Annual Audit Letter 2016-17

Northampton General Hospital NHS Trust

July 2017

Contents

The contacts at KPMG in connection with this report are:

Tony Crawley
Director

KPMG LLP (UK)

Tel:0116 256 6064

Simon Stanyer
Manager

KPMG LLP (UK)

Tel: 0121 232 3574

Rachit Babbar
Assistant Manager

KPMG LLP (UK)

Tel: 0121 232 3118

This report is addressed to Northampton General Hospital 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.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tony Crawley, the engagement lead to the Trust, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 6948981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

Introduction

Introduction

Background

This Annual Audit Letter (the letter) summarises the key issues arising from our 2016-17 audit at Northampton General Hospital 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 the letter on the Trust's website.

In the letter we highlight areas of good performance and also provide recommendations to help the Trust improve performance. We have included a summary of our key recommendations 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 also 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:

- Attendance at meetings with members of the Executive Team and Audit 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;
- A review of general IT controls in place at the Trust highlighting any control weaknesses and areas for improvement;
- Providing a final accounts workshop in conjunction with the East Midlands Branch of the HFMA; and
- Building a strong and effective working relationship with Internal Audit to maximise assurance to the Audit Committee, avoid duplication and provide value for money.

Introduction (cont.)

Fees

Our audit fee for 2016-17 was £44,888 excluding VAT (2015-16: £44,888). This was in line with the fee agreed at the start of the year with the Trust's Audit Committee. However, due to issues mainly as a result of IT, this lead to a delay in obtaining a lot of samples requested. This has lead to additional time on the audit for which will be seeking additional fee of £2,500.

We have also completed the following pieces of work at the Trust during the year:

Rewardwise	The fee for this work was £30k. £20k was the licence fee payable for a salary sacrifice system and £10k for the annual roll over and testing of the system as necessary and per the original contract.
Quality accounts	Our fee for the external assurance on the quality accounts was £10k plus VAT (£10k in 2015-16)

Acknowledgement

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

Headlines

Headlines

This section summarises the key messages from our work during 2016-17.

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.
Value for Money 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 you have put in place to mitigate these risks. Our work identified the following significant risks: and **Delivery of 2016-17 financial plan including the financial recovery plan** — The Trust agreed with NHS Improvement (NHSI) a deficit budget control total of £15.1m for 2016-17. This was after taking into account £9.7m of Service and Transformation Funding, without which the deficit would have been a forecast £24.8m. The Trust actually delivered a deficit of £13.8m for 2017-18 giving a favourable variance to plan of £1.3m, mainly due to the late receipt of additional Service and Transformation Funding of £1m. — The Trust did not achieve its full Cost Improvement Programme (CIP) of £12.9m by £0.7m. In addition, 22% (£2.606m) was delivered non recurrently which will impact on futures years' CIP delivery. The CIP schemes that were delivered were split roughly 40:40:20 between pay, non pay and income respectively. **Working with partners and regulators** — The Trust has been provided with an indicative assessment of 3 against the Single Oversight Framework. This means that there is actual or suspected breach of licence, and a Regional Support Group has agreed to seek formal undertakings from the provider or the Provider Regulation Committee has agreed to impose regulatory requirements. — The latest published inspection on the Trust by the Care Quality Commission in June 2016 highlights a "requires improvement " grading, however, the area of care was rated as "good". The Trust continues to strive to deliver the measures necessary to improve this grade.
Financial Statements audit opinion	We issued an unqualified opinion on the Trust's accounts on 31 May 2017. 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 or unadjusted audit differences that were identified as part of the audit. There were no significant matters which we were required to report to 'those charged with governance'.

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 financial statements. Our materiality for the audit was £5m (2015-16: £5m). We have stated below the risk of material misstatement in the financial statements, identified as part of our External Audit Plan 2016-17 and the outcome of our work: **Valuation of land and buildings** — We reviewed the Trust's engagement of Cushman and Wakefield (the 'Valuer') to provide the annual indices used for the valuation of the buildings and confirmed that the valuer was appropriately qualified, had no issues with their independence and objectivity to undertake this valuation and that it was conducted in accordance with RICS principles. — The basis of the valuation for the Trust's Buildings and Dwellings was consistent with the Treasury Guidance (FReM) and Royal Institution of Chartered Surveyors (RICS) Valuation Professional Standards (the 'Red Book'), and the indices used were appropriate. — The Trust's valuation resulted in a net decrease of £5.6m (4%) in the value of the buildings, primarily as a result of a reduction in the building indices provided by the valuer and used by the Trust. **Fraud risk from management override of controls** — Our procedures included the testing of journal entries' authorisation, accounting estimates and significant transaction outside the normal course of business such as the valuation of land and buildings and no instances of fraud were identified. — We tested the Trust's register of interests and considered the appropriateness of related party transactions and their disclosure within the financial statements. We compared the interests declared by Senior Managers and Board Members in the Register of Interests, to the Trust's accounts payable records and confirmed that no payments had been made which required disclosure. — We confirmed the transactions disclosed with other government bodies to the Agreement of Balances exercise.
Annual Governance Statement	We have also confirmed that the Trust have complied with the Department of Health requirements in the preparation of the Trust's Annual Governance Statement. No significant adjustments were required to the Annual Governance Statement.
Recommendations	We are pleased to report that there are no new recommendations arising from our 2016-17 audit work. The Trust has not yet implemented any of the three agreed audit recommendations from prior years and they still require further action by management.

Headlines (cont.)

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. As a result of the Trust's accumulated deficit of £43.3m as at the end of March 2016-17, and the forecast deficit of £13.5m for 2017-18, we made a referral to the Secretary of State under Section 30(1) (a) of the Local Audit and Accountability Act due to the Trust's breach of its three year statutory breakeven duty.

Appendices

Key recommendations

Recommendations from previous years

No.	Risk	Issue, impact and recommendation	Management response/responsible officer/due date
1	● High	**Value for Money** Use of Resources - Prepare and implement the financial recovery plan as soon as practicable to demonstrate how the Trust is going to address the £4.8m budget deficit, deliver its 2013-14 CIP programme and reduce reliance on one-off and non-recurrent solutions to achieve financial balance and stability. The plan also needs to reflect the requirement to deliver improvements in clinical performance and recognise and mitigate the associated costs implications of this. The Trust has reported a deficit in 2016-17 of £13.8m and is budgeting for a further deficit of £13.5m in 2017-18. In addition, the Trust continues to fail to meet a number of operational targets, for example the four hour emergency wait target. We therefore reiterate our original recommendation.	**Agreed** –Director of Finance The Trust continues to work to improve its financial and relevant operational performance. Ongoing.

Appendix B

Summary of our reports issued

Audit Plan

(December 2016)

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 2017)

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

Report on Quality Accounts

(June 2017)

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

2017

January

February

March

April

May

June

July

August

September

October

November

December

Audit Highlights Memorandum

(May 2017)

The Audit Highlights Memorandum provides details of the results of our audit for 2016-17 including key issues and recommendations raised as a result of our observations.

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

Annual Audit Letter

(July 2017)

This Annual Audit Letter provides a summary of the results of our audit for 2016-17.