



IMPERIAL COLLEGE HEALTHCARE NHS TRUST

ANNUAL AUDIT LETTER

Audit for the year ended 31 March 2017

3 July 2017

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 31 March 2017. 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 National Audit Office's (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 annual report, annual governance statement, remuneration and staff report and the accounts consolidation 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
3 July 2017

AUDIT CONCLUSIONS

FINANCIAL STATEMENTS

We issued our opinion on the financial statements on 1 June 2017. Whilst our opinion reported that the financial statements were true and fair, we included an emphasis of matter referring to the directors' assessment for the going concern basis of preparation.

We reported our interim findings on 24 May and the final audit findings to the Audit, Risk and Governance Committee on 31 May 2017.

We reported uncorrected misstatements that would increase the retained surplus for the year by £1.089 million. Management and the Audit, Risk and Governance Committee concluded were misstatements were immaterial.

As the Trust had set a deficit budget for 2017/18 that would result in a breach of the cumulative breakeven duty, we were required to report this to the Secretary of State in accordance with section 30 of the Local Audit and Accountability Act 2014.

USE OF RESOURCES

The Trust reported a control total deficit of £15.3 million for 2016/17 and set a deficit budget of £41 million for 2017/18.

As a result, we were not able to satisfy ourselves of proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities.

Our use of resources conclusion was qualified on 1 June 2017.

QUALITY ACCOUNT

We issued our unmodified assurance report on the quality account on 29 June 2017.

FINANCIAL STATEMENTS

OPINION We issued our opinion on the financial statements on 1 June 2017. Whilst our opinion reported that the financial statements were true and fair, we included an emphasis of matter referring to the directors’ assessment for the going concern basis of preparation.

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 the direction of the efforts of the audit team.

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
Management override of controls	<p>Journal entries</p> <p>We have used data analytics software to analyse the Trust’s ledger, and identify journal entries with characteristics which may be indicative of a higher level of management override risk. We then carried out substantive testing in order to verify the appropriateness of these journals. No issues were identified from this testing.</p> <p>Management estimates</p> <p>We found no evidence of systematic bias or management override in the making of significant accounting estimates. When considering the identified misstatements along with the tendency for management to be cautious in estimating amounts in the financial statements, we would observe that management tend to be generally prudent. However, this has not indicated any risk of material fraudulent financial reporting.</p> <p>Override of controls</p> <p>We found no evidence of management override of controls in respect of significant transactions outside the normal course of business or that otherwise appear to be unusual.</p>	No issues to report.

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
Existence of revenue and agreement of balances	<p>Review of contracts</p> <p>We reviewed a sample of contracts with NHS commissioners, and compared amounts billed under these contracts to underlying supporting data. We reviewed correspondence between the Trust and commissioners, together with the minutes from contract challenge meetings, to obtain further evidence to corroborate or challenge the Trust's position.</p> <p>We confirmed that revenue recognised in respect of contracts with NHS commissioners is reasonable, and agrees to underlying activity data.</p> <p>Adjustments to revenue</p> <p>We reviewed the Trust's breakdown of revenue and adjustments made for management's assessment of the potential risk for non-collection of revenue.</p> <p>The Trust recognised a provision in respect of contract challenges and charges relating to overseas patients. Revenue was also written down by the same amount in respect of a provision for non-collection of NHS amounts due.</p> <p>We noted that the adjustment for contract challenges included amounts in respect of non-specific challenges which we did not consider to be adequately supported.</p> <p>For the remaining adjustments, while the estimates for non-collection were reasonable, the accounting treatment is not compliant with the NHS Group Accounting Manual, which requires NHS receivables balances to be shown net of any adjustments and to reflect the Trust's assessment of the net amounts that it expects to recover.</p> <p>We also noted that charges to overseas patients included £1.4 million as an impairment of receivables but should correctly be recorded to net down the underlying receivables balance.</p> <p>NHS agreement of balances</p> <p>We reviewed the NHS agreement of balances process and mismatches report provided by the Department of Health, with a particular focus on income and receivables amounts which are subject to adjustments or disputes by the counter-party.</p> <p>We noted that the structure of the Trust's ledger does not allow for easy identification of NHS versus non-NHS expenditure and management relies heavily on supplier statements provided as part of this exercise to identify the level of expenditure to be described as 'services from NHS bodies' within the operating expenses note to the accounts. We also noted two inappropriate adjustments to reduce NHS expenditure that we consider should be properly accrued.</p> <p>Grants and other income</p> <p>We reviewed a sample of grant agreements to ensure revenue has been correctly recognised in line with any attached conditions. We carried out focussed substantive testing on a sample of other income transactions during the year and after the year-end, to conclude upon whether income has been recognised appropriately in the correct accounting period.</p> <p>No issues were identified from this work.</p>	<p>We were satisfied that revenue was materially correct, although reported concerns on the appropriate presentation of net revenue after adjusting for management's estimate for contract challenges and for reporting in accordance with the NHS Group Accounting Manual.</p>

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
<p>Valuation of land and buildings</p>	<p>Alternative site valuation of land We assessed management’s review of the alternative site basis of valuation to check whether this remains a valid assumption for the land valuation. Management prepared a report showing patient activity by CCG to support the view that patients could be treated from a single-site hospital in the Hammersmith / Acton area, with limited potential loss of income. No issues were identified from this work.</p> <p>Reliance on the work of the valuer We reviewed the instructions provided to the valuer and reviewed the valuer’s skills and expertise in order to determine if we can rely on the management expert for the desktop valuation. We were satisfied that the valuer is sufficiently independent, objective and competent and that we were able to rely upon the valuations produced for audit purposes.</p> <p>Basis of valuation and accuracy of records We checked the records used by the valuer and whether the basis of valuation for assets was appropriate based on their usage and that an instant build modern equivalent asset basis has been used for assets valued at depreciated replacement cost. We noted some non-material discrepancies between the data held by the valuer and that recorded by the Trust’s own records on building size and land area. This will be update at the next full valuation. No other issues were identified from this work.</p> <p>Valuation movements We reviewed valuation movements against indices of price movements for similar classes of assets and followed up valuation movements that appear unusual against indices. There was a net upwards revaluation of £21 million (6.1%). The increase in valuations for buildings is within an acceptable range by reference to BCIS indices. The valuer has used land valuations at £6.0 million per hectare for Acton / Hammersmith alternative site based on recent transactions, but has reduced this by 20 per cent to reflect an adjustment for the size of the site that would have to be acquired. We noted that, whilst within an acceptable range, such a discount may not be fully realised.</p>	<p>No issues to report.</p>

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
Going concern	<p>Management's assessment</p> <p>We reviewed management's assessment of the Trust's going concern status, including the Trust's 2017/18 budget and plans to ensure that liabilities can be met as they fall due over the next 12 months and beyond.</p> <p>Management has concluded that it is appropriate to prepare the accounts on a going concern basis, due to the planned continuation of service delivery, and its expectation that the Trust has adequate resources to continue to service its debts and run operational activities for the next 12 months.</p> <p>Whilst we agreed with management that the use of the going concern basis is appropriate, we note that Trust has set a planned deficit budget of £41 million for 2017/18, which will result in the Trust moving into a cumulative deficit position. This level of deficit is expected to continue in the medium term. There is currently no firm plan to return the Trust to a breakeven position and no agreement with NHS Improvement for significant multi-year committed support through the Sustainability and Transformation Fund.</p> <p>The Trust is currently dependent upon a short-term working capital facility provided by the Department of Health, and negotiations are ongoing to convert this into a more appropriate funding model going forwards.</p> <p>In our view, as support funding has not been agreed and there is no viable plan to return to breakeven, this indicates a material uncertainty in respect of the Trust's ability to continue as a going concern.</p> <p>Disclosure of key assumptions</p> <p>We reviewed the disclosures in the draft financial statements in relation to going concern, to check whether the requirements of the Group Accounting Manual have been met.</p> <p>Management agreed to make the necessary disclosures in the final Annual Report and Accounts to refer to the material uncertainty over future funding and going concern.</p> <p>Referral to the Secretary of State</p> <p>NHS Trusts have a duty to comply with the requirements to breakeven taking one year with another. This is interpreted as recovering a cumulative deficit within three years of falling into breach of this statutory duty.</p> <p>The Trust's cumulative position remains in surplus at £7 million at 31 March 2017. However, the forecast deficit of £41 million in 2017/18 will result in the Trust being in cumulative deficit at 31 March 2018. Our review of the medium term financial position does not suggest that the Trust will be able to recover this deficit and to return to breakeven within a further three years.</p> <p>As a result, we reported this matter to the Secretary of State under section 30 of the Local Audit and Accountability Act 2014.</p>	We included an emphasis of matter in the audit report referring to the directors' assessment for the going concern basis of preparation.

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 £13.6 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 and Governance Committee that we would report all individual audit differences in excess of £250,000.

AUDIT DIFFERENCES

Our audit found material disclosure misstatements within the Remuneration and Staff Report and external auditor remuneration.

Other amounts corrected by management as a result of the audit increased the retained surplus by £0.3 million, from £12.2 million to £12.5 million. This had no impact on the adjusted control total deficit for breakeven performance purposes.

Audit differences not corrected by management include:

- Estimated impact of accounting of revaluations of property, plant and equipment two months late (£2.932) million
- Reversal of unsupported NHS contract challenges provision +£1.35 million
- Removal of general inventory provision +£0.359 million
- Impact of brought forward misstatements affecting the current year surplus +£2.312 million.

Correcting for these remaining misstatements would have resulted in the Trust increasing the retained surplus for the year by £1 million to £14.6 million, and decrease the NHS financial monitoring adjusted retained deficit to £13.6 million.

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

ACCOUNTS CONSOLIDATION SCHEDULES

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

We reported inconsistencies between the accounts consolidation schedules and the financial statements due to differences in how certain NHS revenue adjustments were corrected in the financial statements that could not be corrected in the accounts consolidation schedules.

Details of these are noted earlier on page 3.

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 accounts consolidation schedules, including testing of reported counter-party transactions and balances.

We reported the differences noted above in the accounts consolidation process along with the consequential differences for the NHS counter party transactions and balances.

ANNUAL REPORT

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

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.

REMUNERATION AND STAFF REPORT

Our audit identified misstatements in the remuneration report for pay and pensions for senior management and in the pay multiples disclosure.

Following correction by management, the auditable parts of the remuneration and staff report were 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 were not able to satisfy ourselves of proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities. Our use of resources conclusion was qualified on 1 June 2017.

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

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
The Trust is facing significant financial pressures and maintaining sustainable finances requires significant savings in the medium term	<p>Budget monitoring</p> <p>We reviewed the Trust's budget monitoring processes.</p> <p>The Trust reported an adjusted retained deficit of £15.3 million in 2016/17, which fell within the agreed control total. This was after receipt of £25.4 million of Sustainability and Transformation Funding income, which included the £24.1 million originally agreed, and a £1.3 million bonus incentive payment agreed at year-end.</p> <p>The Finance Department has improved its budgeting and forecasting for the monthly management reporting and we were pleased to note that the final reported outturn for the year was reasonably accuracy compared for the forecast outturn.</p> <p>(continued)</p>	We were not able to satisfy ourselves of proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities.

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
	<p>Financial planning</p> <p>We reviewed the Trust's medium term financial plan and annual budgets submitted to NHS Improvement, including the reasonableness of the underlying assumptions made by management and the consideration of risks to sustainable deployment of resources.</p> <p>For 2017/18, the Trust has set a planned deficit budget of £41 million. Agreement has not yet been reached with NHS Improvement as to the Trust's control total for the year, and therefore the availability or otherwise of additional Sustainability and Transformation Funding income is unclear at present.</p> <p>There is no recovery plan in place to bring the Trust back into recurrent balance.</p> <p>In view of the significant financial challenge that the Trust faces for 2017/18 and beyond, and the fact that no recovery plan is in place, we are not able to satisfy ourselves of proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities.</p>	

QUALITY ACCOUNT

CONCLUSION

We issued our unmodified assurance report on the quality account on 29 June 2017.

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 2016/17 quality account is set out in Regulations and the letter from NHS England dated 6 January 2017. 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.

We agreed with management to test clostridium difficile and patient safety incidents.

REQUIREMENTS	RESPONSE	FINDINGS
<p>Review the content of the report and consistency with specified documents.</p>	<p>We reviewed the contents of the quality account and compared this to the guidance and Regulations issued by the Department of Health. We read the information included in the quality account and considered whether it was materially inconsistent with documents specified in the guidance.</p>	<p>We reviewed the draft Quality Account and reported to management omissions or where additional information and disclosure was required to comply with the Quality Account Regulations and guidance. The Trust has amended the Quality Account to reflect our recommended changes and we concluded that the content of the report is compliant with the Quality Account Regulations. The Quality Account was not materially inconsistent with our review of the information we are required to consider as set out in NHS England's guidance for external assurance on Quality Accounts.</p>
<p>Testing of rate of clostridium difficile infections (CDI)</p> <p>The Trust reported performance of 18.03 cases per 100,000 bed days</p>	<p>Testing of 30 cases of potential CDIs included checks to ensure that only toxin positive cases had been reported in line with the Trust's diagnostic algorithm, and that cases had been correctly classified as Trust attributable or community acquired. We note that NHS Digital has not yet published or made available information relating to this indicator for 2016/17. The Trust has therefore used its own local data in the calculation of this indicator. In the circumstances, we consider this to be appropriate.</p>	<p>We found no significant weaknesses in the systems use to produce the indicator. For each case tested, the information was agreed to underlying records and had applied the appropriate guidance.</p>
<p>Testing of patient safety incidents resulting in severe harm or death</p> <p>The Trust reported performance of 0.1% incidents resulting in severe harm or death</p>	<p>The Trust has reported both the information provided by NHS Digital for April to September 2016 and the total number of patient safety incidents resulting in severe harm and death for the whole year (28) using local data. We found a small discrepancy between the total number of reported patient safety incidents for the period April to September 2016 per Datix (7,762) and the figure provided by NHS Digital (7,532). We also noted a number of discrepancies between the Trust's data and the data provided by NHS Digital (via the National Reporting and Learning System or NRLS) in relation to individual incident severity categories. The Trust has confirmed that, since NRLS data is collected and summarised at a fixed point in time, whereas Datix is a live system, there is a potential for discrepancies to arise if incidents are reclassified as a result of internal investigations.</p>	<p>The Trust has been unable to explain the reason for this discrepancy between the Datix records and NHS Digital for the total number of incidents. However, we are satisfied that it does not have a material impact on the reported indicator, as the reported rate of incidents resulting in severe harm or death at 0.1% is not affected.</p>

APPENDIX

REPORTS ISSUED

We issued the following reports in respect of the 2016/17 financial year.

REPORT	DATE
Planning letter	18 April 2016
Audit plan	2 March 2017
Interim audit completion report	23 May 2017
Final audit completion report	1 June 2017
Report on the quality account	29 June 2017
Annual audit letter	3 July 2017

FEES

We reported our planned Code and quality account fee proposals in our planning report. We have not had to amend our planned fees.

Additional non-audit fees were charged in respect of a review of the proposed treatment of managed service contracts for the hosted pathology service.

AUDIT AREA	FINAL FEES £	PLANNED FEES £
Code audit fee - scale	136,800	136,800
Total audit	136,800	136,800
Fees for audit related services - Quality account	15,000	15,000
Fees for non-audit services	5,000	5,000
Total assurance services	156,800	156,800



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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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