

Annual Audit Letter 2018-19 from KPMG

7 October 2019

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Agenda Item No: 7.4

Trust Board Report

Meeting Date:	Monday 7 th October 2019
Title:	Annual Audit Letter 2018/19 from KPMG.
Executive Summary:	<p>The Annual Audit Letter produced by KPMG is a document for the Board but it is also intended for the Trust's wider stakeholders including members of the public. As a consequence the Trust is expected to publish the letter on the Trust's website.</p> <p>The letter summarises the key issues from the 2018/19 External Audit which were:</p> <ul style="list-style-type: none"> • An unqualified opinion was given on the Trust's annual accounts. • The accounts were a true and fair view of the financial position of the Trust for the year. • The Accounts contained 2 unadjusted differences which were: <ul style="list-style-type: none"> - £3.1m of provisions for NHS income. - £1.2m for asset lives and depreciation. • No material risks of misstatement were identified. • No significant adjustments to the Governance statement were required. • An unqualified Auditor statement on the consolidation statements was issued. • No issues were identified in the Value for Money work. • The forecast achievement of CIP was less than plan and therefore would remain an issue for the medium term financial sustainability work. • No high risk recommendations were raised. 5 of the 7 recommendations from the previous year had been actioned but 2 remained and would be carried forward into 2019. • No issues were raised of public interest.
Action Requested:	The Board is requested to note the Annual Audit Letter for 2018/19.
For the attention of the Board	Links to the medium term financial sustainability.
Assure	That financial position is as reported to the Board and its Committees.
Author + Contact Details:	KPMG – External Audit
Links to Trust Strategic Objectives	Maintain financial health – Appropriate investment to patient services
Resource Implications:	None.
CQC Domains	<p>Safe: patients, staff and the public are protected from abuse and avoidable harm.</p> <p>Effective: care, treatment and support achieves good outcomes, helping people maintain quality of life and is based on the best available evidence.</p>

	<p>Caring: staff involve and treat everyone with compassion, kindness, dignity and respect.</p> <p>Responsive: services are organised so that they meet people's needs.</p> <p>.</p>
Equality and Diversity Impact	N/A
Risks: BAF/ TRR	Maintain financial health – Appropriate investment to patient services
Risk: Appetite	
Public or Private:	Public
Other formal bodies involved:	
References	
NHS Constitution:	<p>In determining this matter, the Board should have regard to the Core principles contained in the Constitution of:</p> <ul style="list-style-type: none"> • Equality of treatment and access to services • High standards of excellence and professionalism • Service user preferences • Cross community working • Best Value • Accountability through local influence and scrutiny

Report Details	
1	The Annual Audit Letter is attached for noting at Appendix 1



Annual Audit Letter 2018-19

The Royal Wolverhampton NHS Trust

July 2019

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This report is addressed to The Royal Wolverhampton 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 2018-19 audit at The Royal Wolverhampton NHS Trust (the Trust). Although this letter is addressed to the Members of 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 this letter on the Trust's website.

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 regularity opinion and 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 confirm that the Trust has complied with the Department of Health and Social Care (DHSC) requirements in the preparation of its Annual Governance Statement.</p> <p>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 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>

Introduction (cont.)

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 Audit Committee to present our audit findings, broaden our knowledge of the Trust and provide insight into 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;
- incorporation of data analytics into our programme of work to, for example, identify high risk journals for testing; and to identify high risk personnel on the ESR HR system and payroll data
- review of general IT controls in place at the Trust highlighting any control weaknesses and areas for improvement; and
- strong and effective working relationship with Internal Audit to maximise assurance to the Audit Committee, avoid duplication and provide value for money.

Fees

Our audit fee for 2018-19 was £59,100 (2017-18: £53,100) excluding VAT. The additional £6k of fees in 2018-19 was outside the agreed contract value and is non-recurrent going forward. Non-audit fees which were audit-related assurance services for 2018-19 was £8,500 (2017-18: £8,500). These fees were in line with the fee agreed at the start of the year with the Trust's Audit Committee.

Acknowledgement

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



Headlines

Headlines

This section summarises the key messages from our work during 2018-19.

Financial Statements audit opinion	<p>We issued an unqualified opinion on the Trust's accounts on 24 May 2019. 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.</p> <p>There were two unadjusted audit differences that were identified as part of the audit. The first was that the Trust has recognised £3.1 million of provisions in respect of income recorded from NHS bodies for services the Trust has provided in year. The second unadjusted audit difference was £1.2m relating to asset lives and the impact on depreciation charged in year.</p> <p>There were no significant matters which we were required to report to 'those charged with governance.'</p>
Financial statements audit work undertaken	<p>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 £10.0m (2017-18: £10.0m).</p> <p>We identified the following risks of material misstatement in the financial statements as part of our External Audit Plan 2018-19:</p> <ul style="list-style-type: none">— Valuation of assets- We assessed the valuer's credentials and the methodology of the bases used. Our assessment of the valuation provider found no issues with their credentials or methodology. Our review of the Trust's impairment review found no issues.— Revenue recognition – We assessed the outcome of the Agreement of Balances exercise with other NHS bodies and tested a sample of NHS income contracts and invoices. No issues were noted for the contracts and the mismatches of the Agreement of Balances were less than materiality in aggregate. All samples tested were accounted for appropriately— Management override of controls – We tested the operating effectiveness of controls over journal entries and post closing adjustments. No significant issues were found in our work over judgements and journal controls were operating effectively. We identified no instances of fraud.— Fraudulent expenditure recognition - We audited operating expenses as a significant risk, including staff and executive director costs. We found appropriate segregation of duties and agreed completeness of the accruals balances. Senior staff are not remunerated based on financial results and all items which were material in March and April 2019 were agreed to bank statements and cash books— New accounting standards and going concern - We confirmed whether accounting policies comply with the suggested template content from NHSI, and so reflect the correct basis of the application of going concern. We have confirmed compliance with IFRS 9 and IFRS 15. We found no issues of non-compliance and we reviewed future finance forecasts and the Trust's cash position. We found no issues to note.

Headlines (cont.)

Governance Statement	<p>We confirmed that the Trust complied with the Department of Health and Social Care requirements in the preparation of the Trust's Annual Governance Statement.</p> <p>No significant adjustments were required to the Governance Statement.</p>
Whole of Government Accounts	<p>We issued an unqualified Auditor Statement on the Consolidation Schedules prepared by the Trust for consolidation into the Whole of Government Accounts with no exceptions.</p>
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 have nothing to report.</p>
VFM 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 risk:</p> <p>Sustainable Resource Deployment - Despite news of additional NHS resources linked to the priorities of the long term NHS plan, it was not yet clear the extent to which these would benefit the Trust. The overall financial operating environment therefore remains challenging and the late NHS planning guidance reduced time available to adequately identify the necessary recurrent future savings. The main areas of risk to support sustainable resource deployment continue to be achieving CIPs and pay control. The Trust planned to meet the NHSI control total of £0.2m. At month nine, the Trust had achieved £8.47m of CIP savings, compared to the budgeted plan of £16.93m, 50% of the year to date target. The Trust had undertaken further work to pinpoint its pay pressures. It has concluded that whilst recruitment has been more successful than before, significant medical staffing challenges remain that are not expected to be satisfactorily resolved in the short-term.</p> <p>We tested the key CIP plans through discussion with CIP leads and review of key documentation. We sought to understand the underlying financial position of the Trust and its future actions. We reviewed the 2018/19 position and review the 2019/20 plan and its key assumptions. Overall, the Trust has produced a number of positive financial outcomes for the period, alongside operational challenges both internally and in supporting other local economies. The Trust's achievement of CIPs is mixed. It exceeded its prior year CIP delivery by around £4m but its overall achievement of £14.071m was less than the overall target of £25m set at the start of year and financial sustainability will remain high on the agenda for the medium term.</p>

Headlines (cont.)

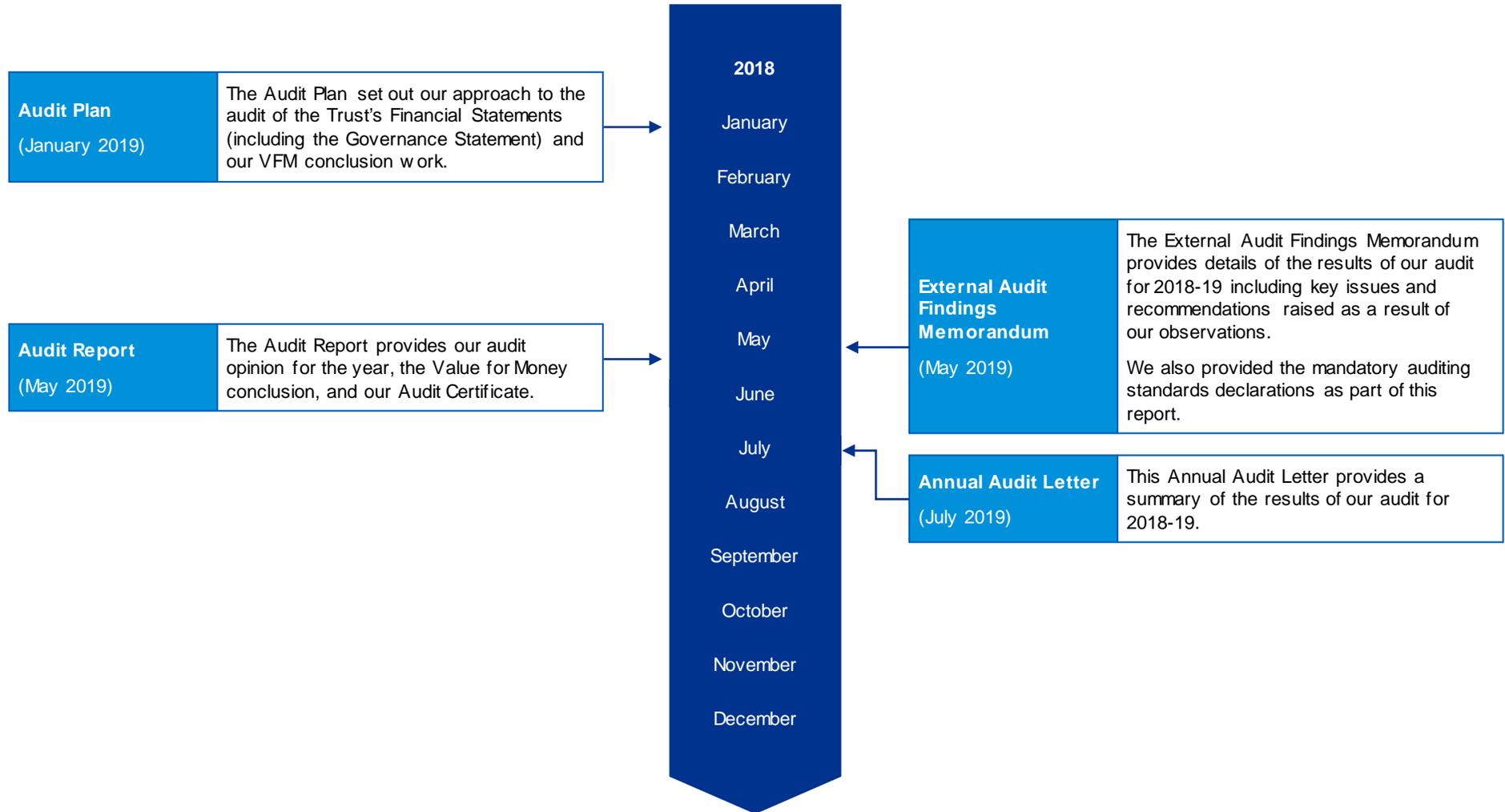
Recommendations	<p>We have raised no high risk recommendations that are in scope of this report.</p> <p>The Trust has been good at implementing agreed audit recommendations and have implemented five of seven recommendations raised in 2017/18. Two of the seven recommendations raised in 2017/18 however remain relevant for 2019 and require further action by management.</p>
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 2018-19.</p>



Appendices

Appendix A

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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