



# Annual Audit Letter 2017-18

George Eliot Hospital NHS Trust

July 2018

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This report is addressed to George Eliot 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 George Eliot 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 at [www.geh.nhs.uk](http://www.geh.nhs.uk).

In the letter we highlight areas of good performance and also provide recommendations to help the Trust improve performance.. 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 A.

## 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:

<b>Financial Statements including the Annual Governance Statement</b>	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.
<b>Value for Money (VFM) arrangements</b>	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;
- Support and challenge the Trust's integration of the Quality Account with the Annual Report and therefore delivery of our Quality Accounts work to meet the earlier Foundation Trust deadline of 29 May as opposed to the NHS Trust deadline of 30 June;
- 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 fee for 2017-18 was £43,400 excluding VAT (2016-17: £46,743). This was above the fee agreed set out in our external audit plan. Subsequent to the release of our plan, GE were identified as a sampled component as part of the Group Audit conducted by the National Audit Office. This resulted in us completing enhanced procedures and completing a more detailed return to the NAO. In addition, we encountered some delays during the audit and additional work to quantify some findings as reported in our ISA260. As a result we incurred additional costs of £3,500 which were agreed with the Director of Finance.

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

<b>Quality Accounts Opinion</b>	External assurance on the Trust's quality accounts The fee for this work was £8,500 excluding VAT (2016-17:£10,000)
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## Acknowledgement

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



# Headlines

# Headlines

This section summarises the key messages from our work during 2017-18.

<p><b>Value for Money (VFM) conclusion</b></p>	<p>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:</p> <ul style="list-style-type: none"> <li>— The Trust’s adjusted retained deficit of £17.98m for 2017/18 and the projected deficit going forward of £14.28m in 2018/19. The Trust’s planned deficit in 2018/19 are contingent on the Trust realising £7.02m of savings of which £4.08m were assessed as high risk of being achieved.</li> <li>— We have made a referral under section 30 to the Secretary of State for Health with regards to the Trust’s on-going deficit position as the Trust has a cumulative deficit position of £59.2m with no planned period of recovery. The Trust’s plans for 2018/19 have ongoing requirement for revenue support from the Department of Health and Social care.</li> </ul>
<p><b>Value for Money conclusion risk areas</b></p>	<p>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.</p> <p>Our work identified the following significant risk:</p> <ul style="list-style-type: none"> <li>— <b>Financial sustainability and delivery of savings plans</b> <ul style="list-style-type: none"> <li>— As part of our audit procedures we assessed the Trust’s financial sustainability. The Trust faced a challenging year, setting a budget of £13.2m. The CIP plan included cost savings totalling £6.6m, with the Trust achieving £3.9m at the year end. The Trust has required injections of revenue support from the Department of Health during 2017/18, in the form of interest bearing loans totalling £18.0m.</li> <li>— The outturn performance was £18.0m deficit against the control total of £13.2m. Although the Trust failed to meet the control total for the year it received a total of £2.5m of STF funding, with an extra £1.0m confirmed on 18 May 2018.</li> <li>— Going forward the Trust has in place external support to deliver on the challenging CIP targets for 2018/19.</li> <li>— The Trust has one revenue loan which will reach full term and be due for repayment in February 2019. Agreements for the repayment of the loan have not yet been agreed with NHS Improvement and the DHSC.</li> </ul> </li> </ul>
<p><b>Financial Statements audit opinion</b></p>	<ul style="list-style-type: none"> <li>— We issued an unmodified opinion on the Trust’s accounts on 29 May 2018. A material uncertainty paragraph was included, based on the preparation of the accounts on a Going Concern basis, due to the financial position of the Trust and the reliance on continued revenue support in 2018/19. The Trust set out its evaluation of Going Concern in Note 1.1.2.</li> <li>— Our opinion 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.</li> <li>— There were no significant matters which we were required to report to ‘those charged with governance’.</li> </ul>

# Headlines (cont.)

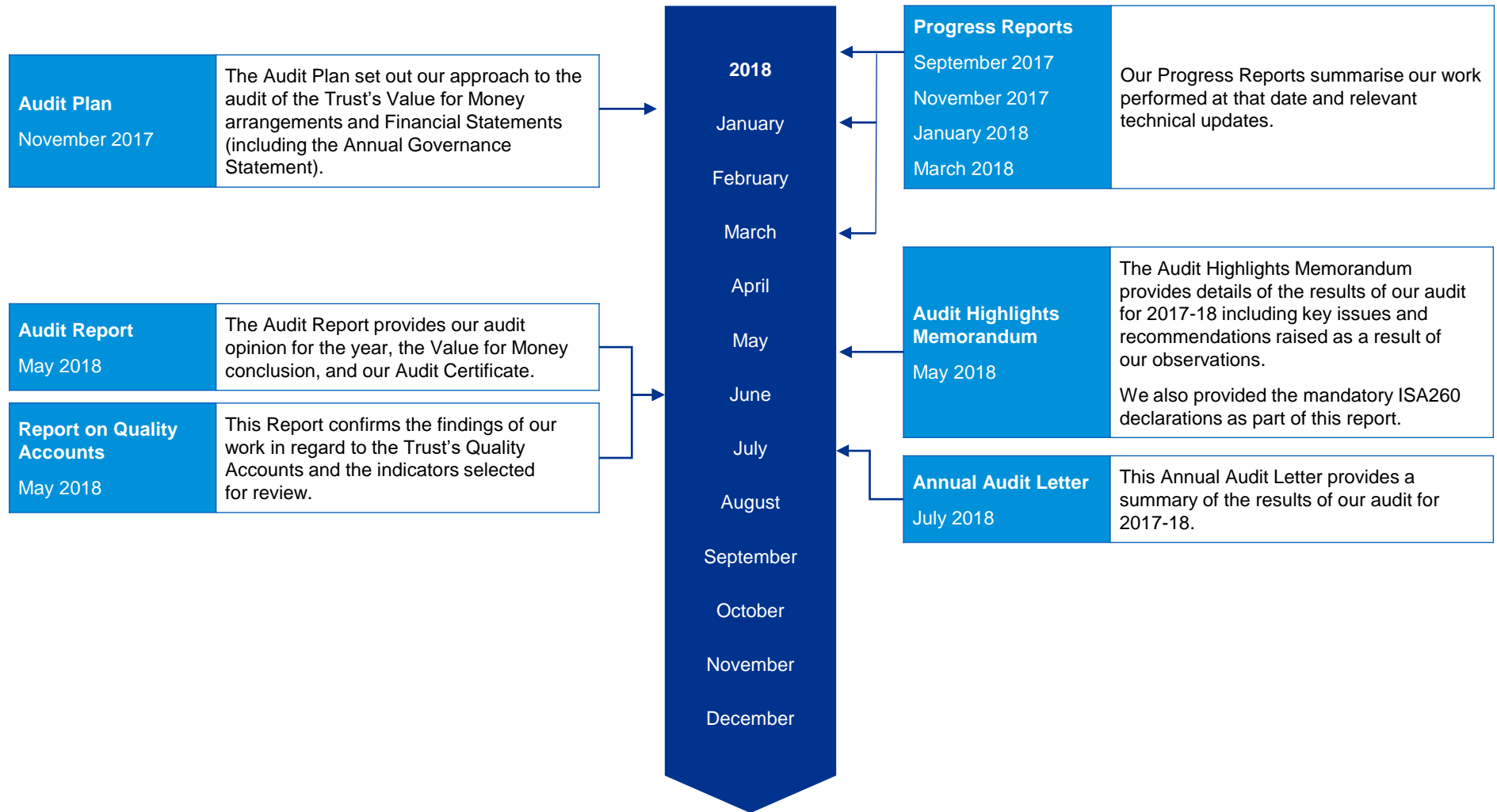
<b>Financial statements audit work undertaken</b>	<ul style="list-style-type: none"> <li>— We are required to apply the concept of materiality in planning and performing our audit. We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free 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 £2m.</li> <li>— We identified the following risk of material misstatement in the financial statements as part of our External Audit Plan 2017-18:             <ul style="list-style-type: none"> <li>— <b>Valuation of Land and Buildings</b> – In year the Trust had taken the decision to apply indexation to the valuation of land and buildings for the 2017/18 year end, following a revaluation in 2016/17 adopting a Modern Equivalent Asset (MEA) alternative site methodology. Our work therefore focussed on understanding the approach to indexation applied, confirming appropriateness of amendments made by management to the information received from the valuer and understanding the basis upon which impairments were calculated. We did not identify any evidence of material misstatement as a result of our audit work. As part of our opening balances work we identified that the accumulated depreciation had not been reversed out of the accounts as part of the revaluation at 1 April 2016 and the Trust made an opening balance adjustment in the 2017/18 PPE note in order to rectify this. We also raised a recommendation in relation to the Trust’s approach to impairment review, there is no formal policy of process for the review of impairments of land and buildings in the interim period between external valuations.</li> <li>— <b>Recognition of NHS Income</b> – The Trust receives over 85% of its income from NHS commissioners of healthcare services. Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant audit risk. The work performed focused on the recognition of NHS and non-NHS income and considered the completeness, existence and accuracy of the balances recorded within the financial statements. We assessed the outcome of the agreement of balances exercise with other NHS bodies, reporting mismatches over £300k. We also gained an understanding of the Trust’s system for accounting and the controls in place, and tested a sample of income to supporting documents and receipt of cash. The basis upon which any provisions for debt were made was confirmed, including the completeness and accuracy of the aged receivables analysis. We did not identify any evidence of material misstatement as a result of our audit work. However, we did identify that the Trust made a provision for £1.3m of NHS related debt. Whilst we recognise this approach is “prudent”, Section 5.103 of the GAM states that “<i>group bodies should not normally impair for receivables due from other DHSC group bodies</i>”. This has been included in our assessment of Management’s judgements.</li> </ul> </li> </ul>
<b>Annual Governance Statement</b>	<ul style="list-style-type: none"> <li>— We confirmed that the Trust complied with the Department of Health requirements in the preparation of the Trust’s Annual Governance Statement.</li> <li>— No significant adjustments were required to the Annual Governance Statement.</li> </ul>
<b>Whole of Government Accounts</b>	<ul style="list-style-type: none"> <li>— We issued an unqualified Group Audit Assurance Certificate to the National Audit Office regarding the Whole of Government accounts submission with no exceptions.</li> </ul>
<b>Recommendations</b>	<ul style="list-style-type: none"> <li>— We raised seven recommendations in respect of our financial statements and value for money work. None of these are considered to be high risk.</li> <li>— We raised two high risk recommendations as a result of our Quality Accounts work in respect of the venous thromboembolism (VTE) indicator which were reported in our ISA260 report to the Audit Committee on 24 May 2018.</li> </ul>
<b>Public Interest Reporting</b>	<ul style="list-style-type: none"> <li>— 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. We made a referral to the Secretary of State for Health, under section 30 of the Local Audit and Accountability Act 2014, with regards to the Trust’s cumulative deficit position of £59.2m.</li> </ul>





# Appendices

# Summary of our reports issued





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.

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