Annual Audit Letter 2015-16

Hull and East Yorkshire Hospitals NHS Trust

July 2016

Contents

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This report is addressed to Hull and East Yorkshire Hospitals 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 John Prentice, 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 2015/16 audit at Hull and East Yorkshire Hospitals 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.hey.nhs.uk.*

In the letter we highlight areas of good performance and summarise recommendations made 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:

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 whether the Trust has complied with the Department of Health (DoH) requirements in the preparation of its Annual Governance Statement. We also confirm whether the balances you have prepared for consolidation into the Whole of Government Accounts (WGA) are not inconsistent with our other work.
Use of Resources (UoR)	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;
- Proactive and pragmatic approach to issues arising in the production of the financial statements to ensure that our opinion is delivered on time; and
- 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 base fee for the 2015/16 audit was £64,745 plus VAT. We have also agreed a further fee adjustment of £6,330 plus VAT with the Trust's Chief Financial Officer linked to additional work on the valuation of the land at Castle Hill, PPE valuations and Assets under Construction, and the two significant value for money risks. The fee adjustment still requires approval from Public Sector Audit Appointments Limited.

In 2014/15 the base fee net of VAT was £86,327 plus an adjustment of £8,000 to take account of additional work on the accounts and valuation issues in the 2014/15 audit.

Our scale (or base) fees are set nationally by Public Sector Audit Appointments Ltd and reflected a significant 25% reduction made nationally to scale fees. We also completed the following work at the Trust during the year**:**

Review of Quality Account	Work to support the Quality Account opinion totalled £9,500 (plus VAT)
VAT Compliance	PSAA Ltd approved additional VAT compliance work totalling £16,000 (plus VAT) covering work on 2015/16 and 2016/17.
Charitable Funds	The fee for the audit of the Hull and East Yorkshire General Charitable Trust is £3,150 (plus VAT)

Acknowledgement

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

Headlines

Headlines

This section summarises the key messages from our work during 2015/16.

Overall financial results and other key messages	The Trust's overall financial position remains difficult. Although the £8.1 million deficit in 2015/16 was much better than planned, there remains a significant underlying deficit of over £20 million and risks surround some elements of the significant savings needed in 2016/17. The Trust has plans in place to break even in 2016/17, however, this assumes receipt of additional support of £14 million from the Sustainability and Transformation Fund which depends on the achievement of key performance targets. The trajectory needed to meet those targets will require a significant improvement in performance. The Trust carried out a lot of work in 2015/16 to analyse performance and to understand where improvements can be made. However, the Trust did not achieve key national targets for waiting times impacting on the Care Quality Commission's (CQC) 'responsiveness' assessment although, overall, performance was maintained during the year with minor improvements. Although most cancer targets were met during the year, the 62 day wait target has been missed every month. Recent progress has been more encouraging but the challenges still remain. The CQC has been undertaking a further inspection recently which will provide much more detail on progress being made.
Use of Resources conclusion	We concluded that the Trust has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, except the Trust does not have detailed plans in place to fully address its significant underlying deficit of £22.2 million sustainably. The Trust's outturn position for 2015/16 was an £8.1 million deficit Whilst this was better than the projected deficit of £18.3 million it was primarily achieved through one off technical adjustments including a capital to revenue transfer of £2 million agreed with the Trust Development Authority and the revaluation of land at Castle Hill by £8.2 million. The Trust achieved its statutory duty to break even for the three years ending 31 March 2016 because the surpluses in 2013/14 and 2014/15 (£5.9 million and £2.9 million respectively) exceeded the £8.1 million deficit for 2015/16. The Trust has agreed contracts with its main commissioners for 2016/17 and is planning a break-even position for its financial performance. However, the Trust acknowledges there are risks to achievement of this plan. The plan will only be achieved with £19.2 million cost improvements and the receipt of £14 million of non-recurrent support from the Sustainability and Transformation Fund. £5.1 million of the savings needed have still to be identified. Any slippage in delivery of identified savings would also need to be addressed in year to achieve the break even forecast.

Headlines (cont.)

Use of resources 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: — Risk 1 - Achievement of key financial targets - We reviewed the Trust's financial planning, financial governance and financial control arrangements including reviewing the Trust's financial plans for 2016/17. The results of this work are reflected above. — Risk 2 - Responding to the CQC inspection in May 2015 which scored the Trust as 'requires improvement' - The key area for improvement was 'responsiveness' which was assessed as 'inadequate'. We reviewed detailed plans, analysed and assessed performance and discussed the Trust's response with senior managers. The Trust has made progress with the actions needed in response to the May 2015 CQC inspection. We can see evidence of improved arrangements; a lot of work has also been carried out to analyse performance and to understand where improvements can be made. However, despite this action, the Trust did not achieve key national targets for waiting times throughout the year.
Financial Statements audit opinion	We issued an unqualified opinion on the Trust's accounts on 1 June 2016. 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. Management agreed to amend the draft financial statements for two significant audit differences: — £1.6 million amendment being the increase in value of Land at 31 March 2016 which had been accounted for as a reversal of an impairment in error. — £6.4 million reclassification from Assets under Construction balance to operational assets (Buildings £2.5 million and Equipment / IT £3.9 million) as at 31 March 2016. Management decided not to amend one further audit difference. This related to one area of uncertainty concerning the treatment of a fall in value of Buildings at 31 March 2016 of £1.4 million. This comprised an indexation increase in value of £2.2 million and a fall in value, due to changes in the estimated useful lives, of £3.6 million. We recommended that the Trust should request further details from the valuer in future to identify changes due to economic use and changes due to price.

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 £5 million which was lower than previous years because of the financial difficulties facing the Trust. We identified the following risks of material misstatement in the financial statements as part of our External Audit Plan 2015/16: — Risk 1 - Potential Sale of Land at Castle Road disclosed as an Investment Property. We carried out a review of the Trust's accounting treatment and documentation supporting the proposed sale of land and reclassification of the asset as an investment Property. We concurred with the Trust's view that in 2015/16 the land could be re-classified as an Investment Property under IAS 40. This allowed a change in valuation, supported by appropriate documentation, to be taken directly to the Statement of Comprehensive Income in 2015/16. — Risk 2 - Outsourcing of Financial Services from 1 April 2016. We held regular discussions on the impact of the changes with senior management and we planned our work around the changes. Overall, the information supporting the financial statements improved in 2015/16 compared to 2014/15 and the new outsourcing arrangements did not impact on the delivery of the 2015/16 audit. — Risk 3 - Meeting the Financial Target in the Recovery Plan. We reviewed the impact of changes in valuation of PPE and Investment Properties which reduced the planned deficit of £18.3 million by £8.2 million. We also reviewed changes in the asset lives which reduced the deficit by over £3.6 million against the original budget and other adjustments (such as impairments) which were not counted against the break even duty.
Annual Governance Statement	We also confirmed that the Trust has complied with the Department of Health's 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 on 1 June 2016.
Recommendations	We made two new medium risk recommendations on valuation of assets and accounting for assets under construction which were agreed. The Trust made reasonable progress on implementing agreed audit recommendations from prior years,. Of the seven made in 2014/15 only two medium risk recommendations remained partially outstanding with plans in place to fully implement them in 2016.
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. We did not issue a report in the public interest or refer any matters to the Secretary of State in 2015/16.

Appendices

Summary of our reports issued

2016

January

February

March

April

May

June

July

August

September

October

November

December

Audit Plan

(February 2016)

The Audit Plan set out our approach to the audit of the Trust's Use of Resources and Financial Statements (including the Annual Governance Statement).

Audit Report

(June 2016)

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

Report on Quality Accounts

(June 2016)

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

Audit Highlights Memorandum

(June 2016)

The Audit Highlights Memorandum provides details of the results of our audit for 2015/16 including key issues and recommendations raised as a result of our observations.

We also provided the mandatory ISA 260 declarations as part of this report.

Annual Audit Letter

(July 2016)

This Annual Audit Letter provides a summary of the results of our audit for 2015/16.

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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