



# The Annual Audit Letter for St Helens and Knowsley Teaching Hospitals NHS Trust

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**Year ended 31 March 2019**

**17 June 2019**



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# Executive Summary

## Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at St Helens and Knowsley Teaching Hospitals NHS Trust ( the Trust) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Trust and 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 23rd May 2019.

## Our work

## Respective 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 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 financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

<b>Materiality</b>	We determined materiality for the audit of the Trust's financial statements to be £7.155m, which is 2% of the Trust's gross operating expenditure.
<b>Financial Statements opinion</b>	We gave an unqualified opinion on the Trust's financial statements on 25th May 2019.
<b>NHS Group consolidation template (WGA)</b>	We also reported on the consistency of the financial statements consolidation template provided to NHS England with the audited financial statements. We concluded that these were consistent.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.
<b>Value for Money arrangements</b>	We were satisfied that the Trust put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council of Governors of the Trust on 25th May 2019.
<b>Quality Accounts</b>	We completed a review of the Trust's Quality Account and issued our report on this on 25th May 2019. We concluded that the Quality Account and the indicators we reviewed were prepared in line with the Regulations and guidance.
<b>Certificate</b>	We certified that we have completed the audit of the financial statements of St Helens and Knowsley Teaching Hospitals NHS Trust in accordance with the requirements of the Code of Audit Practice on 25th May 2019.

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# Executive Summary

## 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, releasing your finance team for other work.
- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.
- Sharing our insight – we provided regular Audit Committee updates during the year, including best practice identified from our work with NHS entities across the country. We also shared our thought leadership reports with you.
- Providing training – we provided training on matters related to the financial accounts and annual report.

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

**Grant Thornton UK LLP**  
**June 2019**

# Audit of the Financial Statements

## 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 the audit of the group financial statements to be £7.155m which is 2% of the Trust's gross operating expenditure. We used this benchmark as, in our view, users of the Trust's financial statements are most interested in where the Trust has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration of £0.050m.

We set a lower threshold of £0.3m, above which we reported errors to the Audit Committee in our Audit Findings Report.

### The scope of our audit

Our audit involves obtaining sufficient 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 accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the 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 remainder of the Annual Report to check it is consistent with our understanding of the Trust and with the financial statements included in the Annual Report on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that 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 overleaf the work we performed in response to these risks and the results of this work.

# Audit of the Financial Statements

## Significant Audit Risks

These are the significant 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	Findings and conclusions
<p><b>Improper revenue recognition</b></p> <p>Trusts are facing significant external pressure to restrain budget overspends and meet externally set financial targets, coupled with increasing patient demand and cost pressures. In this environment, we have considered the rebuttable presumed risk under ISA (UK) 240 that revenue may be misstated due to the improper recognition of revenue.</p> <p>We rebutted this presumed risk for the revenue streams of the Trust that are principally derived from contracts that are agreed in advance at a fixed price. We determined these to be income from:</p> <ul style="list-style-type: none"> <li>• block contract income element of patient care revenues</li> <li>• education &amp; training income.</li> </ul> <p>We did not deem it appropriate to rebut this presumed risk for all other material streams of patient care income and other operating revenue.</p> <p>We therefore identified the occurrence and accuracy of these income streams of the Trust and the existence of associated receivable balances as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>• evaluated the Trust's accounting policy for recognition income from patient care activities and other operating revenue for appropriateness and compliance with the DHSC Group Accounting Manual 2018/19;</li> <li>• updated our understanding of the Trust's system for accounting for income from patient care activities and other operating revenue, and evaluated the design of the associated controls.</li> </ul> <p><b>Patient Care Income</b></p> <ul style="list-style-type: none"> <li>• using the DHSC mismatch report, we investigated unmatched revenue and receivable balances over the NAO £300,000 threshold, corroborating the unmatched balances used by the Trust to supporting evidence;</li> <li>• we agreed, on a sample basis, income from contract variations and year end receivables to signed contract variations, invoices or other supporting evidence such as correspondence from the Trust's commissioners.</li> </ul> <p><b>Other Operating Revenue</b></p> <ul style="list-style-type: none"> <li>• we agreed, on a sample basis, income and year end receivables to invoices and cash payment or other supporting evidence;</li> <li>• agreed Provider Sustainability Fund (PSF) income recognised to NHS Improvement notifications.</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition</p>

# Audit of the Financial Statements

## Significant Audit Risks - 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	Findings and conclusions
<p><b>Management override of controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Trust faces external pressures to meet agreed targets, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p><b>Auditor commentary</b></p> <p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness;</li> <li>obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness;</li> <li>evaluated the rationale for any changes in accounting policies or significant unusual transactions.</li> </ul>	<p>Our audit work did not identified any evidence of management over-ride of controls.</p>
<p><b>Valuation of land and buildings</b></p> <p>The Trust revalues its land and buildings on a five-yearly basis to ensure the carrying value in the Trust financial statements is not materially different from current value at the financial statements date. In the intervening years, such as 2018/19, the Trust requests a desktop valuation from its valuation expert. This valuation represents a significant estimate by management in the financial statements.</p> <p>We therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p><b>Auditor commentary</b></p> <p>We:</p> <ul style="list-style-type: none"> <li>Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li> <li>evaluated the competence, capabilities and objectivity of the valuation expert;</li> <li>wrote to the valuer to confirm the basis on which the valuation was carried out;</li> <li>challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; and</li> <li>tested revaluations made during the year to see if they had been input correctly into the Trust's asset register.</li> </ul>	<p>Our audit work has not identified any other significant issues in relation to the risk identified.</p>

# Audit of the Financial Statements

## **Audit opinion**

We gave an unqualified opinion on the Trust's financial statements on 25th May 2019.

## **Preparation of the financial statements**

The Trust presented us with draft financial statements in accordance with the national deadline, 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 financial statements**

We reported the key issues from our audit to the Trust's Audit Committee on 23rd May 2019.

## **Annual Report, including the Annual Governance Statement**

We are also required to review the Trust's Annual Report, including the Annual Governance Statement. Both these documents were provided to us on a timely basis.

## **Whole of Government Accounts (WGA)**

We issued a group return to the National Audit Office in respect of Whole of Government Accounts, which did not identify any issues for the group auditor to consider.

## **Certificate of closure of the audit**

We certified that we have completed the audit of the financial statements of St Helens and Knowsley Teaching Hospitals NHS Trust in accordance with the requirements of the Code of Audit Practice on 25th May 2019.

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# 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 2017 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 risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

## **Overall Value for Money conclusion**

We were satisfied that in all significant respects the Trust put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

# Value for Money conclusion

## Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>The Trust's financial plan for 2018/19 aims to meet a control total deficit of £1.8m and a cost improvement programme of £19m. Successful deliver of this and meeting national performance targets will entitle the Trust to £12.8m of Provider Sustainability Funding.</p> <p>The overall risk for the Trust is around the ability to regularly monitor the financial and operational performance of the Trust, keeping management and NEDs regularly informed of the financial and operational performance against plan and targets, and where necessary to respond appropriately.</p> <p>We will review the in year financial performance against the Trust's control total and cost improvement programme target, assessing whether the monitoring arrangements keep Board Members and NEDs appropriately informed of the financial performance throughout the year. We will also review how the Trust manages the risk of non-delivery.</p>	<p>The Trust delivered an operational deficit for the year of £0.597m, after technical adjustments, which was achieved in part by the late receipt of bonus Provider Sustainability Funding (PSF) on the 18 April 2019 of £5.133m, compared to its revised control total deficit of £1.8m. The Trust also delivering £15m productivity and efficiency savings against a challenging CIP target of £19m.</p> <p>The Trust's Integrated Performance Reports provide management and NED's with the in year financial reporting position of the Trust. These are presented and summarised at every Trust Board meeting and at each Finance and Performance Committee meeting. The reports are comprehensive and produced one month in arrears demonstrating that they are timely and up to date. They provide a clear analysis of the progress against the financial plan at income and expenditure levels, whilst also highlighting cost improvement programme (CIPs) performance, capital programme and cash management information including cash flow forecasts and aged debtor and creditor information.</p> <p>The reports are supported by a useful RAG (red/amber/green) assessment of the risks of failing to deliver the control total and CIP target as well as including a summary of risk issues and the management responses taken to try to mitigate identified risks. Where necessary the IPRs are supported by additional reports often presented by the Director of Finance which provide a detailed risk analysis of the forecast outturn position.</p>	<p>We concluded that the Trust has appropriate arrangements in place for reporting and monitoring its financial position.</p>

# Quality Accounts

## The Quality Account

The Quality Account is an annual report to the public from an NHS Trust about the quality of services it delivers. 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 set DH criteria;
- the Quality Account is not consistent with other documents, as specified in the DH guidance; and
- the two indicators in the Quality Account where we have carried out testing are not compiled in line with DH regulations and do not meet expected dimensions of data quality.

## Quality Account Indicator testing

We tested the following indicators:

- VTE Assessment: % of patients risk-assessed for venous thromboembolism (VTE).
- Patient Safety Indicator: % of patient safety incidents resulting in severe harm or death

For each indicator tested, we considered the processes used by the Trust to collect data for the indicator. We checked that the indicator presented in the Quality Account reconciled to underlying Trust data. We then tested a sample of cases included in the indicator to check the accuracy, completeness, timeliness, validity, relevance and reliability of the data, and whether the calculation of the indicator was in accordance with the defined indicator definition.

## 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 DH Guidance .
- We confirmed that the commentary on indicators in the Quality Account was consistent with the reported outcomes.

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 the Trust's Quality Account on 25th May 2019.

## A. Reports issued and fees

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

### Reports issued

Report	Date issued
Audit Plan	December 2018
Audit Findings Report	May 2019
Annual Audit Letter	June 2019

### Fees

	Planned £	Actual fees £	2017/18 fees £
Statutory audit	40,500	40,500	40,500
Charitable fund independent examination	900	Tbc*	900
<b>Total fees</b>	<b>41,400</b>	<b>Tbc</b>	<b>41,400</b>

### Fees for non-audit services

Service	Fees £
<b>Audit related services</b>	6,200
- Quality Accounts	
<b>Non-Audit related services</b>	28,000
- Cost Assurance work	
<b>Total</b>	<b>34,200</b>

### Non - audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Trust. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Trust's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Trust's policy on the allotment of non-audit work to your auditor.



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