



Annual Audit Letter 2016-17

Hull and East Yorkshire Hospitals
NHS Trust

17 July 2017

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in connection with this
report are:**

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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 2016-17 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 <https://www.hey.nhs.uk/about-us/corporate-documents>. 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	<p>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.</p> <p>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.</p>
Value for Money (VFM) arrangements	<p>We conclude on the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the Trust's use of resources.</p>

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; 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 initial fee for 2016-17 was £64,745 excluding VAT (2015-16: £80,617 including quality accounts and scale fee adjustment for additional work). This was above the fee agreed at the start of the year with the Trust's Audit Committee.

We are still awaiting final approval from the PSAA, to raise an additional fee for £3,000 in relation to the audit work on the cash flow significant risk which we undertook in 2016. As we had to undertake additional work to complete the accounts audit we are also seeking approval for an additional £1,400 which again requires PSAA approval (see page 7).

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

Quality account	This is work normally undertaken by the external auditor to give assurance on your quality account and selected indicators. The fee for this work was £9,500.
Taxation compliance services	VAT compliance and recovery work is undertaken by a separate team. This engagement was previously approved by PSAA but the external auditor will be prohibited from undertaking new tax work from 1 April 2017. The fee for this work was £9,356.
Contract reviews	Contract reviews were undertaken in areas which are not material to the financial statements eg health roster and renal services. The fee for this work was £10,916.

Acknowledgement

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

As this is our last year as the Trust's auditors and this is our final formal communication, we wish you every success for the future. The Trust has faced many challenges in recent years, however there are indications in key areas that progress is being made. Where key challenges remain, we would be pleased to assist you in a different capacity should you wish us to do so.



Headlines

Headlines

This section summarises the key messages from our work during 2016-17.

Value for Money (VFM) conclusion	<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 issued an unqualified conclusion.</p>
Value for Money conclusion risk areas	<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 risks:</p> <ul style="list-style-type: none"> • Management of the Trust’s cash position – the Trust had a serious cash shortfall exceeding £19 million. Early work was undertaken at the request of the Chief Financial Officer and a report was issued in October 2016. We recommended improvements in the monitoring arrangements and the development of long term plans to address the shortfall. We later reviewed progress on the recommendations and assessed the impact of the shortfall on the Trust’s long term financial viability. This work was sufficient to confirm the arrangements were adequate despite the cash shortfall. • However the Trust has an underlying deficit position of £13.7m for 2017/18 and £9.5m for 2018/19. A control total of £11.5 million deficit was agreed with the NHSI for 2017/18 to attract £11.95m STF funding. This still leaves the Trust with a major challenge to address its worsening cash position. • Achievement of the revenue control target – during the year the Trust had a shortfall against its efficiency savings plans which risked delivery of the budget and achievement of the Trust’s target. We reviewed your arrangements for delivery of the financial and CRES plans in 2016/17 as part of our work and performed some specific procedures on Quarter 4 judgements, reconciling the year end performance to in year financial reporting year end cut off processes. • Overspendings by Health Groups were not fully matched by increased activity and income. There was also a £4.2 million shortfall in the delivery of cash releasing efficiency savings. A range of smaller actions were needed to achieve break-even. While appropriate action was taken for 2016/17, the Trust still needs to generate a surplus and achieve CRES to ease its pressures in 2017/18, particularly given the cash position reported above. • The Trust has made some progress in addressing regulator concerns and addressing poor performance in key areas but achieving financial sustainability remains vital to its future. The Trust has only recently agreed its control total for 2017/18. Bridging the financial gap is the immediate priority but the solutions need to be sustainable.
Financial Statements audit opinion	<ul style="list-style-type: none"> — We issued an unqualified opinion on the Trust’s accounts on 31 May 2017. 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 unadjusted audit differences identified as part of the audit. However some amendments were agreed including £2.2 million maternity pathways deferred income which had been initially netted off Trade and Other Receivables instead of being shown as deferred income. This also led to an error in non-NHS balances being identified. Changes were also made as part of the second agreement of balances exercise which were not all processed correctly, leading to another set of accounts being checked. — We also had to undertake further work as additional NHSE system support money was confirmed late which required checking of an additional set of accounts. — There were no other significant matters which we were required to report to those charged with governance.

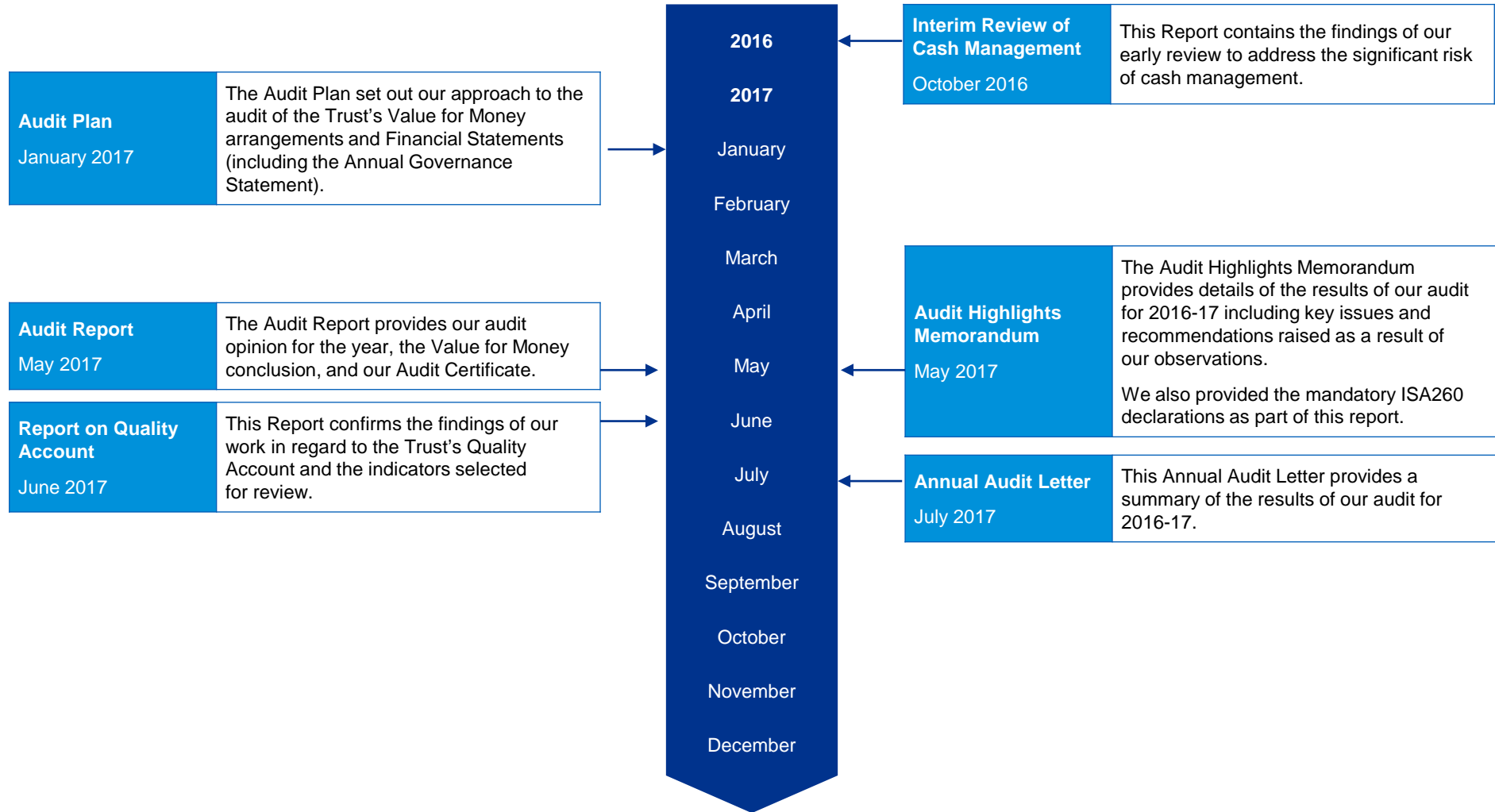
Headlines (cont.)

Financial statements audit work undertaken	<ul style="list-style-type: none"> — 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 (2015/16: £5 million). — We identified the following risks of material misstatement in the financial statements as part of our External Audit Plan 2016/17: <ul style="list-style-type: none"> — Valuation of land and buildings – Property Plant and Equipment is material at £276 million with material changes occurring in year, although not as significant as 2015/16. We compared movements against independent price indices to help gain sufficient assurance over the valuation of PPE. — Estimation of NHS income and receivables – the Trust’s break even budget was dependent upon receipt of £14 million Sustainability and Transformation Fund income which initially required achievement of challenging activity targets. We obtained sufficient assurance that the Trust’s income was materially fairly stated. — New financial services arrangements – arrangements were outsourced to East Lancs Financial Services with risks to the transfer of balances and preparation of the accounts. Both areas were delivered satisfactorily on time with only a few changes needed to the accounts.
Annual Governance Statement	<ul style="list-style-type: none"> — We have also confirmed that the Trust has complied with the Department of Health requirements in the preparation of the Trust’s Annual Governance Statement. No significant adjustments were required to the Annual Governance Statement.
Whole of Government Accounts	<ul style="list-style-type: none"> — We reported to the National Audit Office that the Whole of Government Accounts submission was consistent with the audited financial statements with no differences identified.
Recommendations	<ul style="list-style-type: none"> — We are pleased to report that there are only two new medium recommendations arising from our 2016-17 audit work as reported in our ISA 260 report in May 2017. — The Trust had implemented the three agreed audit recommendations from the previous year. We received an annual report which was substantially complete but there remains further scope for earlier completion.
Public Interest Reporting	<p>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 2016-17.</p>
Fraud	<p>Our work on your fraud arrangements did not identify any matters which we wish to draw to your attention.</p>



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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