amounts that the Trust reported as income received, or receivables due from commissioners, and the amounts that commissioners reported that they had recognised as expenditure with the Trust, in the agreement of balances ("mismatch") report. For this sample, we sought explanations from management for the variances together with documentary evidence to corroborate those explanations. In relation to STF funding, this was confirmed to the letter from NHSI which stated the final amounts earned by and due to the Trust.	
Other provisions	The total provision disclosed in the "other category" in Note 21.1 as at 31 March 2018 was £38.1m. This was a decrease of £5.4m on the previous year. The "other category" consists of a number of different provisions. The majority of the movement was in relation to the NHS contractual dispute provisions (see NHS Revenue risk) with the remaining provisions consistent with the prior year. The material provisions included involve significant management estimates and judgements, and therefore present a significant audit risk. We also considered the adequacy of the disclosures in this area. **Response** We tested the design and implementation of key controls in place around management's key estimates in relation to provisioning. We tested management's key estimates and judgements in this area, both looking at the position as at 31 March 2018, and applying a "hindsight" test to the position as at 31 March 2017. We considered whether the reasonableness of these estimates suggested any indication of management bias, and the overall implications for the Trust. This work was performed in conjunction with our work on the management override risk.	**Testing was satisfactory.**
Management override of controls	In accordance with ISA 240 (UK and Ireland) management override is a significant risk. This risk area includes the potential for management to use judgement to influence the financial statements as well as the potential to override the Trust's controls for specific transactions. The key judgments in the financial statements are those which we have selected to be the significant audit risks around the valuation of the Trust's estate, and provisions for NHS revenue and property. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements. The pressure on Trusts to meet their control totals (and unlock additional STF monies) increases the incentive for management to seek to override controls or adjust estimates and judgements. **Response** **Journals** We used computer-assisted profiling techniques to select a sample of journal postings for detailed follow-up testing. We tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of the financial reporting.	**Testing was satisfactory.**

Significant risk	Description and work performed	Conclusion
	We used our Spotlight data analytics software to review ledger postings throughout the year, with focus on identifying any manual adjustments to revenue at the period end, or reversing entries that could be indicative of manipulation and management override. **Estimates and Judgements** We reviewed accounting estimates for biases that could result in material misstatements due to fraud. Judgements that we focussed on included: • Judgements around whether capital projects include elements of revenue spend; • The valuation of provisions, including those for disputed revenues and doubtful debts (as above); and • The accounting for the North West London Pathology Services. Whilst each of these individually is not a significant risk of material misstatement, our overall understanding of these judgements informed our conclusions in this area. **Transactions outside the normal course of business** We obtained an understanding of the business rationale of significant transactions that we became aware of that were outside of the normal course of business for the entity, or that otherwise appeared to be unusual, given our understanding of the entity and its environment.	

Work performed related to going concern

Key area	Description and work performed	Conclusion
Going Concern	Our work in this area included the following procedures: • We reviewed the Trust's financial performance in 2017/18 including its achievement of CIPs in the year; • We reviewed the Trust's available cash flow and profit forecasts for the going concern period; • We have held discussions with management to understand the assumptions behind the plan; and • We have also discussed with management their conclusion that there are material uncertainties which may cast significant doubt as to the Trust's ability to meet its plan. Having identified these uncertainties, management have included appropriate wording in Note 1.1.2 to the financial statements. As a result of these disclosures, the standard wording of our report includes the following modification: **Material uncertainty relating to going concern** We draw attention to note 1.1.2 in the financial statements, which indicates that, whilst the Trust has a balanced plan for 2018/19, there are significant risks to the Trust's cash flows which cannot easily be mitigated without access to further as yet uncommitted borrowing. As stated in note 1.1.2, these events or conditions, along with the other matters as set forth in note 1.1.2 to the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Trust's ability to continue as a going concern. Our opinion is not modified in respect of this matter.	**Our audit report included a modification drawing attention to the Trust's disclosure of material uncertainties related to going concern.**

Section Two – Value for money

Value for Money

We are required to satisfy ourselves that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Value for Money ("VfM") is assessed against the following criterion, and three sub-criteria (informed decision making, sustainable resource deployment, and working with partners and other third parties):

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people."

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Comptroller & Auditor General in December 2017, as to whether the trust has proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Our work takes account of the Annual Governance Statement and the findings of regulators. We are required to perform a risk assessment which we update through the course of our audit to identify whether there are any significant risks to our VfM conclusion, and perform further testing where significant risks are identified.

How the auditor's work addressed any identified significant risks

Our audit was scoped based on our knowledge of the Trust from research and audit planning procedures, relevant findings from work undertaken in support of the opinion on financial statements, attendance at Audit Committee meetings, reports from the Trust including internal audit and communications with the regulator, information disclosed or available to support the governance statement and annual report, and information available from the risk registers and supporting arrangements.

We set out below the key risk areas that led to our qualified conclusion in this area. These areas had the greatest impact on our audit strategy, the allocation of resources in the audit, and direction of the efforts of the audit team.

VfM risk area	How the risk was addressed by our audit and any audit findings	Conclusion
NHSI enforcement undertakings	The Trust received a letter in November 2017 from NHSI requiring certain undertakings due to operating in breach of its licence. This gave rise to an exception requiring qualification in our conclusion on the Trust's arrangements to secure economy and efficiency. The undertakings and conditions noted in the letter relate to the establishment of effective governance procedures; compliance with healthcare standards set by regulators, in particular attaining A&E and Referral to Treatment targets; data quality to provide information on quality of care (the letter proposes the Trust undertake an independent review of the clinical and administrative processes within its elective pathways); and compliance with the duty to operate efficiently, economically and effectively by restoring the Trust to a financial position with an underlying surplus restored by the start of 2021/22. Whilst the Trust has been performing work to respond to undertakings and address these concerns, at 31 March 2018 the undertakings were still extant.	**Due to the undertakings noted in the letter and the issues they relate to, we were not able to satisfy ourselves that there are proper arrangements for securing economy, efficiency and effectiveness in the Trust's use of resources.**

VfM risk area	How the risk was addressed by our audit and any audit findings	Conclusion
Financial Planning and Sustainability	We reviewed the Trust's annual planned budget submitted to NHSi for 2018/19 including an appraisal of the underlying assumptions informing this plan to consider any risks pertaining to the sustainable deployment of resources. The plan forecasts the delivery of a balanced budget however this relies on receipt of Sustainability and Transformation Funding (STF) which depends on the Trust meeting certain targets and is not definitely available beyond 2018/19. This additional STF funding would be required to sustain this balanced position. The financial statements refer to management's assessment that there are material uncertainties with regards to going concern, in particular with funding the ongoing backlog maintenance of the estate in order to deliver services.	**In view of the ongoing financial challenges the Trust faces for 2018/19 and beyond we were not able to satisfy ourselves of proper arrangements for planning finances effectively to support the sustainable delivery of resources.**

Qualified conclusion

On the basis of our work, having regard to the guidance issued by the Comptroller & Auditor General, with the exception of the matters reported in the basis for qualified conclusion paragraph below, we are satisfied that, in all significant respects, Imperial College Healthcare NHS Trust put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Basis for qualified conclusion

As disclosed in the Annual Governance statement, the Trust, is subject to a series of undertakings that have been agreed with NHS Improvement following the receipt of formal notification from NHSi on 7 November 2017 that it had 'reasonable grounds to suspect that the Trust has provided and is providing health services for the purposes of the health service in England while failing to comply with the following equivalent conditions to that of the Monitor Licence[1] in breach of the following conditions of its license: FT4 (5) (a)-(c) (d)." These conditions relate to the establishment of effective governance procedures; compliance with healthcare standards set by regulators; data quality to provide information on quality of care; and compliance with the duty to operate efficiently, economically and effectively.
Whilst the Trust has been performing work to respond to undertakings and address these concerns, at 31 March 2018 the undertakings were still extant.

Additionally, the Trust currently relies on the receipt of Sustainability and Transformation Funding (STF) in order to deliver a balanced budget. Note 1.1.2 in the financial statements refers to management's assessment that there are material uncertainties with regards to going concern, in particular with funding the ongoing backlog maintenance of the estate in order to deliver services. Additionally, there is no certainty that STF will be available from 2019/20 and, in the absence of STF, the forecast for that year shows a funding shortfall.

The issues above are evidence of weaknesses in proper arrangements for securing economy, efficiency and effectiveness in its use of resources, including the sustainable delivery of services.

[1] We note the letter references licence conditions that apply to foundation trusts (which the Trust is not), however the letter remains a valid notification as issued by NHSI.

Section Three – Quality accounts

Scope of the work

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, and confirmed to be appropriate guidance per the 2017/18 instructions letter issued by NHSI, 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 VTE 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 31 March 2018.

Results of our work

Content and consistency 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.

We reported to management initially on 21 May 2018, and then in a subsequent final report dated 26 June 2018.

Appendix One – Audit Fees

Professional Fees:

The professional fees earned by Deloitte in the period from 1 April 2017 to 31 March 2018 are as follows (note we were not the auditors for the prior period). The amounts below are stated net of VAT. The Trust is subject to VAT on these charges:

	Current year £'000
Audit of Trust	107.5
Additional assurance work in respect of the audit	5
Total audit	**112.5**
Limited Assurance work on the Trust's Quality Accounts	17.5
Total audit related services	**17.5**
Total assurance services	**130.0**

Appendix Two – Summary of reports issued

During the period from 1 April 2017 to 31 March 2018, and to the date of issuing this report, we issued the following reports in relation to the work covered by this letter:

Date of issue	Contents
25 September 2017	Sector update paper for the audit committee
29 November 2017	Audit plan for the year ending 31 March 2018, including analysis of the significant risks of misstatement, and a sector update.
14 March 2018	Benchmarking and audit update paper for the audit committee
18 May 2018	Year end audit progress report for the audit committee, including quality accounts testing update.
22 May 2018	Audit progress update report for the audit committee
29 May 2018	Final update report on the audit for the year ended 31 March 2018

Responsibility statement

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.

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

St Albans, United Kingdom

27 June 2018

Deloitte.