The Annual Audit Letter for Lewisham and Greenwich NHS Trust

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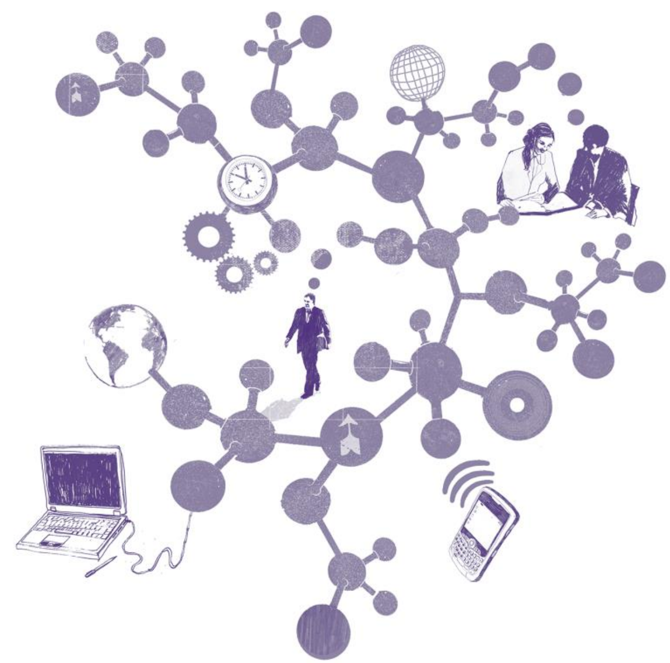
Year ended 31 March 2016

July 2016



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Contents

Section	Page
1. Executive summary	3
2. Audit of the accounts	5
3. Value for Money conclusion	9
4. Quality Accounts	12
Appendices	
A Reports issued and fees	13

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 Lewisham and Greenwich NHS Trust (the Trust) for the year ended 31 March 2016.

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 31 May 2016.

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 conclusion) (section three).

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

Our work

Financial statements opinion

We gave an unqualified opinion on your financial statements on 1 June 2016.

Value for money conclusion

The Trust delivered the financial plan agreed with the NHS Trust Development Authority at the start of the year, recording a deficit of £22.9 million, after a capital to revenue transfer of £15.5 million. This is consistent with its planned budget deficit of £38.4 million. This is the second year in which the Trust has been in deficit. It is planning for a reduced deficit of £20.2 million for 2016/17.

The Trust's plan for a return to a balanced financial position will be part of the South East London Sustainability and Transformation Plan (STP), but there is not currently, an agreed plan in place to return to financial balance.

Except for this issue we were satisfied that the Trust put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources.

We therefore qualified our value for money conclusion in our report on the financial statements on 1 June 2016.

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 did not identify any matters which required us to exercise our additional statutory powers.

We note that the Trust has a statutory duty to break even, which is interpreted as meaning on a cumulative basis, taking one year with another. 2015/16 is the second year that Lewisham and Greenwich NHS Trust has been in deficit. If the cumulative deficit position is not recovered in 2016/17 we will have to consider the duty to make a referral to the Secretary of State.

Certificate

We certify we have completed the audit of the accounts of Lewisham and Greenwich 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 2016. 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 in line with the timetable agreed with you, releasing your finance team for other work.
- Providing technical support – we provided you with constructive and pragmatic support on complex technical accounting issues including the treatment of PFI equipment assets and the treatment of changes in asset valuations.
- Improving your annual reporting – we benchmarked your annual report with those of other trusts and made recommendations for improvements.
- Providing assurance over data quality – we provided assurance over two key indicators and highlighted areas of potential improvement in the capture and reporting of the information.
- Sharing our insight – we shared our thought leadership reports with you, providing comment and insight on key issues facing your sector.

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

Grant Thornton UK LLP
July 2016

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 £9,364,000, which is 1.75% of the Trust's gross revenue expenditure. We used this benchmark as in our view, users of the Trust's financial statements are most interested in where it has spent the income it made in the year.

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

We set a lower threshold of £250,000, above which we 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 they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- your 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 your business and is risk based.

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

Audit of the accounts

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

Risks and issues identified	How we responded to the risk
Financial support and going concern The Trust has a significant income and expenditure deficit and a challenging cash flow position, which is reflected in poor performance against the Better Payment Practice Code. During the year the Trust has relied on support from the TDA (now NHS Improvement) in a number of guises: • On-going revenue run rate support in respect of the merger with South London Healthcare; • On-going support in respect of the Queen Elizabeth PFI scheme; • Revenue and cash support through a revolving working capital facility.	As part of our audit work we: • Reviewed the Trust's assessment of the appropriateness to account on a going concern basis; • Reviewed the Trust's disclosure in the accounts to ensure it gave sufficient information; • Reviewed the Trust's cash flow forecasts and correspondence with NHS Improvement about the financial support it received. The Trust received a letter from NHS Improvement confirming working capital support would be made available for the forseeable future. We concurred with the Trust's conclusion that it is appropriate to prepare the statement of accounts on a going concern basis.
Valuation of property plant and equipment The valuation process identified there had been a material omission in the previous year's valuation. Information on the lease terms of land at the Queen Elizabeth Hospital had not been provided to the valuer in 2014/15.	As part of our audit work we: • Reviewed the Trust's instructions to the valuer and the information on the assets it gave them; • Reviewed the valuer's report to understand the method used and any key assumptions.; • Met with the valuer to discuss the key assumptions about the basis of valuation, including asset lives, to ensure these were appropriate; • Checked that the valuation had been correctly reflected in the Trust's asset register. The issue was correctly treated as a Prior Period Adjustment in the accounts and appropriately disclosed in notes to the accounts. Notwithstanding the points above, we did not identify any significant concerns with the methods and treatment of the valuation.

Audit of the accounts

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

Risks and issues identified	How we responded to the risk
Treatment of PFI equipment assets The treatment of the PFI assets at the Queen Elizabeth hospital is complex. The Trust uses a PFI model to generate the values and accounting entries for this.	We used a PFI expert to review the Trust's PFI model and to liaise with management. We concluded we can place reliance on the model. We also selected the Toshiba PFI assets as part of our programme of testing the existence of property, plant and equipment. It became apparent that under the records which the Trust inherited from South London Healthcare those assets are grouped, not itemised, and it is not possible to verify the existence of individual assets within that group. We understand that since the merger the Trust has been recording any new assets on an individual basis which can be tested for existence. We concluded that as the inherited assets are an integral part of the Queen Elizabeth hospital PFI scheme, covered by the model which we have reviewed, it is reasonable to infer they do exist.
Agreement of balances The Trust is required to agree debtor and creditor balances and income and expenditure amounts with other NHS organisations. The first and second iterations of the agreement of balances exercise contained a number of significant variances with other trusts and clinical commissioning groups (CCGs).	We reviewed the reasons for the differences. In most cases these were due to errors or different interpretations made by the counterparty. We did not identify any variances or disputes which would have a significant impact on the Trust's reported financial position.

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Trust's financial statements on 1 June 2016, 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 Audit Committee on 31 May 2016.

We did not identify any errors or omissions which affected the Trust's bottom line income and expenditure position. We did identify a number of significant classification and disclosure issues, which management agreed to amend in the final version of the accounts.

Annual Governance Statement and Annual Report

We are also required to review the Trust's Annual Governance Statement and Annual Report. It provided these on a timely basis with the draft accounts with supporting evidence. We recommended a number of minor changes to the presentation and disclosure of the annual report which the Trust then implemented.

Other statutory duties

We are required to refer certain matters to the Secretary of State under section 30 of the Local Audit and Accountability Act 2014 where applicable. We did not make any referrals in 2015/16.

We note that the Trust has a statutory duty to break even, which is interpreted as meaning on a cumulative basis, taking one year with another. 2015/16 is the second year that Lewisham and Greenwich NHS Trust has been in deficit. If the cumulative deficit position is not recovered in 2016/17 we will have to consider the duty to make a referral to the Secretary of State.

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

We performed a risk assessment to identify the key risks to concentrate our work. The key risks we identified and the work we performed are set out in the table 2.

As part of our Audit Findings report agreed with the Trust in May 2016, we agreed recommendations to address our findings.

- Strengthen processes for developing Cost Improvement Plans, to optimise the delivery of recurrent savings in 2016/17;
- Continue to work with partners in the local health economy towards developing a credible medium term financial plan to restore the Trust to financial balance.

Overall VfM conclusion

The Trust delivered the financial plan agreed with the NHS Trust Development Authority at the start of the year, recording a deficit of £22.9 million, after a capital to revenue transfer of £15.5 million. This is consistent with its planned budget deficit of £38.4 million. This is the second year in which the Trust has been in deficit. It is planning for a reduced deficit of £20.2 million for 2016/17.

The Trust's plan for a return to a balanced financial position will be part of the South East London Sustainability and Transformation Plan (STP), but there is not currently, an agreed plan in place to return to financial balance.

Except for the issue identified above we are satisfied that, in all significant respects, the Trust had proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Value for Money

Table 2: Value for money risks continued

Risk identified	Work carried out	Findings and conclusions
Financial outturn The Trust may not be able to demonstrate improvement towards a financially sustainable position, by meeting its financial control total (deficit) for 2015/16 agreed with the TDA and securing its cash position without further unplanned support.	We reviewed the income and expenditure and capital positions at 31 March and discussed these with management. The purpose of this assessment was to make a qualitative judgement as to whether reasonable steps had been taken to manage and report the key financial pressures and adequately report the position to those charged with governance.	The year-end position is a deficit of £22.9 million – made up of an underlying deficit of £38.4 million less £15.5 million of capital transfers. The underlying deficit is consistent with projections made over the last year and represents the original financial plan control total agreed with the TDA. This indicates that the Trust has mitigated the risk of reporting a deteriorating financial position in year. The significant and on-going deficit position indicates that a VfM Conclusion 'except for' qualification is appropriate.
Financial sustainability The medium term financial plan developed with the agreement of the TDA may no longer be credible should 2015/16 financial outturn not meet the planned deficit position and therefore may no longer provide an achievable trajectory for financial recovery and FT application	We reviewed the Trust's financial planning in the light of 2015/16 financial performance to make a qualitative judgement as to whether the Trust has developed achievable trajectory for financial recovery.	The Trust does not currently have a recovery trajectory in place and is working with the TDA on the basis of financial cash support negotiated on a year by year basis, pending the development of the South East London NHS reconfiguration project. The Trust has received a letter from the TDA confirming on-going financial support for 2016/17. Projections for the South East London project show a worst case scenario where the component organisations do not improve, resulting in a significant deficit in the health economy by 2020. There are plans in place to close this gap, including an individual CIP saving of 2% per year for each organisation, including the Trust. However many of the projects are in the early stages of being developed. The analysis for the Trust within these projections sees its deficit increase for the next 5 years, if mitigating recurrent CIPs are not delivered. This reflects the worst case position and does not reflect the efficiency plans that the Trust is developing for delivery in 2016/17. Because there is currently no medium term plan for financial recovery in place, the Trust's financial position in future years is uncertain and therefore an 'except for' VfM Conclusion qualification is appropriate.

Value for Money

Table 2: Value for money risks continued

Risk identified	Work carried out	Findings and conclusions
Cost Improvement Plans The Trust's planning, control and governance arrangements over savings plan delivery may not be sufficient to ensure that savings plans are delivered in full, on a timely basis.	We gathered further information about the Cost Improvement Plan (CIP) process through discussion with management and document review. The purpose of this assessment was to make a qualitative judgement on the effectiveness of the CIPs process reconciling this to the outcome achieved against the plan at year end, and the arrangements made to develop the CIPs plan for 2016/17.	The Trust had a savings target of £23.6 million for 2015/16, against which a contingency of 10% (£2,360k) was held centrally. Savings of £21.3 million were delivered, representing 91% of plan. The Trust reported to the Finance Committee that approximately half of the saving delivered in year is non-recurrent. Even allowing for the benefit of the full year effect of some schemes delivered late in the year to (approximately £2m), this means that approximately £10m of further recurring savings will have to be identified as part of the 2016/17 CIP programme. The Trust is still developing its 2016/17 Cost Improvement Plan to deliver savings of £23.4 million set out in the annual plan. The CIPs target is being kept under 5% of total expenditure in order to make the target deliverable. Progress has been made in developing savings schemes to deliver the 2016/17 target, however by May 2016 less than half of the target had been matched to detailed schemes. The Trust's track record indicates a risk to whether these savings can be delivered recurrently. There is a specific risk that the late development of CIPs plans will undermine the Trust's ability to deliver the target on a recurrent basis, as there are only 10 months of the financial year remaining for these to be developed, evaluated and implemented. We do not consider that this issue is of sufficient magnitude to result in a qualified VfM conclusion in its own right. However, we recommend that controls over CIPs development and implementation are strengthened as a matter of priority, to optimise the delivery of recurrent savings in 2016/17 and to ensure that the savings programme for 2017/18 is robust enough to ensure that the full target is delivered recurrently.

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 (DH) 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:

- Percentage of Patient Safety Incidents resulting in severe harm or death;
- Rate of clostridium difficile infections.

We reviewed the process used to collect data for the indicator. We checked that the indicator presented in the Quality Report reconciled to the underlying data. We then tested a sample of cases to check the accuracy, completeness, timeliness, validity, relevance and reliability of the data, and whether the calculation is in accordance with the definition.

We reviewed the process used to collect data for the indicator. We checked that the indicator presented in the Quality Report reconciled to the underlying data. We then tested a sample of cases to check the accuracy, completeness, timeliness, validity, relevance and reliability of the data, and whether the calculation is in accordance with the definition. We made one recommendation for you to review the timeliness of data capture and reporting of patient safety incidents.

Based on the results of our procedures, nothing came to our attention that caused us to believe that the indicators we tested were not 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 non audit services.

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit	101,250	101,250	135,000
Charitable fund	1,665	1,665	1,665
Total fees	**102,915**	**102,915**	**136,665**

Fees for other services

Service	Fees £
Quality accounts	10,000

Reports issued

Report	Date issued
Audit Plan	March 2016
Audit Findings Report	May 2016
Annual Audit Letter	July 2016
Report on the quality accounts	July 2016

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