EAST & NORTH HERTFORDSHIRE NHS TRUST

ANNUAL AUDIT LETTER

Audit for the year ended 31 March 2017
11 July 2017

BDO

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
11 July 2017

AUDIT CONCLUSIONS

FINANCIAL STATEMENTS

We issued our unmodified true and fair opinion on the financial statements on 1 June 2017.

We reported our detailed findings to the Audit Committee on 22 May 2017.

We noted considerable improvements to the Trust's financial closedown and audit support arrangements following changes within the Trust's finance department. Submission deadlines were met despite the impact of the cyber attack during the period of the audit.

USE OF RESOURCES

We issued a conclusion qualified by exception on the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources on 1 June 2017.

The "except for" conclusion was required because of continuing issues with the Trust's financial performance.

QUALITY ACCOUNT

We issued our unmodified assurance report on the quality account on 28 June 2017.

We reported our detailed findings in a separate report on 20 June 2017.

FINANCIAL STATEMENTS

OPINION	We issued our unmodified true and fair opinion on the financial statements on 1 June 2017.

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. [The areas to include are not necessarily just significant risks, we should report on the top few areas of highest audit impact]

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
Management override Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual. By its nature, there are no controls in place to mitigate the risk of management override.	We obtained full transaction listing downloads from Oracle and reconciled these to the financial statements to confirm the listings were accurate and complete. We then carried out data analytics using BDO Advantage to identify journals which we considered had heightened risk characteristics, from our knowledge of the entity. Once higher risk journals had been identified, supporting evidence was obtained to confirm the validity of the journal transactions posted. With respect of estimations we critically reviewed all significant accounting estimates made by the Trust and assessed whether these individually or collectively indicated management bias in their preparation.	No issues to report.

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
Revenue recognition Under International Standards on Auditing 240 “The Auditor’s responsibility to consider fraud in an audit of financial statements” there is a presumption that income recognition presents a fraud risk. For Trust’s, the risks can be identified as affecting the completeness, accuracy and existence of income.	We carried out audit procedures to gain 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 were unable to refine our risk assessment following completion of our interim audit as the control total achieved by the Trust could lead to incentives for management to either overstate or understate revenue and thus we could not rebut either existence or completeness assertions over any revenue streams. Our approach to NHS Income is detailed in the specific NHS Income risk below. Our approach to non NHS income was to sample test transactions both from the ledger for existence and from sales orders for completeness, using increased sample sizes to take account of the significant audit risk.	No issues to report.
Accounting for the financial position and result of the Pathology Partnership (tPP) The Trust entered into a partnership with a number of other NHS and Foundation Trusts to provide pathology services. There have been discussions relating to the extent of control exercised by the Trust either individually or jointly, with the other bodies. The tPP has made losses, and there are governance concerns. The support arrangements include potential for additional cash transfers, which might be concluded to be additional investments or cash calls to cover losses or both. The accounting treatment is complex.	We engaged in early discussions with the Trust relating to proposed accounting treatment. We carried out a review of the Trusts proposed accounting treatment across several partners of tPP to form a consistent conclusion. In forming our conclusion, we reviewed the cash calls made within the year and whether their treatment of being recognised at purchase price as an investment and impaired at year end was appropriate. We also reviewed the revised consortium agreement confirming the restructuring of tPP after the year end. Furthermore, we considered the residual value at balance sheet date of net assets/liabilities of tPP to identify whether the Trusts provision for circa £200k at the year-end was accurate.	We are aware that tPP has a draft net liability of £1m to allocate between the partners, which would equate to circa £200k for the Trust. However, challenges have been made in respect of the accruals balances in this balance sheet to the value of £1.3m which, if upheld, would increase the balance sheet to a net asset position of £0.3m. The Trust’s provision of £200k is therefore marginally over-prudent, but would be trivially different to the actual position, so an adjustment was not proposed.
Going concern The Trust has incurred deficits since 2014/15 and has reported a further increased deficit for the current year. There is a risk that the going concern position of the Trust is not reflected adequately within the financial statement disclosures.	We reviewed the Trust’s going concern considerations and disclosures, taking account of regulator positions regarding support and continuity.	The Trust’s draft going concern disclosure required some enhancement to more fully explain the material uncertainty surrounding the Trust’s financial position. We issued an emphasis of matter (EoM) paragraph in our audit opinion to highlight the considerations set out in this critical accounting policy. This EoM paragraph was not a qualification of the opinion, but merely a signpost for readers of the accounts and opinion to a critical piece of contextual information.

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 £7.756 million. This was determined with reference to a benchmark of gross expenditure (of which it represents 1.75 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 Committee that we would report all individual audit differences in excess of £390,000.

AUDIT DIFFERENCES

Our audit found no material audit differences that would have required correction in the final financial statements.

There were no non-material unadjusted errors identified that it would have been necessary to report to the Audit Committee

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 were able to confirm that the consolidation schedules (“FMAs”) were consistent with the current year figures disclosed in the Trust and group’s financial statements.

However, the comparative (2015/16) figures in the FMAs were not consistent with the prior year group information in the Trust’s financial statements because the FMAs had been wrongly prepared on the basis of the single entity Trust, but were not corrected before last year’s submission (as agreed with NHS Improvement), whilst the financial statements were prepared on the basis of a consolidation of the Trust’s wholly-owned subsidiary, ENH Pharma, and also the charitable fund. These inconsistencies were also reported as a result of our 2015/16 audit of the Trust.

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..

ANNUAL GOVERNANCE STATEMENT

The annual 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

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 issued a modified “except for” conclusion on the Trust’s arrangements for securing economy, efficiency and effectiveness in its use of resources 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
Sustainable finances The Trust is experiencing significant financial challenges as a result are not expecting to achieve the planned deficit position of £8.6m. The outturn position is expected to be in the region of a £25m deficit. This is subject to additional pressures from tPP and other technical accounting issues. The cash position is challenging, and support is being sought. We will review financial outturn, Cost Improvement Plan (CIP) achievement, cash flow management and projections and long term financial model (LTFM) assumptions. Our work in this area overlapped with the planned work on partnerships and other joint working described below.	The Trust recorded a deficit of £37.2m (£29.5m after adjusting for technical issues to arrive at the deficit used to judge financial performance), this being a deterioration compared to 2015/16 (£25.7m and £16.2m respectively) and, of course, a significant deterioration in year. The Trust had agreed a CIP target of £15.5m for 2016/17, with the CIP profile assuming greater levels of delivery in the latter part of the year. Some 31% of the CIP programme was forecast to be delivered in the first six months of the year, with 69% of the £15.5m total profiled for the second half of the year. Internal Audit reviewed the Trust's arrangements for CIPs early in the financial year, providing a reasonable assurance (positive) conclusion. However, even at July 2016, the CIP forecast showed a likely £3.2m under-delivery of CIP schemes, and a number of CIP schemes, particularly cross cutting schemes, which were still in development. Outturn CIP achievement was approximately £3m down on the annual target. The Trust set a challenging CIP target for 2017/18. To help address issues encountered in 2016/17, the Trust is setting up a central programme management office (PMO) function to lead the development, delivery and monitoring Trust's CIP and transformation programme. Other key reasons for financial deterioration include not qualifying for Sustainability and Transformation Funding after Quarter 2 (so half a year - £5m) and reduced levels of income from CCGs compared to that anticipated and budgeted for (approximately £5m). The pursuit of a long-term sustainable solution to bring the Trust back to financial balance is dependent upon the STP.	Consequently, for 2016/17 we were unable to conclude other than that the Trust does not have adequate arrangements in place relating to the sustainable deployment of resources. Our opinion reflected this and was modified on an "except for" basis.
Sustainability and Transformation Plan (STP), tPP and other joint partnership and joint working NHS and social care organisations have been encouraged to work together more closely to deliver more effective, joined-up and affordable services. The Trust is working increasingly closely with a variety of partners on system-wide improvements efficiencies and financial recovery. We will review developments and arrangements linked to the Hertfordshire and West Essex STP area and tPP.	The Trust is actively engaged in the STP processes, recognising that the current significant challenges to the Trust and wider NHS will not be solved in isolation nor by iterations of efficiencies. The STP arrangements are still at a fairly early stage of implementation and development, and will continue to be an area of audit focus for the future. Whilst the performance of tPP in 2016/17, both financially and in terms of quality, has not been good, significant progress has been made in seeking a longer-term solution to these issues, with pro-active input from the Trust, including direct NED contribution. The quality issues identified in the Eastern hub do not appear to be impacting on the Western hub, which the Trust has worked with to date and will continue to under the new arrangements.	No impact on conclusion

QUALITY ACCOUNT

CONCLUSION	We issued an unqualified assurance report on the quality account on 28June 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.

REQUIREMENTS	RESPONSE	FINDINGS
Review the content of the report and consistency with specified documents.	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: • Board minutes and papers relating to quality reported to the Board • Feedback from Commissioners, Local Healthwatch and Overview and Scrutiny Committee • The Trust's complaints report • Latest national patient survey and staff survey • Head of Internal Audit's annual opinion over the Trust's control environment • Annual governance statement • Care Quality Commission's quality and risk profiles • Results of the latest Payment by Results coding review.	We reported to management where there were omissions or where additional information and disclosure was required to comply with the guidance issued by NHS England. These amendments were made to the final published version. The quality account is not materially inconsistent with our review of the information we are required to consider.
Testing of Chosen indicator 1: **Rate of clostridium difficile infections (CDiff)** The Trust reported performance of 7 cases per 100,000 bed days in respect of the CDiff indicator, against a national average of 14 in the draft Quality Account.	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 of a sample of 25 cases (5 positive and 20 negative) included in the reported performance.	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.

REQUIREMENTS	RESPONSE	FINDINGS
Testing of Friends and Family test (FFT). The Trust reported performance of 97% of inpatients and 87% A&E attendances would recommend in respect of the FFT indicator, against national averages of 96% and 87% respectively in the draft Quality Account.	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 of a sample of 20 cases included in the reported performance.	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.

APPENDIX

REPORTS ISSUED

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

REPORT	DATE
Fee letter	13 April 2016
Audit plan	21 December 2016
Audit completion report	19 May 2017
Report on the quality account	20 June 2017
Annual audit letter	11 July 2017

FEES

We reported our original fee proposals for the Trust in our audit plan. We have not had to amend our planned fees.

AUDIT AREA	FINAL FEES £	PLANNED FEES £
Code audit fee - scale	79,088	79,088
Code audit fee - additional	-	-
Total audit	**79,088**	**79,088**
Fees for audit related services - Quality account	10,000	10,000
Fees for non-audit services	-	-
Total assurance services	**£89,088**	**£89,088**

FOR MORE INFORMATION:

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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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