EAST AND NORTH HERTFORDSHIRE NHS TRUST

ANNUAL AUDIT LETTER

Audit for the year ended 31 March 2018
30 June 2018

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 2018. 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.

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
- The auditable parts of the Remuneration and Staff Report
- 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 and the Trust 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 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
30 June 2018

AUDIT CONCLUSIONS

FINANCIAL STATEMENTS

We issued our unmodified true and fair opinion on the financial statements on 25 May 2018.

We reported our detailed findings to the Audit Committee on 23 May 2018.

We referred a matter to the Secretary of State under section 30 of the Local Audit and Accountability Act 2014 in relation to the deficit outturn position in 2017/18 and planned deficit in 2018/19.

USE OF RESOURCES

We issued a qualified 'except for' opinion on the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources on 25 May 2018 in respect of sustainable finances due to the deficit out turn position in 2017/18 and the planned deficit in 2018/19

QUALITY ACCOUNT

We issued our modified assurance report on the Quality Account on 26 June 2018.

We reported our detailed findings within the Audit Completion Report which was presented to Audit Committee on 23 May 2018.

We did not have access to the October and November 2017 data for the A&E 4 hours wait indicator and so have not been able to test this period. This is due to the implementation of Lorenzo and subsequent transfer of patient activity data in this period on to a third and less accessible system. We understand that there are also concerns around data quality of information included within this system.

Our Limited Assurance opinion was qualified because of the above-mentioned issues with the A&E indicator.

FINANCIAL STATEMENTS

OPINION	We issued our unmodified true and fair opinion on the financial statements on 25 May 2018.

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 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 tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. We reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. We obtained an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual. From our journals testing carried out we have not identified any evidence of management override of controls,	No issues to report.

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
Revenue recognition Under ISA (UK) 240 there is a presumption that income recognition presents a fraud risk. Following receipt of the draft financial statements it was clear that the Trust was not close to achieving the control total set for the year. Therefore we believe the risk of fraudulent revenue recognition is in respect of the completeness and accuracy of revenue as there is incentive to move revenue to the 2018/19 financial year. Consideration has also been given to existence of Revenue within the Lorenzo risk below.	We carried out audit procedures to update our 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 refined our risk assessment following completion of our interim audit. We gave specific consideration to the recognition of sustainability and transformation funding (STF) income with the recognition of the fact that the Trust has received quarter 1 income and an additional fee late on. We obtained a sample of sales orders (both NHS and non-NHS) and traced the orders through to invoice and subsequent recording on the ledger to give assurance over the completeness of income. We obtained a sample of non-NHS income from the ledger and traced through to supporting documentation to give assurance over the accuracy of income. We did not identify any weaknesses in internal control regarding revenue recognition from our review of the systems and processes in place. No errors were identified in our sample testing carried out.	We are satisfied that we have carried out sufficient procedures to provide assurance over the risk of revenue recognition.
Accounting for the wind down of the Pathology Partnership (tPP) and new pathology arrangements The original multi-Trust tPP arrangement has been superseded and wound down to be replaced by a number of smaller, local arrangements, and with ongoing consideration of pathology provision for the future. The original arrangement resulted in less than 20% shares for each Trust (so trusts primarily reflected investments), but new arrangements with fewer Trusts breaches this limit (and so will need to consider reflecting trading results).	We engaged in early discussions with the Trust relating to proposed accounting treatment. We reviewed the financial statements to confirm that the proposed accounting treatment had been applied appropriately. We reviewed the cash calls made in the year to wind up the tPP organisation and reviewed the assertion that the Trust had no further liabilities in respect of the legacy tPP organisation.	We are satisfied that the Trust has applied appropriate accounting treatment in relation to this.

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
Going Concern The Trust has incurred deficits since 2014/15 and is projecting a further, albeit reduced, deficit for the year. There is a risk that the going concern position of the Trust is not reflected adequately within the financial statements disclosures.	We reviewed the Trust's going concern considerations and disclosures, taking account of regulator positions regarding support and continuity. We considered that the going concern accounting policy note in the draft financial statements was too brief and did not sufficiently reflect the material uncertainties facing the Trust from the challenging financial outturn position. We recommended that the Trust enhanced the disclosure to take account of this.	Following these adjustments, we are satisfied that the financial statements contains adequate disclosure of the material uncertainties surrounding the Trust's financial position.
Implementation of Lorenzo Lorenzo is the new patient administration system for the Trust which has been implemented this year. There have been a significant number of issues with the implementation which have resulted in the Trust incurring additional expenditure to enable the system to function as required. These issues have also mean that there is a risk that activity data has not been correctly recorded and incorrect charges have been made to Commissioners.	We obtained a sample of tangible and intangible additions to confirm that assets have been capitalised at an appropriate value, classified correctly and bought on to the asset register (and therefore depreciated) at an appropriate date. We carried out a test of control over the Information Assurance Group (IAG) meetings held to identify any potential issues with respect of the quality of coding and recording of activity data. We also reviewed the year-end agreements and correspondence with commissioners using the NHS Agreement of balances and disputes process to confirm that they were satisfied with the activity data used. From the sample of costs capitalised that we have tested we did not identify any issues with the value, classification or date that the asset was recognised. The test of control carried out did not highlight any concerns over the quality of coding and recording of activity data. This was supported by the NHS agreement of balances and disputes process that had minimal balances disputed, and the items that were disputed were not in relation to the quality of activity data.	No issues to report

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
Valuation of Property, Plant and Equipment The Trust is required to revalue its Buildings using a Modern Equivalent Asset (MEA) Methodology. This means that the valuation assumes that the buildings are new but capable of providing the same services as the current buildings. For a number of years, the valuer has also used an alternative site basis, meaning that a brownfield site capable of supporting the services provided by the trust is used. For 2017/18 the Trust agreed that the valuer will go one step further and provide values for a Multi storey MEA. This will reduce the land area needed for the Hospital. This will reduce the value of the Property in the balance sheet by a significant amount. One effect of this is to reduce the charge to the Income and Expenditure account in the form of the Public Dividend Capital (PDC) Dividend payable. This will be a recurrent saving as a result of the change in valuation methodology, and therefore is in the Trust's interest to reduce the value of the property sites.	Our audit focussed on whether the MEA valuation provided will meet the cost of providing the current services from the new site. This included a review and challenge of the assumptions used in producing the valuation, including replacement locations and site size, and the experience of the valuer in carrying out similar work. We also reviewed whether it was appropriate for the Trust to have applied the new estimation technique for the valuation at both 1 April 2017 and at 31 March 2018 as this has a significant impact on the PDC calculations for the year. We referred to NHSI approval that the Trust had received within the year for the treatment proposed, as well as reviewing whether or not the accounting transactions were in line with the requirements of the Group Accounting Manual (GAM). The assumptions used by the valuer in calculating the valuation of property are reasonable and the proposed building would be suitable to continue to operate at a similar capacity to the current arrangements. The application of the valuation date to 1 April 2017 and 31 March 2018 has received appropriate approval from NHSI and there is no reason identified in the GAM that this cannot be applied.	No Issues to report

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 for the Trust was set at £7,765,000 and the group as a whole was set at £7,775,000. 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 £233,000.

AUDIT DIFFERENCES

Our audit did not identify any material misstatements.

We are required to bring to your attention audit differences that we have identified, but you are not proposing to adjust. There are no such audit differences identified.

TRUST ACCOUNTS CONSOLIDATION SCHEDULES

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

We reported the Trust Accounts Consolidation schedules were consistent with the financial statements.

REFERRAL TO THE SECRETARY OF STATE

We referred a matter to the Secretary of State under section 30 of the Local Audit and Accountability Act 2014 in relation to the deficit position in 2017/18 and planned deficit in 2018/19.

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 found to comply with NHS Improvement's guidance except for one minor issue which was amended and 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. We noted that the draft remuneration report did not mention whether items were auditable or not auditable as required by the GAM and the report did not detail the number of senior staff by band.

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 'except for' opinion on the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources on 25 May 2018.

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, the Care Quality Commission's assessments of the Trust, 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	RISK DESCRIPTION AND WORK PERFORMED AUDIT FINDINGS AND CONCLUSION	RISK DESCRIPTION AND WORK PERFORMED AUDIT FINDINGS AND CONCLUSION
Sustainable finances	The Trust generated a shortfall against the agreed control total, with consequent impact upon STF. The cash position remains challenging. There is therefore a significant risk We reviewed the financial outturn, Cost Improvement Plan (CIP) achievement, cash flow management and projections and 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 £24.4m, this being a moderate improvement when compared to 2016/17 (£29.5m) but it is a significant deterioration in year against the agreed control total of £7.7m (£16.7m decrease in performance). Key reasons for financial deterioration include: • Not qualifying for Sustainability and Transformation Funding after Quarter 1 • Problems with the implementation of Lorenzo – a new patient activity system within the year (implemented September - December 2017). • A CIP shortfall of £3m (£20m achieved of target of £23m The Trust had agreed a CIP target of £23m for 2017/18 and is targeting a higher level of CIP next year of £24m, which is a challenging target given that the Trust fell short of a lesser CIP target this year. • There are some factors implemented in 2017/18 that the Trust would not have the full benefit of until 2018/19. These are as follows: • A Project Management Office (PMO) function was set up from scratch in 2017/18. This function became fully effective from September 2017 • There are early indications that the Trust has been able to identify a greater proportion of CIPs for the following financial year than in 2017/18 • Business intelligence has moved on significantly from 2017/18, in particular the workforce data available to the Trust has improved allowing the Trust to better track activity workloads and manage staff resources. Lorenzo continues to remain a risk to financial performance in 2018/19. The main challenges with Lorenzo are now not with the technical capabilities of the system but rather with staff training and improving the use of the system by staff members who have been used to a different system. The pursuit of a long-term sustainable solution to bring the Trust back to financial balance continues to be dependent upon wider economy factors. Consequently, for 2017/18 we cannot conclude other than that the Trust does not have adequate arrangements in place relating to the sustainable deployment of resources, Our opinion reflected this.
Sustainability and Transformation Plan (STP), pathology and other 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 with a variety of partners on system-wide improvements efficiencies and financial recovery. We reviewed continuing developments, planning and arrangements linked to the Hertfordshire and West Essex STP area. We drew upon specialist expertise and experience within our Advisory team. Our audit work involved discussions with NHS Improvement and senior staff at the Trust into the governance arrangements.	The Trust is 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. Within the immediate health economy area of East and North Hertfordshire, the Trust has established positive and effective working arrangements with the CCG. In the wider STP area, progress continues to be made, but other providers are more challenged, so the Trust's contributions are necessarily cautious, recognising the risks to the Trust's own performance, clinically and financially.

QUALITY ACCOUNT

CONCLUSION	We issued a qualified assurance report on the Quality Account on 26 June 2018.

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 2017/18 Quality Account is set out in Regulations and the letter from NHS Improvement dated 26 January 2018. The Auditor Guidance has not been updated since 2014/15. Best practice is therefore for NHS Trusts to choose indicators in line with the Foundation Trust reporting requirements which have been updated each year. The Trust has chosen to apply best practice and test indicators in line with the Foundation Trust reporting requirements.

We are therefore required to test two mandated performance indicators, from a suite of four indicators, chosen in the order of priority required by NHS Improvement:

- Percentage of patients with a total time in A&E of four hours or less from arrival to admission, transfer or discharge
- Percentage of incomplete pathways within 18 weeks for patients on incomplete pathways at the end of the reporting period
- Maximum waiting time of 62 days from urgent GP referral to first treatment for all cancers
- Emergency readmissions within 28 days of discharge from hospital.

We have received confirmation that the Trust is exempt from having to prepare the incomplete pathways indicator and as such the two indicators that have been selected for testing are the A&E and Cancer waiting time indicators.

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 and Social Care. 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.	The Quality Account has been prepared in line with the Regulations. The Quality Account is not materially inconsistent with our review of the information we are required to consider.
Testing of A&E 4 hour indicator The Trust reported performance of 83.5% in respect of the A&E 4 hour indicator, against a target of 95% in the 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 significant weaknesses in the systems use to produce the indicator. We found issues in respect of the accuracy of the data used in the calculation, and incomplete or missing evidence to support that data. Further, we have not had access to October and November data for this indicator and so have not been able to test this period. This is due to the implementation of Lorenzo and subsequent transfer of patient activity data in this period on to a third and less accessible system. We understand that there are also concerns around data quality of information included within this system. Given the weaknesses in the system and gaps in data, we have been unable to satisfy ourselves that the indicator is materially accurate and so will qualify our audit opinion for this indicator.

REQUIREMENTS	RESPONSE	FINDINGS
Testing of 62 day cancer treatment indicator The Trust reported performance of 75.7% in respect of the 62 day cancer indicator, against a target of 85% in the 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. We found no issues in respect of the accuracy of the data used in the calculation, and incomplete or missing evidence to support that data.

APPENDIX

REPORTS ISSUED

We issued the following reports in respect of the 2017/18 financial year.

REPORT	DATE
Audit Plan	17 January 2018
Section 30 referral to the Secretary of State	24 May 2018
Audit Completion Report	22 May 2018
Report on the Quality Account	26 June 2018
Annual Audit Letter	30 June 2018

FEES

We reported our original fee proposals in our Audit Plan. We have not had to amend our planned fees.

AUDIT AREA	FINAL FEES £	PLANNED FEES £	PRIOR YEAR FEES £
Code audit fee	52,400	52,400	79,088
Total audit	**52,400**	**52,400**	**79,088**
Fees for audit related services - Quality Account	4,880	4,880	10,000
Total assurance services	**57,280**	**57,280**	**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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