Annual Audit Letter 2017/18

Northampton General Hospital NHS Trust

August 2018

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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

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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.

Introduction

Introduction

Background

This Annual Audit Letter (the letter) summarises the key issues arising from our 2017/18 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 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 our:

- 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; 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 basic fee for 2017/18 was £39,060 excluding VAT (2016-17: £44,888). This was in line with the fee agreed at the start of the year with the Trust's Board. We agreed a further invoice for £2,750 excluding VAT as a result of our additional work undertaken to review the Trust's revaluation exercise.

Our fee for the external assurance on the quality accounts was £8,500 excluding VAT.

Acknowledgement

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

Headlines

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 for: - The reporting of a £23.3m deficit for 2017/18. - Failure to achieve National Indicator targets particularly in respect of the 4 hour waiting time target for patients presenting at the Trust's Accident and Emergency Department.
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: — **Delivery of 2017/18 financial plan including the financial recovery plan:** — The Trust budgeted for a deficit of £13.5m for 2017/18 after the receipt of £8.7m of Sustainability and Transformation Funding (STF), without which the deficit would be a forecast £22.3m. The Trust actually delivered a deficit of £23.3m for 2017/18 giving an adverse variance to plan of £9.8m. However, of the adverse variance, £5.0m related to STF monies not being received. The true operating variance is actually therefore £4.8m if STF monies are excluded in their entirety. — The Cost Improvement Programme (CIP) for 2017/18 was £12.9m. However, there was also £2.6m of non recurrent CIP carried forward from the prior year. For 2017/18 the Trust delivered only £4.91m budgetary CIPs (38%) of its total CIP leaving £7.99m undelivered. Additionally, the Trust delivered £7.1m run rate CIPs. The undelivered budgetary CIPs will add to the pressure of delivering the 2018/19 budget and control total. — The Trust has agreed a budgeted deficit of £18.514m for 2018/19, which is predicated on the receipt of £9.191m of PSF. The Trust has a CIP target of £14.5m, which includes £1.6m of largely elective income expected to be delivered when the Nye Bevan unit becomes operational. Only £2.4m of the CIP is rated as low risk which presents a risk to the delivery of the 2018/19 financial plan. — **Working with partners and regulators:** — The latest published inspection on the Trust by the Care Quality Commission in August 2017 highlights a "good" grading which is an improvement on the previous "requires improvement" grading. — The local public sector economy is adversely affected by the County Council having a Section 114 notice served on it within 2017/18 (and a second one more recently), which effectively suspends all but essential expenditure, but also highlights its very challenging financial position in general. We recognise that this has an impact on the Trust in terms of being able to build partnerships to tackle such matters as patient flows, and also the development of the Sustainability and Transformation Plan (STP). The Northamptonshire STP received a rating of 'Needs Most Improvement' from NHS England in 2017.

Headlines (cont.)

Financial Statements audit opinion	— We issued an unqualified opinion on the Trust's accounts on 28 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 matters which we were required to report to 'those charged with governance' – the Trust's Audit Committee.
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 (2016/17: £5m). — We identified the following risk of material misstatement in the financial statements as part of our External Audit Plan 2017/18: **Valuation of Land and Buildings –** — The accounting and auditing of the valuation of the Trust's land and buildings was complicated this year as a result of applying quarterly indexation and undertaking a desktop revaluation exercise. This revaluation exercise was undertaken as at 31 March 2018 following a significant increase in the BCIS index and location factor which had been applied on a quarterly basis since the last revaluation exercise in September 2015. We reviewed the revaluation basis, and consulted with the KPMG valuation specialists to ensure that the revaluation assumptions were reasonable. We undertook the following work in response to this risk. — We confirmed that the basis of the valuation for the Trust's Buildings and Dwellings was consistent with the Government Financial Reporting Manual (FReM) and RICS Valuation Professional Standards (Red Book). — We reviewed the Trust's valuation of assets as at 31 March 2018 and noted that the valuation resulted in a net £3.366m (25.5%) and £6.647m (5.5%) decrease in the value of the land and buildings respectively. The decrease in the value is due to the valuer using the Depreciated Replacement Cost (DRC) approach for the valuation which assumes that the asset would be replaced with a Modern Equivalent Asset (MEA), not a building of identical design. However, the MEA assets have the same service potential as the existing asset but may well be smaller in size. We have no issues to report based on our work performed as outlined above.
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.
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-iterated our recommendation from 2017/18 in relation to value for money given the Trust's ongoing financial challenges.

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. The Trust's accumulated deficit at 31 March 2018 is £66.7m, which has resulted in a continued breach of the breakeven duty. As a result, we have issued a referral to the Secretary of State under section 30 of the Local Audit and Accountability Act 2014.

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 £4.6m budget deficit, deliver its 2018/19 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 2017/18 of £23.3m and is a budgeted deficit of £18.514m for 2018/19 which is contingent on the receipt of £9.191m of PSF. The Trust has a CIP target of £14.5m which includes £1.6m of largely elective income expected to be delivered when the Nye Bevan unit becomes operational. Only £2.4m of these are rated as low risk which presents a risk to the delivery of the 2018/19 financial plan.	**Agreed** –Director of Finance

Appendix B

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

(August 2018)

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

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.