IMPERIAL COLLEGE HEALTHCARE NHS TRUST

ANNUAL AUDIT LETTER
Audit for the year ended 31 March 2016

29 June 2016

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EXECUTIVE SUMMARY

Purpose of the letter

This Annual Audit Letter summarises the key issues arising from the work that we have carried out in respect of the year ended 2015/16. It is addressed to the Trust but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public. It will be published on the website of Public Sector Audit Appointments Limited.

Responsibilities of auditors and the Trust

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.

Our responsibility is to plan and carry out an audit that meets the requirements of the NAO’s Code of Audit Practice (the Code), and to review 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 governance statement, annual report, remuneration report and the accounts summarisation schedules.

We also undertake a review of the Trust’s Quality Account, to confirm that it has been prepared in line with requirements and to test two performance indicators.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the audit.

BDO LLP
29 June 2016

Audit conclusions

FINANCIAL STATEMENTS

We issued an unqualified true and fair opinion on the financial statements on 2 June 2016.

We reported our interim and final detailed findings to the Audit, Risk & Governance Committee on 23 May and 1 June. We reported on uncorrected misstatements which management and the Audit, Risk & Governance Committee concluded were immaterial.

USE OF RESOURCES

The Trust reported a significant deficit of £48 million in 2015/16 (based on the adjusted performance table), reflecting a significant deterioration compared to the budgeted position. In addition, the Trust has forecast a deficit of £52 million for 2016/17. The deterioration in the Trust’s finances occurred due to being unable to deliver additional timely savings to mitigate the impact of the reduction in budgeted income and additional cost pressures.

As a result, we issued a qualified conclusion on the Trust’s arrangements for securing economy, efficiency and effectiveness in its use of resources on 2 June 2016 to report that these issues are evidence of weaknesses in proper arrangements for the financing of sustainable delivery of services.

QUALITY ACCOUNT

We issued an unmodified assurance opinion on the Quality Account on 29 June 2016.

We reported our detailed findings in a separate report on 16 June.
We issued an unqualified true and fair opinion on the financial statements on 2 June 2016.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes an assessment of whether the accounting policies are appropriate to the Trust’s circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates, and the overall presentation of the financial statements.

Our assessment of risks of material misstatement

Our audit was scoped by obtaining an understanding of the Trust and its environment, including the system of internal control, and assessing the risks of material misstatement in the financial statements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and directing of the efforts of the audit team.

<table>
<thead>
<tr>
<th>ALTERNATIVE SITE VALUATIONS</th>
<th>RESPONSE</th>
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<tr>
<td>The use of an ‘alternative site’ basis for the valuation of the Trust’s significant property assets, which was introduced for the first time during 2014/15, represents a critical accounting judgement. This therefore needs to be subject to continuous review to ensure that there is a reasonable expectation that the alternative site remains a valid alternative to the current estate.</td>
<td>We reviewed management’s critical judgements in the application of the alternative site valuation methodology for the Trust’s property assets. We also reviewed correspondence with the expert valuers engaged by management to undertake this valuation, and discussed the significant assumptions with the valuer.</td>
<td>We were satisfied that management’s assumptions supporting the feasibility and reasonableness of a single site hospital in the Hammersmith area using the alternative site valuation methodology remains appropriate.</td>
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FINANCIAL STATEMENTS
Continued

<table>
<thead>
<tr>
<th>REVENUE RECOGNITION AND NHS INCOME</th>
<th>RESPONSE</th>
<th>FINDINGS</th>
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<tr>
<td>The majority of the Trust’s revenue is received from CCGs and NHS England for the provision of healthcare services. There is an inherent risk around the recognition of amounts due from commissioners for performance under contract and any penalties and deductions applied. The agreement of balances process is designed to ensure that NHS commissioners and providers agree the outturn expenditure (payables) and income (receivables) under the NHS contracts. However, this process often generates differences between both parties either through misallocated transactions, disputes, cash timing differences or other discrepancies. There is a risk that NHS income is not accurately recorded where there are unreconciled differences between the Trust and NHS commissioners. The Trust also receives significant amounts of grant income, some of which include performance obligations and conditions to be met before the grant can be recognised as revenue. Where the grant conditions have not been met, the funding should be held as deferred income.</td>
<td>We gained an understanding of the Trust’s internal control environment for the significant income streams, including how this operates to prevent loss of income and ensure that income is recognised in the correct accounting period. We reviewed the outcome of the NHS agreement of balances exercise, and agreed an increased sample of NHS income transactions to underlying contracts and evidence of activity. We also used the Department of Health’s mismatch report to identify and investigate significant mismatches with other NHS bodies. We reviewed grant agreements to ensure revenue has been correctly recognised in line with any attached conditions. We substantively tested an increased sample of other revenue transactions to confirm that they represent genuine income and have been accurately recorded in the financial statements.</td>
<td>We identified no evidence of material misstatement through our review of grant income or agreement of balances. We note that the Trust had reduced its net revenue from other NHS organisations to reflect a provision for impairment of NHS receivables of £6.1 million and to account for potential contract challenges on final settlement by inclusion of a provision of £9.1 million. We investigated a sample of differences where the other party has reported a different amount for expenditure compared to the Trust’s income. In all cases the Trust’s income agreed to underlying invoices and accruals statements and no disputes had been notified. There were no similar differences when comparing the Trust’s outstanding receivable amounts and the other party payable amounts, aside from a difference of £0.885 million with Richmond CCG. We concluded that Trust’s reported NHS revenue was appropriate. We found that the Trust accounts for Road Traffic Accident income on a cash basis whereas the Manual for Accounts requires this to be accounted for on an accruals basis. There is often a lengthy period from treatment to final settlement of amounts due and the Trust has agreed to undertake work to estimate the additional amounts receivable. We have estimated that the impact of this would not be material, with the year-end debtor balance being understated by up to £3 million.</td>
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### LEASE PROVISIONS

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<th>RESPONSE</th>
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<td>We made inquiries of management in respect of the provision, and reviewed supporting documentation including correspondence with valuers and legal advice obtained by the Trust.</td>
<td>We are satisfied that the provision is based on appropriate assumptions and expert advice obtained by the Trust.</td>
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### GOING CONCERN

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<th>RESPONSE</th>
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<td>We reviewed management’s assessment of the Trust’s going concern status, including the Trust’s 2016/17 budget and plans to ensure that liabilities can be met as they fall due over the next 12 months. We also reviewed the adequacy of the disclosures in the financial statements.</td>
<td>The Trust has agreed a revolving working capital facility of £77 million and has obtained a letter of support from NHS Improvement stating that it is reasonable to assume that the Department of Health will make sufficient cash funding available to cover all essential operational liabilities. Additional information to support the Trust’s assessment of going concern was included in the revised financial statements.</td>
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Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements.

We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonably knowledgeable users that are taken on the basis of the financial statements.

Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

The materiality for the financial statements as a whole was set at £12.9 million. This was determined with reference to a benchmark of gross expenditure (of which it represents 1.25 per cent) which we consider to be one of the principal considerations for the Trust in assessing the financial performance.

We agreed with the Audit, Risk & Governance Committee that we would report all individual audit differences in excess of £250,000.

Audit differences

Our audit found four differences not corrected in the final financial statements:

- £6.1 million impairment of receivables to be netted against NHS receivables and £0.977 million netted off for income and expenditure in 2015/16 (no impact on net deficit)
- £3.1 million estimate of amounts receivable for RTA income (no impact on net deficit in 2015/16 as it is likely to relate mainly to prior periods)
- £0.821 million misclassification within Payables between Non-NHS payables and NHS payables (no impact on net deficit)
- £0.379 million reversal of general impairment provision for inventories (reduces net deficit)

Correcting for these remaining misstatements would result in the Trust reporting a £0.379 million lower deficit for the year.

We consider that these misstatements did not have a material impact on our opinion on the financial statements.

Summarisation schedules return

We are required to provide an opinion to the Trust to confirm that the financial information included in its accounts summarisation schedules return (and used in the preparation of the Group consolidation) is consistent with the audited financial statements.

We noted that the amendments made in the financial statements to reclassify £9.1 million provisions to net against the NHS income total (see earlier) and for movements within the provisions note could not be reflected in the summarisation schedules. Except for these difference, we reported that the summarisation schedules were consistent with the financial statements.

NAO Group assurance review

The Trust was selected as one of fifteen sampled NHS trusts by the NAO for full group audit review by the component auditor of the summarisation schedules return, including testing of reported counter-party transactions and balances.

We reported to the NAO the differences noted above in the summarisation schedules. We also reported the potential impact on the supporting Agreement of Balances schedules with counter parties if the £9.1 million provisions adjustment and £6.1 million impairment of receivables (not corrected) had been allocated to counter parties.
Governance statement
The governance statement was not inconsistent or misleading with other information we were aware of from our audit of the financial statements, the evidence provided in the Trust’s review of effectiveness and our knowledge of the Trust.

Annual report
The annual report was not inconsistent or misleading with the financial statements or with our knowledge acquired in the course of our audit.

Remuneration report
The auditable parts of the remuneration report was found to have been properly prepared in accordance with the requirements directed by the Secretary of State.

Internal controls
We did not find any significant deficiencies in internal controls during the course of our audit. A number of other areas for improvement were identified which we have discussed with management.
USE OF RESOURCES

CONCLUSION
We issued a qualified conclusion on the Trust’s arrangements for securing economy, efficiency and effectiveness in its use of resources on 2 June 2016.

Scope of the audit of use of resources
We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources based on the following reporting criterion:

• 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.

As part of reaching our overall conclusion we consider the following sub criteria in our work: informed decision making, sustainable resource deployment, and working with partners and other third parties.

Our assessment of significant risks
Our audit was scoped by our cumulative knowledge brought forward from previous audits, relevant findings from work undertaken in support of the opinion on financial statements, reports from the Trust including internal audit, 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 on the following page the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and directing of the efforts of the audit team.
The Trust reported a significant deficit in 2015/16 and has forecast a deficit in 2016/17. The level of savings required to return the Trust to a breakeven budget in the next three years are challenging and the Trust’s worsening financial position means there is a risk that service delivery will be adversely affected.

We have reviewed the Trust’s annual budget and medium term financial plan, including the underlying assumptions used, in order to assess management’s plan to deliver the necessary savings and efficiencies.

We have met with Board Members to assess the adequacy of arrangements in place to manage the financial sustainability of the Trust.

The forecast deficit for 2016/17 is £52 million assuming the delivery of £50.8 million of cost improvement/income generation schemes. However, it has been recognised that a number of income schemes are considered as high risk and in addition £7 million of schemes have not yet been identified by the end of May 2016. At the time of our audit there was no recovery plan to bring the Trust back into recurrent balance.

Plans to strengthen financial governance to more effectively support the divisions in identifying and delivery the CIP savings have been implemented from the start of 2016/17.

In view of the significant financial challenge that the Trust faces for 2016/17, its continued struggle to achieve budgeted targets and the fact that no recovery plan is in place, we issued a qualified conclusion on the Trust’s arrangements for securing economy, efficiency and effectiveness in its use of resources.
QUALITY ACCOUNT

CONCLUSION

We issued an unmodified assurance opinion on the Quality Account on 29 June 2016.

Scope of the review of the Quality Account

Our responsibility is to form a conclusion, based on limited assurance procedures, on whether anything has come to our attention that causes us to believe that:

- the Quality Account is not prepared in line with the criteria set out in the Regulations
- the Quality Account is not consistent with the sources specified in the NHS Quality Accounts Auditor Guidance
- the two performance indicators subject of 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.

Specified indicators for testing

The core set of indicators to be included in 2015/16 Quality Account is set out in Regulations and the letter from NHS England dated 3 February 2016. The Auditor Guidance has not been updated since 2014/15, and requires that we selected two indicators for testing from the following list:

- Percentage of patients risk-assessed for venous thromboembolism (VTE)
- Rate of clostridium difficile infections
- Percentage of patient safety incidents resulting in severe harm or death
- Friends and Family Test patient element score.

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<th>REQUIREMENTS</th>
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<tr>
<td>Review the content of the report and consistency with specified documents.</td>
<td>We reviewed the Quality Account against the publication requirements of the various Regulations and other good practice guidance. We read the information included in the Quality Account and considered whether it was materially inconsistent with information specified by the guidance.</td>
<td>The Quality Account has been prepared in line with the Regulations and is not materially inconsistent with our review of the information we are required to consider. We reported to management where there were omissions or where additional information and disclosure were required to comply with the guidance issued by NHS England. The Trust has amended the Quality Account to reflect our recommended changes.</td>
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</table>
The Trust reported 73 cases of C. difficile, at 21.7 cases per 100,000 bed days.

We undertook testing to:
- confirm the definition and guidance used by the Trust to calculate the indicator
- document and walk through the Trust’s systems used to produce the indicator
- undertake substantive testing on the underlying data against six specified data quality dimensions.

We tested 20 cases included in the indicator and confirmed that each was supported by the C. difficile positive test.
We also tested a sample of cases excluded on the basis of age or admission date and confirmed that each exclusion was appropriate.
We found no issues in respect of the accuracy of the data used in the calculation and no incomplete or missing evidence to support that data.

The Trust reported 8 (0.1%) incidents of severe harm and 5 (0.1%) incidents of extreme harm or death to the National Reporting and Learning System (NRLS) for the reporting period April to September 2015.
The Trust’s records for the full year, not yet validated by NRLS, reported 18 incidents of severe harm and 13 incidents resulting in extreme harm or death.

We undertook testing to:
- confirm the definition and guidance used by the Trust to calculate the indicator
- document and walk through the Trust’s systems used to produce the indicator
- undertake substantive testing on the underlying data against six specified data quality dimensions.

Our testing of a sample of patient safety incidents included checks to ensure that the correct figures had been used in the indicator calculation and recorded in accordance with the supporting clinical assessments.
This included testing 10 severe cases of harm, 10 cases of extreme harm or death, 5 cases where the original assessment had subsequently been graded at a lower assessment of harm, 5 moderate harm cases, 6 cases resulting in low harm or near miss, and 4 cases that did not relate to patient care.
We found no issues in respect of the accuracy of the data used in the calculation and no incomplete or missing evidence to support that data.
APPENDIX

Reports issues
We issued the following reports in respect of the 2015/16 financial year.

<table>
<thead>
<tr>
<th>REPORT</th>
<th>DATE</th>
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<tbody>
<tr>
<td>Planning letter</td>
<td>23 February 2015</td>
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<tr>
<td>Audit Plan</td>
<td>9 March 2016</td>
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<tr>
<td>Final audit report</td>
<td>1 June 2016</td>
</tr>
<tr>
<td>Quality Account</td>
<td>16 June 2016</td>
</tr>
<tr>
<td>Annual Audit Letter</td>
<td>29 June 2016</td>
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</tbody>
</table>

Fees
We reported our original fee proposals for the Code audit and Quality Account assurance review in our Audit Plan. We have not had to amend our planned fees for the Code audit and Quality Account.

<table>
<thead>
<tr>
<th>AUDIT AREA</th>
<th>PLANNED FEES</th>
<th>FINAL FEES</th>
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<tbody>
<tr>
<td>Code audit</td>
<td>136,800</td>
<td>136,800</td>
</tr>
<tr>
<td>Non audit service fees (audit related services)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Quality Account assurance review</td>
<td>15,000</td>
<td>15,000</td>
</tr>
<tr>
<td>Non audit services fees (ad-hoc requests)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Review of pathology accounting treatment</td>
<td>-</td>
<td>2,160</td>
</tr>
<tr>
<td>Total</td>
<td>151,800</td>
<td>153,960</td>
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The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

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