



# Annual Audit Letter 2015-16

The Royal Wolverhampton NHS Trust

August 2016

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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.

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 Andrew Bostock, 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](mailto: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](mailto: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 The Royal Wolverhampton 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 <http://www.royalwolverhampton.nhs.uk>.

In the letter we highlight areas of good performance and also provide recommendations to help the Trust improve performance. We 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:

<b>Financial Statements including the Annual Governance Statement</b>	<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 the Trust has prepared for consolidation into the Whole of Government Accounts (WGA) are not inconsistent with our other work.</p>
<b>Use of Resources (UoR)</b>	<p>We conclude on the arrangements in place for securing economy, efficiency and effectiveness (value for money, or VfM) in the Trust's use of resources.</p> <p>As part of our responsibilities to assess your VfM arrangements, we are required to perform any work that we regard as necessary to allow us to conclude on whether you have effectively, efficiently and economically exercised your functions.</p>

We 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;
- Incorporation of data analytics into our programme of work;
- A review of general IT controls in place at the Trust highlighting any control weaknesses and areas for improvement; 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 fee for 2015-16 was £66,365 excluding VAT (of £13,273). This was in line with the fee set by Public Sector Audit Appointments Limited at the start of the year and discussed with the Trust's Audit Committee. Subsequent to the issuing of our Audit Plan, we clarified our proposed fee in respect of our local use of resources work, being the same as the previous year of £12,500 excluding VAT (of £2,500). The fees set nationally by Public Sector Audit Appointments Limited reflect significant 25% reductions made nationally to scale fees since 2014-15.

We have also completed the following non-audit work at the Trust during the year, in accordance with DoH requirements:

<b>Quality Account</b>	The fee for our 2015/16 audit of the Trust's Quality Accounts was £10,000 excluding VAT (of £2,000).
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## Acknowledgement

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



# Headlines

# Headlines

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

<b>Overall financial results and other key messages</b>	<p>The Trust achieved a positive financial result, reporting a retained surplus of £0.153 million. In the context of both local and national providers, this is a significant achievement although this result was supported by a number of non-recurrent measures. For example, during 2015-16 the DoH requested that trusts scaled back their capital expenditure plans in 2015-16 in order to allow the cash to be released to support the cash shortfalls in the sector. As a result, the Trust agreed to underspend against their 2015-16 capital programme by £2.5m and received this equal amount as additional revenue support.</p> <p>The underlying financial position of the Trust reported to the Trust Development Agency (now NHS Improvement or NHSI) in its planning submission is a normalised deficit of £11.6m. The Trust has also reported delivery of £16.8m CIP against a target of £20.6m for 2015-16. As a result, the Trust needs to deliver a cost improvement plan of £25.6 million for 2016-17.</p> <p>On 9 June 2016 the Trust accepted a target year-end surplus of £7.082m with NHSI, supported by Sustainability and Transformation funds of £10.6m. The key challenges for the Trust continue to relate to agency control measures, waiting time targets and emergency activity pressures whilst striving to achieve key CQUIN and quality targets.</p>
<b>Use of Resources conclusion and risk areas</b>	<p>We concluded that the Trust has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We undertook a risk assessment as part of our value for money (VfM) audit work to identify the key areas impacting on our VfM conclusion and during the year we considered the arrangements the Trust has put in place to mitigate these risks. Our work focused on the following significant risks:</p> <ul style="list-style-type: none"><li>— <b>Financial sustainability</b> - We undertook a detailed consideration of the Trust's Financial Recovery Plan and future financial forecasts. As part of our audit procedures we assessed the Trust's financial sustainability, which included the identification of significant one-off items included within the reported headline result.</li><li>— <b>Capital Programme</b> – as part of our audit procedures we verified that the Board and its Finance and Performance Committee receive regular capital reports detailing the schemes' progress and expenditure timings. The Trust had also reviewed its Five year capital programme to 2020 linked to its longer term Estates Strategy. We also considered the impact of non-recurrent items in determining a normalised deficit position of £11.6 million for 2015-16.</li><li>— <b>Response to CQC Inspection</b> - in November 2015, the CQC published its report in relation to inspections carried out at the Trust during June 2015. The report provided an overall rating of "requires improvement". Whilst the Trust has appealed the overall rating as being too low and is still awaiting a formal response from the CQC, it compiled a detailed action plan on receipt of the CQC report. As part of our requirement to consider the work of other regulators, we considered the progress the Trust is making against its improvement plan in 2015-16 in order to demonstrate compliance with CQC requirements. The Board periodically received updates against the action plan. The action plan is updated monthly and evidence is validated via the Directorate and Divisional accountability meetings. In addition, the Trust established a CQC steering group in November 2015. The group met bi-monthly to assess progress against the action plan, and to consider sustainability of completed actions.</li></ul>

# Headlines (cont.)

## Financial Statements audit opinion

- We issued an unqualified opinion on the Trust's accounts on 2 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.
- From our review of the DoH's electronic accounts (TRUs) and accounts, and subsequent discussions with Finance, we identified and agreed that the Trust should reduce the cost of Buildings and Dwellings by the amount of accumulated depreciation from its revaluation exercise. This required an adjustment to Buildings of (£7.681 million) plus Dwellings (£0.058 million). The total reduction in Property, Plant and Equipment, (PPE), Net Book Value is £7.739 million as at 31 March 2016. The offset was a decrease to the Revaluation Reserve on the Balance Sheet.



# 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 £10 million.
- We identified the following risk of material misstatement in the financial statements as part of our External Audit Plan 2015/16:
  - **Valuation of Land and Buildings** – we undertook work to understand the basis upon which any impairments to land and buildings (£3.1 million) had been calculated, and we reviewed the associated assumptions. We undertook controls testing over the Trust’s fixed asset verification exercise and found no significant issues. We assessed the independence and objectivity of the valuers and the terms under which they were engaged by management. The valuation for Land, Buildings and Dwellings as at 31 March 2016 totals £351.4 million, and we vouched this to underlying valuation reports. We reviewed the Trust’s asset lives basis and considered its appropriateness. In doing so, we drew on national benchmarks. From our review of the TRUs and accounts, and subsequent discussions with Finance, we identified one audit difference, as detailed on page 8, which the Trust adjusted for in its final accounts publication.
  - **Recognition of NHS and Non NHS Income** - our work focused on the recognition of NHS income and through our testing we considered the completeness, existence and accuracy of the balances recorded within the financial statements. We did not identify any issues in relation to the recognition of income.

# Headlines (cont.)

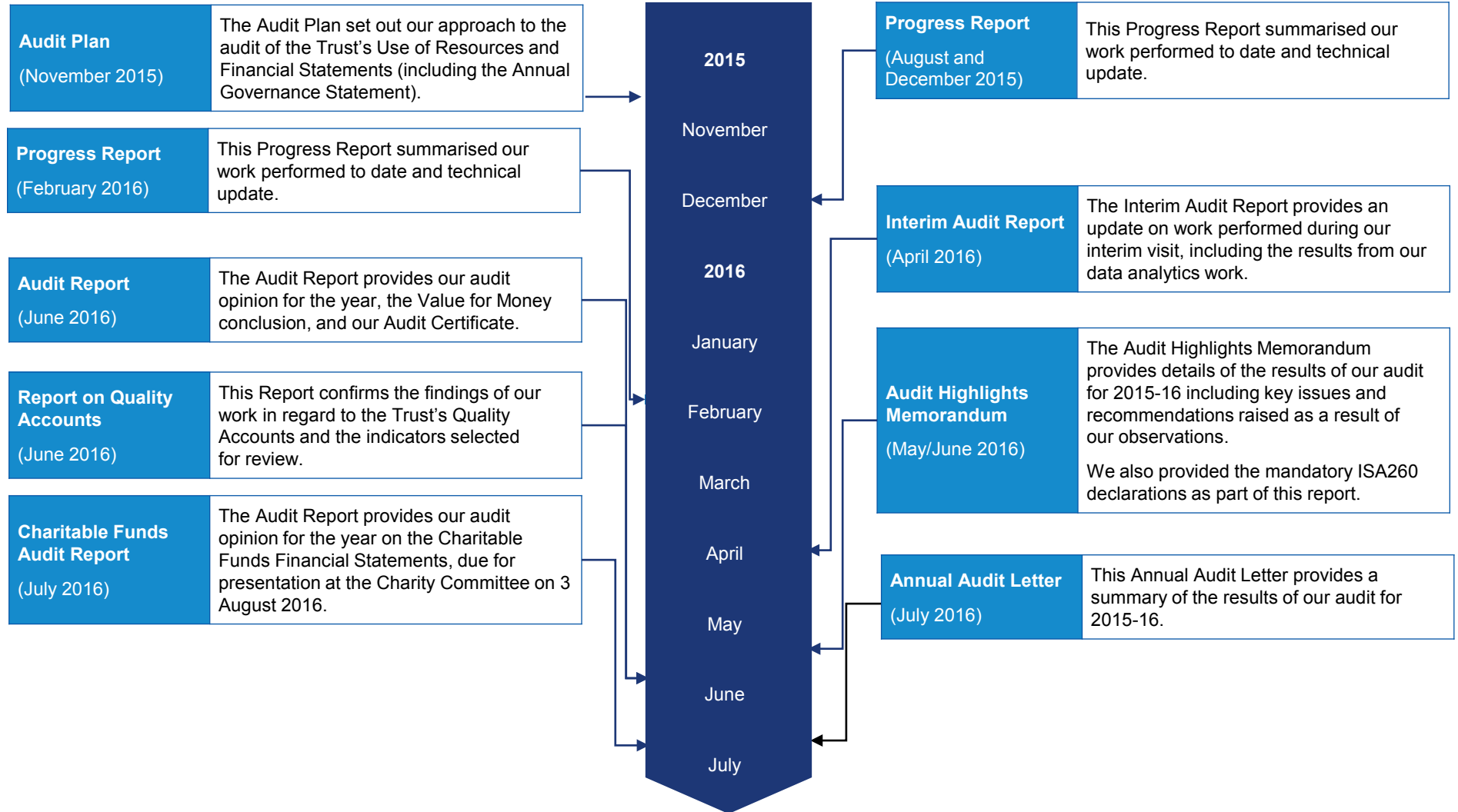
<b>Annual Governance Statement</b>	<ul style="list-style-type: none"><li>— We also confirmed that the Trust had complied with the DoH requirements in the preparation of the Trust’s Annual Governance Statement.</li><li>— No significant adjustments were required to the Annual Governance Statement.</li></ul>
<b>Recommendations</b>	<ul style="list-style-type: none"><li>— We raised three recommendations as a result of our 2015-16 audit work, none of which were high risk.</li><li>— The Trust has made good progress at implementing agreed audit recommendations from prior years. We did not identified any prior year recommendations that still require further action by management.</li></ul>
<b>Public Interest Reporting</b>	<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 2015-16.</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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