Grant Thornton

The Annual Audit Letter for Hull University Teaching Hospitals NHS Trust

Year ended 31 March 2019

28 June 2019

Contents

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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 Hull University 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 23 May 2019.

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'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) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the Trust's financial statements to be £10.86m, which is 1.85% of the Trust's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Trust's financial statements on 28 May 2019.
NHS Group consolidation template (WGA)	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.
Use of statutory powers	We did not identify any matters, which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	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 Trust on 28 May 2019.
Quality Accounts	We completed a review of the Trust's Quality Account and issued our report on this on 27 June 2019. We concluded that the Quality Account and the indicators we reviewed were prepared in line with the Regulations and guidance.
Certificate	We certified that we have completed the audit of the financial statements of Hull University Teaching Hospitals NHS Trust in accordance with the requirements of the Code of Audit Practice on 28 May 2019.

Working with the Trust

In our second year of audit, we believe we have further developed our professional working relationship with you and delivered a number of positive outcomes, including:

- regular liaison with senior finance managers and members of the Audit Committee to understand the issues facing the Trust
- an efficient audit - we delivered an efficient audit with you in May meeting the NHS timetable without slippage
- understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.
- sharing our insights – we provided regular updates to the Audit Committee covering sector developments and best practice. We also shared our thought leadership reports as well other insights from benchmarking your annual report against other NHS bodies.
- providing training – we provided your teams with training on financial statements and annual reporting.

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

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 Trust’s financial statements to be £10.86m, which is 1.85% 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 the Trust has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration disclosures in the Remuneration Report of £15,000.

We set a lower threshold of £300,000, 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 is 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
Improper revenue recognition 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. We have 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 have determined these to be income from: • block income element of patient care revenues • education and training income. We have not deemed it appropriate to rebut this presumed risk for all other material streams of patient care income and other operating revenue, including contract variations. We have 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 and a key audit matter.	We have: • evaluated the Trust's accounting policy for recognition of income from patient care activities and other operating revenue for appropriateness and compliance with the DHSC Group Accounting Manual 2018/19; • updated our understanding of the Trust's system for accounting for income from patient care and other operating revenue, and evaluated the design of the associated controls; • investigated unmatched revenue and receivable balances over the NAO £0.3 million threshold using the DHSC mismatch report, corroborating the unmatched balances used by the Trust to supporting evidence; • 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; and • agreed on a sample basis, material income and year-end receivables from other operating revenue to invoices and cash payment or other supporting evidence.	No issues were identified from our audit work in respect of revenue recognition.

Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of land and buildings The Trust re-values its land and buildings to ensure that the carrying value is not materially different from its current value. This represents a significant estimate by management in the accounts. We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration and one of the most significant assessed risks of material misstatement, and a key audit matter.	We have undertaken the following work in relation to this risk: • reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • considered the competence, expertise and objectivity of any management experts used; • discussed with the Valuer the basis on which the valuation is carried out and challenged the key assumptions; • reviewed and challenged the information used by the Valuer to ensure it is robust and consistent with our understanding; • tested revaluations made during the year to ensure they are input correctly into the Trust's asset register; • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value; and • challenged key assumptions used in the valuation, including the assumption that the replacement hospital would be carried out under a special purchase vehicle where VAT would be recoverable.	During 2018/19 RICS issued clarification to its guidance on the estimation of useful lives of assets, which has led the Trust's valuer, Cushman and Wakefield, to revise its estimates in this area. See page 9 for further detail. Our audit work also identified the Trust had netted off impairment losses against total revaluation gains, details are shown on page 9. Other than the above, our audit work did not identify any other issues in respect of the valuation of the Trust's land and building.

Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Management override of controls 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 pressure to meet external targets, and this could potentially place management under undue pressure in terms of how they report performance. We identified management override of controls as a risk requiring special audit consideration.	We have: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing, to ensure completeness and determined the criteria for identifying unusual journals; • tested unusual journals made during the year and after the draft accounts stage for appropriateness by agreeing to corroborating evidence; • gained an understanding of the accounting estimates and critical judgements applied and made by management and considered their reasonableness; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.	Our audit work has not identified any issues in respect of management override of controls.

Audit of the Financial Statements

Significant matters discussed with management

Issue	How we responded to this issue	Findings and conclusions
Direct donation to the Trust The Trust received a donation during March of £3.4m. The Trust recognised the donation in the 2018/19 Statement of Comprehensive Income, which contributed to the surplus position and the receipt of additional PSF funding in year. The Trust plans to spend the donation and related PSF monies in 2019/20 to construct a new centre for the treatment and management of Diabetes in partnership with the donor.	As part of our work, we considered: • the legal basis under which the Trust can accept the donation as income in its accounts and whether it should have been channelled initially through its charitable funds; • whether there were are any conditions attached to the donation; and • if NHSI was aware of the Trust's proposed treatment of this donation and it counting towards its control total and related PSF match funding. Given the unusual nature of this income source for the Trust, we asked the Trust to obtain legal advice to support the legality of the donation and the use of the funds. We also sought our own legal advice as to the legality and appropriateness of the income being included in the Trust's accounts.	The legal advice provided to the Trust indicates legislation allows for the Trust to receive donations. However, the donation should properly be processed through the Charity and then passed back to the Trust. Whilst the end result is the same in providing the income to the Trust, the Trust has not followed proper due process in its accounting for the income. Our audit work also identified the donation has conditions attached, requiring the monies to be spent on investing in a new teaching, research and service centre for the provision of diabetic care. Accordingly, the income should be treated as deferred into 2019/20 when it will be spent. The Trust has received confirmation from NHSI that it will not be required to repay the matched PSF funding received for 2018/19 in respect of this amount. It has remained as an unadjusted audit error. As the Trust has not amended its income to deferred income figures for £3.4m, on the grounds of materiality.
Clarification of RICS guidance During 2018/19, RICS issued clarification to its guidance on the estimation of useful lives of assets. This clarification has led the Trust's valuer to revise their estimates in this area.	We considered: • the Trust's calculations to identify the impact of the revised guidance on the depreciation charge for the year; and • the Trust's approach to accounting for depreciation charges.	The impact of the change in guidance is an increase in the depreciation charge in 2018/19 of £2m, however, given the guidance was effective from January 2019, only a quarter of this charge was considered appropriate, at £0.5m. However, Trust management did not process this adjustment on the grounds it is a change in estimate rather than an error. It also considers the change is prospective in accordance with the Trust's approach to charging depreciation, which will be adjusted in the 2019/20 accounts.
Accounting for Impairments Our audit work identified the Trust had netted off impairment losses against total revaluation gains.	We considered: • the Trust's approach to recording revaluation gains and how these were maintained up to date; and • the approach to matching impairments identified against revaluation gains from earlier years.	Our review of the Trust's valuation for land and buildings identified that the Trust had netted off impairment losses against total revaluation gains rather than setting off on an asset by asset basis. The impact of this was an understatement of impairments of £1.57m. The Trust has processed this adjustment reducing the Trust's surplus for the year to £23.8m.

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Trust's financial statements on 28 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 23 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. It provided these on a timely basis with the draft financial statements with supporting evidence. We suggested some amendments to both the Annual Report and Annual Governance Statement, which management did change to ensure compliance with the relevant requirements.

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 Hull University Teaching Hospitals NHS Trust in accordance with the requirements of the Code of Audit Practice on 28 May 2019.

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.

As part of our Audit Findings report agreed with the Trust in May 2019, we agreed recommendations to address our findings.

Overall Value for Money conclusion

We are 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.

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Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Financial Sustainability The Trust continues to operate under significant financial pressures and ended 2017/18 with an outturn deficit of £7.5m (after the receipt of STF funding). For 2018-19, a control total deficit of £10.2m was agreed before the receipt of PSF funding of £12.6m giving a budgeted surplus of £2.4m.	As part of our work we: • reviewed key financial and operational documents including delivery of savings plans; and • discussed key relevant matters with senior management.	• The Trust delivered an outturn surplus for 2018/19 of £25.4m. This is a significant improvement over the planned budget and arose mainly due to donation income of some £3.4m and improved cost control resulting in the outturn deficit before PSF funding being reduced by £8m to an in-year deficit of £2.2m. This improvement has resulted in matched PSF funding of £8m along with a further £19.2m of NHSI funding, which has turned around the Trust's financial position for 2018/19. • However, the Trust remains under significant financial pressures and 2019/20 will continue to be a challenging year given the on-going financial pressures facing the Trust, the local health economy and wider NHS.
Delivery of Cost Improvement Programme To deliver the budgeted outturn position, cost improvement savings of some £19.9m were required for 2018/19 of which £6.0m remained unidentified as at the end of October 2018. Actual savings delivered to November 2018 totalled £8.5m comprising some 50% recurrent and 50% non-recurrent savings. During 2017/18, there was a £2.7m shortfall in the delivery of cash releasing savings of £15.0m.	As part of our work we: • reviewed key financial and operational documents including delivery of savings plans; and • discussed key relevant matters with senior management.	• The Trust had a significant cost improvement programme to deliver during 2018/19. It managed to deliver some 72% of the savings required, £14.4m compared to £12.3m (82%) in 2017/18. • The Trust needs to continue to identify savings plans underpinned by greater recurrent programmes to help deliver its agreed budget for 2019/20. • We raised a recommendation for the Trust to review and further develop existing arrangements to identify potential savings schemes, closely monitor and review savings delivered on a monthly basis and take remedial action where slippage occurs to ensure planned savings are delivered in full. Regular reporting to the Board on delivery of savings against plan with clear manager accountability will assist in identifying remedial action where slippage occurs. We will assess the Trust's progress as part of our 2019/20 planned programme of work.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Delivering key NHS targets and CQC improvements The Trust faces challenges in the delivery of key NHS targets, and requires improvement following the CQC inspection in January and February 2018 which rated the Trust overall as requires improvement, with the Safe and Responsive aspects of the inspection both being assessed as requires improvement.	As part of our work we: • reviewed key operational documents including delivery of key Trust targets • considered progress against the Quality Improvement Plan • discussed key relevant matters with senior management.	• The Trust has in place a Quality Improvement Programme. Its aim is to move the Trust away from a multiple action-planning culture, towards a culture of continuous improvement through a single Quality Improvement Plan. The plan includes all of the “Must” and “Should Do” recommendations from the CQC inspection and includes detailed plans for each project area. The Quality Improvement Plan is regularly reported to the Board. The Trust is continuing to progress the actions identified by the CQC, which remain on-going. • The Trust in its regular performance reports continues to rate the delivery of a number of key NHS targets as ‘red’, indicating national standards have not been met including RTT and A&E. This highlights the financial and staffing pressures faced by the Trust in addition to the local and wider health economy. Nationally, the number of Trust's failing to meet national standards is now at its highest point and in March 2019, the NHS announced certain targets including the four hour A&E target may be dropped. We understand management continue to identify and focus on areas to help assist in improvement and this remains a priority.

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:

- Percentage of patients risk assessed for venous thromboembolism; and
- Percentage of reported 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 27 June 2019.

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	January 2019
Audit Findings Report	May 2019
Annual Audit Letter	June 2019

Fees

	2018/19 Planned fees £	2018/19 Actual fees £	2017/18 fees £
Statutory audit	60,000	60,000	60,000
Additional audit fees	0	12,000	0
Audit related services			
Quality accounts	6,660	6,660	6,660
Charitable fund	5,100	5,100	5,100
Total fees	**71,760**	**83,760**	**71,760**

Note: All fees are inclusive of VAT.

Fees for non-audit services

Service	Fees £
None	Nil

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