Annual Audit Letter 2017-18

Whittington Health NHS Trust

July 2018

Contents

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This report is addressed to Whittington Health NHS Trust (the Trust) and has been prepared for the sole use of the Trust. We take no responsibility to any member of staff acting in their individual capacities, or to third parties.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

Introduction

Background

This Annual Audit Letter (the letter) summarises the key issues arising from our 2017-18 audit at Whittington Health NHS Trust (the Trust). Although this letter is addressed to the directors of the Trust, it is also intended to communicate these issues to external stakeholders, such as members of the public. It is the responsibility of the Trust to publish this letter on its website.

In the letter we highlight areas of good performance and also provide recommendations to help the Trust improve performance. We have included details of our key recommendation in Appendix A. We have reported all the issues in this letter to the Trust during the year and we have provided a list of our reports in Appendix B.

Scope of our audit

The statutory responsibilities and powers of appointed auditors are set out in the Local Audit and Accountability Act 2014. Our main responsibility is to carry out an audit that meets the requirements of the National Audit Office's Code of Audit Practice (the Code) which requires us to report on:

Financial Statements including the Annual Governance Statement	We provide an opinion on the Trust's accounts. That is whether we believe the accounts give a true and fair view of the financial affairs of the Trust and of the income and expenditure recorded during the year. We confirm that the Trust has complied with the Department of Health (DoH) requirements in the preparation of its Annual Governance Statement. We also confirm that the balances you have prepared for consolidation into the Whole of Government Accounts (WGA) are not inconsistent with our other work.
Value for Money (VFM) arrangements	We conclude on the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the Trust's use of resources.

Adding value from the External Audit service

We have added value to the Trust from our service throughout the year through our:

- Attendance at meetings with members of the Executive and Audit and Risk Committee to present our audit findings, broaden our knowledge of the Trust and to provide insight from sector developments and examples of best practice;
- A proactive and pragmatic approach to issues arising in the production of the financial statements to ensure that our opinion is delivered on time; and
- Incorporation of data analytics into our programme of work to, for example, identify high risk journals for testing.

Introduction (cont.)

Fees

Our fee for 2017-18 was £51,075 excluding VAT (2016-17: £51,075 excluding VAT). This was in line with the fee agreed at the start of the year with the Trust's Audit and Risk Committee.

In addition we supplied non audit work services for the external assurance on the quality accounts for which the fee was £10,000 plus VAT (£10,000 plus VAT in 2016-17).

Acknowledgement

We would like to take this opportunity to thank the officers of the Trust for their continued support throughout the year.

Headlines

This section summarises the key messages from our work during 2017-18.

Value for Money (VFM) conclusion	We are required to report to you if we are not satisfied that the Trust has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Based on the findings of our work, we have nothing to report except that in considering the Trust's arrangements for securing financial resilience and its arrangements for challenging how it secures economy, efficiency and effectiveness we identified that whilst the Trust achieved a surplus of £5.5M in 2017-18 but has a cumulative deficit of £5.1M as at 31 March 2018. We issued an except for' VFM conclusion in respect of this matter.
VFM conclusion risk areas	We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements to mitigate these risks. Our work identified financial sustainability as a significant risk. The Trust achieved its control total and recorded a surplus of £5.5M in 2017-18, which included bonus STF monies of £4.7M. This left the Trust with a cumulative income and expenditure deficit of £5.1M and in respect of the requirement to break even on a rolling basis a cumulative deficit of £9.1M meaning it had not achieved its statutory duty to break even over a three year period. The Trust achieved its control total despite the Cost Improvement Programme (CIP) delivering £11.7M of the target of £17.3M due mainly to slippage in the programme. This was monitored throughout the year and structural changes were made to assist in the identification and delivery of CIPs. For 2018-19 a budget has been set to deliver a control total of £4.7M (planned surplus in the financial statements of £5.5M) including STF monies of £9.4M which is receivable based on the Trust achieving targets including its control total. This involves delivering £16.5M CIP which will be challenging. Delivering this budget, the Trust will still have a deficit on its requirement to achieve a rolling breakeven position. The Trust had loans with the Department of Health (DH) totalling £29.7M at 31 March 2018 of which £18.5M is due within one year. The Trust is discussing with DH options when this loan becomes repayable as the Trust will require an additional loan to make the repayment and continue to have sufficient working capital. As the Trust is in breach of the 'breakeven duty' set out at paragraph 2(1) of Schedule 5 to the National Health Service Act 2006, we wrote to the Secretary of State outlining the breach of this duty in what is referred to as a section 30 referral letter. Based on this breach we issued an 'except for' VFM conclusion.
Financial Statements audit opinion	We issued an unqualified opinion on the Trust's accounts on 25 May 2018. This means that we believe the accounts give a true and fair view of the financial affairs of the Trust and of the income and expenditure recorded during the year. There were no significant adjusted audit differences and four unadjusted audit differences which were all individually and collectively not material. There were no significant matters which we were required to report to 'those charged with governance'. We did re-raise a high priority recommendation relating to year end closedown which is included in Appendix A.

Headlines (cont.)

Financial statements audit work undertaken	We are required to apply the concept of materiality in planning and performing our audit. We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of the financial statements. Our materiality for the audit was £6M (2016-17: £6M). We identified the following risk of material misstatement in the financial statements as part of our External Audit Plan 2017-18: — NHS and non-NHS income and existence and valuation of receivables due to the value of the income and year end estimates of receivables and accrued income. We agreed the larger income sources to signed contracts, tested a sample of balances to invoices and reviewed third party confirmations from NHS commissioners, through the DH Agreement of Balances (AoB) exercise.. — Land and building valuations due to the size of the balance and the estimation required to determine the replacement cost and/or market value of land and buildings. We assessed the competence, capability, objectivity and independence of the external valuer, confirmed that appropriate information was communicated to the valuer, critically assessed the appropriateness of the valuation bases and assumptions applied in the revaluation exercise and performed testing on additions to ensure that they were appropriate. There are no matters to bring to your attention arising from our work in these areas.
Annual Governance Statement	We confirmed that the Trust have complied with DH requirements in the preparation of the Trust's Annual Governance Statement.
Whole of Government Accounts	We issued an unqualified Group Audit Assurance Certificate to the National Audit Office regarding the Whole of Government accounts submission with no exceptions.
Recommendations	We have re-raised a high priority recommendations relating to the year end closedown which is explained in Appendix A. Of the nine recommendations made in our 2016-17 audit, four were implemented and five are overdue. In addition we raised two new recommendations in 2017-18.
Public Interest Reporting	We have a responsibility to consider whether there is a need to issue a public interest report or whether there are any issues which require referral to the Secretary of State. We did not issue a public interest report but did write to the Secretary of State in accordance with Section 30(1)(b) of the 2014 Act as a consequence of the Trust's failure to achieve its statutory break even duty over a three year period.

Appendix A

Key recommendations

Recommendations from previous years

No.	Risk	Issue, impact and recommendation	Status as at May 2018
1	● High	**Year end close down** At year end one of the difficulties faced in preparing the working papers for the accounts related to the 2015-16 manual adjustments not being input into the general ledger, which resulted in issues in property, plant and equipment for the TRU submissions and the audit process. Finance should avoid manual adjustments wherever possible. If required then they should be entered into the general ledger in a timely fashion to ensure the completeness and accuracy of the opening position.	**Overdue** While we noted an improvement from last year, there were a number of manual adjustments made by Management from the general ledger to reach the figures disclosed in the 2017-18 financial statements.

Summary of our reports issued

2018

January

February

March

April

May

June

July

August

September

October

November

December

Audit Plan

(January 2018)

The Audit Plan set out our approach to the audit of the Trust's Value for Money arrangements and Financial Statements (including the Annual Governance Statement).

Audit Report

(May 2018)

The Audit Report provides our audit opinion for the year, the Value for Money conclusion, and our Audit Certificate.

Audit Highlights Memorandum

(May 2018)

The Audit Highlights Memorandum provides details of the results of our audit for 2017-18 including key issues and recommendations raised as a result of our observations.

We also provided the mandatory ISA260 declarations as part of this report.

Report on Quality Accounts

(June 2018)

This Report confirms the findings of our work in regard to the Trust's Quality Accounts and the indicators selected for review.

Annual Audit Letter

(June 2018)

This Annual Audit Letter provides a summary of the results of our audit for 2017-18.