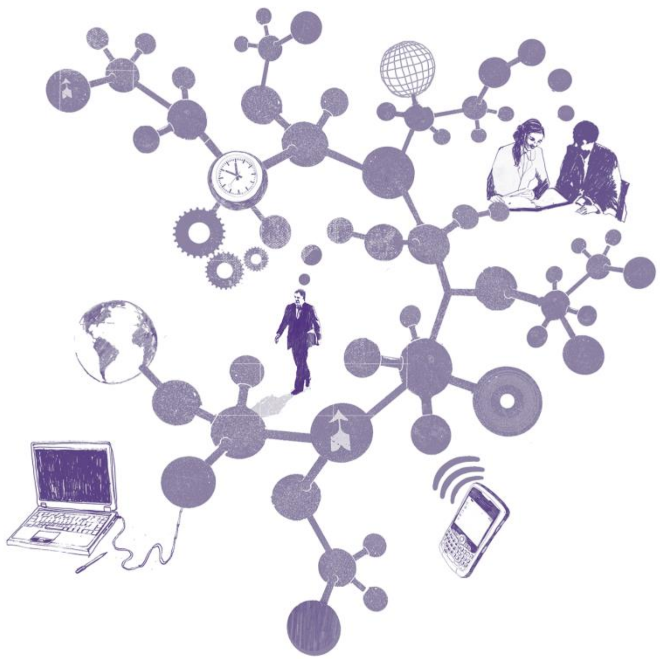
The Annual Audit Letter for London North West Healthcare NHS Trust

Year ended 31 March 2017

30 June 2017



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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at London North West Healthcare NHS Trust (the Trust) for the year ended 31 March 2017.

This Letter is intended to provide a commentary on the results of our work to the Trust and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Trust's Audit Committee as those charged with governance in our Audit Findings Report on 26 May 2017.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Trust's financial statements (section two)
- assess the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money (VFM) conclusion) (section three).

In our audit of the Trust's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISA(UK&I)s) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Trust's financial statements on 31 May 2017.

We included an emphasis of matter paragraph in our report on the Trust's financial statements to draw attention to the note which explains the basis on which the Trust has determined that it is still a going concern. This does not affect our opinion that the statements give a true and fair view of the Trust's financial position and its income and expenditure for the year.

Value for money conclusion

We were satisfied that the Trust put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources except for the Trust's underlying financial deficit. We therefore qualified our value for money conclusion in our report on the financial statements on 31 May 2017.

Consolidation template

We also reported on the consistency of the consolidation schedules submitted to the Department of Health with the audited financial statements. We concluded that these were consistent.

Use of statutory powers

We referred a matter to the Secretary of State, as required by section 30 of the Act, on 25 May 2016 because we have reason to believe that the Trust has taken a course of action that, if followed to its conclusion, will lead to a breach of the Trust's statutory breakeven duty, that is the requirement for it to achieve a balanced financial position over a three year period.

Certificate
We certify that we have completed the audit of the accounts of London North West Healthcare NHS Trust in accordance with the requirements of the Code of Audit Practice.

Quality Accounts
We completed a review of the Trust's Quality Account and issued our report on this on 30 June 2017. We concluded that the Quality Account and the indicators we reviewed were prepared in line with the Regulations and guidance.

Working with the Trust

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in May, delivering the accounts 6 days before the deadline, with the sign off taking place of 31 May 2017 following the finalisation of the Annual Report.
- Understanding your operational health – through the value for money conclusion we provided you with an independent review of your operational effectiveness.
- Providing assurance over data quality – we provided assurance over two key indicators.
- Sharing our insight – we held regular liaison meetings with management, provided regular audit committee updates covering best practice and shared our thought leadership reports.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Trust's staff.

Grant Thornton UK LLP
18 June 2017

Audit of the accounts

Our audit approach

Materiality

In our audit of the Trust's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Trust's accounts to be £13,137k, which is 1.75% of the Trust's gross revenue expenditure. We used this benchmark because we considered users of the Trust's financial statements were most interested in how it has spent the income it has made in the year.

We also set a lower level of specific materiality for certain areas such as cash, senior officer remuneration and auditors remuneration.

We set a lower threshold of £250k, above which we would have reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

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

This includes assessing whether:

- the Trust's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the annual report to check it is consistent with our understanding of the Trust and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Trust's business and is risk based.

We identified key risks and set out in table 1 the work we performed in response to these risks and the results of this work.

Audit of the accounts (continued)

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
Financial support and going concern The Trust received financial support from the Department of Health because of the large deficit it incurred in 2016/17. The Trust will required further support in 2017/18 to support the planned deficit budget.	As part of our audit work we: • We considered the final 2016/17 outturn and cash funding requirements. In addition, we considered the setting of the 2017/18 budget and the impact of this on our audit responsibilities regarding the accounts and VFM work • We considered how management has obtained assurance that the Trust is a going concern for the foreseeable future and performed our own assessment of the appropriateness of the going concern assumption. These processes included an assessment of the ability of the Trust to discharge its liabilities as they fall due for a period of at least 12 months after the date of the signing of the accounts • We have reviewed the Trust's cashflow forecasts for the 14 month period to May 2018. The forecast is based on delivery of the required savings of £50m million and includes the need for additional support; £49.5 million if all savings are achieved and up to a further £50.0 million if no further savings are identified. Further detail around the various scenarios, using the Trust's own figures are set out in appendix B. These show a range of possible outcomes from a deficit of £49.5 million, if all savings are delivered, to a deficit of £118.8 million if no savings are delivered. The likely impact of no savings being delivered is a reduction in cash or an increase in creditors or a combination of the two. • The Trust has included additional disclosure in the accounts in relation to the financial position. This disclosure has been added to Note 1.1 - Accounting Policies – Going Concern. • We have considered the appropriateness of the disclosures made in the financial statements and AGS. We reported that: • The Trust has produced the accounts on a going concern basis as the Directors have a reasonable expectation that the services provided by the Trust will continue for the foreseeable future. • The Trust has incurred an adjusted retained deficit of £61.1m for the year ended 31 March 2017. This final position exceeded the NHSI control total of £61.5m. • We have tested both revenue and expenditure, concluding that we have sufficient and appropriate assurance that the reported year end deficit is not materially misstated. • We have completed a review of the financial performance of the Trust as part of our VFM work. This has identified that that Trust has been able to deliver savings of £34.7m in 2016/17, in line with plan. • The Trust continues to face challenges and uncertainties in relation to its financial position. The current 2017/18 budget anticipates a deficit of £49.5m, with a CIP savings requirement for £50.0m. This budget includes £19.3m of Sustainability and Transformation Funding. • We have reviewed the cash flow forecast prepared by the Trust up to May 2018 which highlights a requirement for £49.5m cash support in the year through access to an Uncommitted Term Loan. The Trust can drawdown the loan on a monthly basis up to a maximum of the planned deficit for the month as per the plan submission on 30th March 2017.

Audit of the accounts (continued)

<table>
<tr><th>Risks identified in our audit plan</th><th>How we responded to the risk</th></tr>
<tr><td></td><td>• Additional disclosures have been included within the financial statements and the AGS to reflect the current position of the Trust. These disclosures have been reviewed and are considered to be appropriate. We have yet to complete our review of the disclosures in the annual report.
• The Trust has considered the material uncertainties in respect of going concern, underpinned by sensitivity analysis, and has made the appropriate disclosures required in the financial statements. We have drawn attention to these disclosures in our Auditor's Report as an Emphasis of Matter</td></tr>
<tr><td>Occurrence of healthcare income
The Trust receives a high proportion of its income from NHS commissioners of healthcare services. The Trust invoices these commissioners throughout the year and accrues for activity in the final quarter of the year. Invoices for this activity are not agreed until after the accounts are produced for audit.
There is therefore a risk that income from healthcare may be overstated.</td><td>As part of our audit work we have:
• Performed walkthrough testing to gain assurance that in-year controls were operating in accordance with our documented understanding
• Reviewed and tested revenue recognition policies
• Performed testing across healthcare revenues including:
    ○ Review of SLA contracts
    ○ Agreement of income to invoices and receipt of payments
    ○ Review of contract variations and year end agreements
• Reviewed the results of the Department of Health agreement of balances exercise to gain assurance over the classification of balances
• Considered any significant non-contractual income

We reported that:
Provisions for credit notes: Provisions for credit notes of £15.8m have been made by the Trust in respect of contract underperformance and disputed invoices. This reduces billed and accrued income and debtors notified to NHS commissioners to reflect management's assessment as to the probability of receipt of income. We have reviewed this balance in detail and considered the judgements made by management in arriving at this provision to be reasonable.
Of the £15.8m, £6.1m relates to invoices currently being discussed, where management has assessed that there is the potential for commissioners to seek a credit note.
Of the remaining balance, whilst these amounts have not been formally disputed, management has assessed the Trust's compliance with the terms and conditions of this funding and confirmed that there is more likelihood than not that commissioners will seek credit notes for these items.
We have reviewed the calculation of the RTA provision for the year with no issues identified from the work performed.
Our audit work to date has not identified any further significant issues in relation to the risk identified. As set out on page 5, we are currently waiting for 8 healthcare contracts and explanations for significant AOB differences.</td></tr>
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Audit of the accounts (continued)

Risks identified in our audit plan	How we responded to the risk
Property, plant and equipment	As part of our audit work we have: • Performed walkthrough testing to gain assurance that in-year controls were operating in accordance with our documented understanding • Reviewed the competence, expertise and objectivity of the valuer as management's expert • Reviewed the work carried out by the valuer, including ensuring that any valuations have been undertaken in accordance with the requirements of the appropriate accounting and professional standards and the assumptions and judgements are reasonable • Reviewed and challenged the information used by the valuer to ensure it is complete, robust and consistent with our understanding We reported that: The Trust adopted the Modern Equivalent Valuation alternate site technique for the first time in 2016/17. This constituted a change in estimation technique. This is in accordance with the Department of Health Group Accounting Manual 2016/17. The Trust has adopted the policy to use the existing site and not on an alternative site due to the practical requirements of maintaining healthcare delivery. The Trust engaged valuation experts to complete a desktop valuation of land and buildings and judgement has been applied by the valuer in considering the Trust's assets. The revaluation resulted in a net impairment of £27.188m and this has been recognised in the Income and Expenditure account. We have reviewed the calculation and assumptions underpinning the impairment with no issues identified from the work performed. The Trust has corrected the historical impairment of land in 2012/13 where £10m was charged to expenses in the SOCI when it should have been charged to revaluation. The Department of Health. Summarisation forms did not allow for this in 2012/13. The entry has been revered and corrected in year.
Operating expenses .	As part of our audit work we have: • Performed walkthrough testing to gain assurance that in-year controls were operating in accordance with our documented understanding • Documented the process in place for month and year end accruals • Performed unrecorded liabilities testing • Reviewed the results of the Department of Health agreement of balances exercise to gain assurance over the classification of balances • Tested a sample of expenditure items to gain assurance that it has occurred, been correctly classified, is accurate and relates to 2016/17 • Tested a sample of creditors and accruals to gain assurance that these were accurate, existed at the year end and were correctly classified We reported that: • Our audit work did not identify any significant issues in relation to the risk identified.

Audit of the accounts (continued)

Risks identified in our audit plan	How we responded to the risk
	We reported that: • Our audit work did not identify any significant issues in relation to the risk identified.

Audit of the accounts (continued)

Audit opinion

We gave an unqualified opinion on the Trust's financial statements on 31 May 2017, in advance of the national deadline.

The Trust made the accounts available for audit in line with the national timetable for submission, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Trust's Audit Committee on 26 May 2017.

Annual Governance Statement and Annual Report

We are also required to review the Trust's Annual Governance Statement and Annual Report. No significant issues were noted from the completed reviews.

Whole of Government Accounts (WGA)

We issued a group assurance certificate to the NAO, in respect of Whole of Government Accounts, which did not identify any issues for the group auditor to consider.

Other statutory duties

We are also required to refer certain matters to the Secretary of State under section 30 of the Local Audit and Accountability Act 2014. On 25 May 2016, we reported to the Secretary of State that the Trust would breach its statutory breakeven duty, that is the requirement for it to achieve a balanced financial position over a three year period.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work. The risks identified were:

- Financial Performance. The Trust has a forecast year end deficit of £61.5m and requires significant on-going cash support. We will consider the arrangements that are being put in place to work towards a sustainable financial future for the Trust
- Quality. The Trust is failing to meet a number of key national targets. We will consider the arrangements being put in place by the Trust to improve performance against its quality targets

In arriving at our conclusion, our main considerations were:

Financial performance:

- Whilst the Trust came within its control total of £61.5m they received £22.6m of STF for 2016/17, it reported a deficit of £61.1m but required significant cash support to deliver this. The Trust has access to an Uncommitted Term Loan on a monthly basis up to a maximum of the planned deficit.
- The Trust has submitted its plan for 2017/18 with a forecast deficit of £49.5m. This includes receipt of £19.381m of funding from the Sustainability and Transformation Fund and a CIP requirement of £50m.
- Further revenue support on a monthly basis up to a maximum of the planned deficit of £49.5m is required in 2017/18 and the final nature of this funding is yet to be agreed.
- We have concluded that except for the scale of the deficit in 2016/17 and the significant CIP challenges in 2017/18, the Trust has proper arrangements in all significant respects.

Quality:

- The Trust has finalised the three business cases (one for each site) that feed into the STP. This was approved by the CCG's in December 2016 following approval by the NHS England Assessment panel.
- The approval of funding remains outstanding and it is likely that this will not be approved until the Autumn 2017.
- The Trust are making progress in accordance with the timeframe that they are working to.
- The CQC visited the Trust during 2016/17.,The Trust received a section 29a warning letter with specific areas of concern and overall services require improvement. The Trust has responded with plans in place to tackle these issues.
- From a review of the most recent performance report April 2017, the Trust has met the RTT national target but has failed to meet the national targets in relation to A&E (4 hour) (admitted and non-admitted) and 62 day cancer. In all cases, performance against these targets has improved from that reported 2015/16 and we are satisfied with the overall arrangements in place at the Trust to improving its performance.

Overall VfM conclusion

Based on the work we performed to address the significant risks, we concluded that except for the matter we identified in respect of the underlying financial position, the Trust had proper arrangements in all significant respects. We therefore issued a qualified 'except for' conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources.

Quality Accounts

The Quality Account

The Quality Account is an annual report to the public from NHS Trusts about the quality of services they deliver. It allows Trust Boards and staff to show their commitment to continuous improvement of service quality, and to explain progress to the public.

Scope of work

We carry out an independent assurance engagement on the Trust's Quality Account, following Department of Health guidance. We give an opinion as to whether we have found anything from our work which leads us to believe that:

- the Quality Account is not prepared in line with the DH criteria;
- the Quality Account is not consistent with other documents specified in the DH guidance; and
- the two indicators in the Quality Account where we carry out detailed work are not compiled in line with the DH regulations and meet expected dimensions of data quality.

Key messages

- We confirmed that the Quality Account had been prepared in line with the requirements of the Regulations
- We confirmed that the Quality Account was consistent with the sources specified in the Guidance
- We confirmed that the commentary on indicators in the Quality Account was consistent with the reported outcomes
- Our testing of two indicators included in the Quality Account found that these were materially reasonably stated in accordance with the Regulations and six dimensions of data quality

Quality Account Indicator testing

We tested the following indicators:

- C. difficile infection rate per 100,000 bed-days (patients aged 2 or over)
- Percentage of patients risk-assessed for VTE

We reviewed the process used to collect data for these indicators. We checked that the indicators presented in the Quality Report reconciled to the underlying data. We then tested a sample of patients in order to ascertain the accuracy, completeness, timeliness, validity, relevance and reliability of the data, and whether the calculations were in accordance with the definition.

Based on the results of our procedures, nothing came to our attention that causes us to believe that, for the year ended 31 March 2017, the indicators have not been reasonably stated in all material respects.

Conclusion

As a result of this we issued an unqualified conclusion on your Quality Account.

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Fees

	Planned £	Actual fees £
Statutory audit	105,000	105,000
Charitable fund audit	4,500	4,500
Total fees	**109,500**	**109,500**

Fees for other services

Audit related services	Fees £
Assurance on your quality report	10,000

Reports issued

Report	Date issued
Audit Plan	March 2017
Audit Findings Report	May 2017
Annual Audit Letter	June 2017