The Royal Wolverhampton
NHS Trust

ISA 260 Final Audit Memorandum
4 June 2018

Agenda Item No: 11.3.2

External Audit Report

I confirm that this is the final version of our ISA 260 Audit Memorandum relating to our audit of the 2017/18 financial statements for The Royal Wolverhampton NHS Trust. This document was discussed and approved by the Trust's Audit Committee on 25 May 2018.

……………………………………

Andrew Bostock

Partner for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Birmingham

25 May 2018

Our audit opinions and conclusions:	
Financial Statements: unqualified	Use of resources: clean
Quality Accounts (content): clean	Quality Accounts (indicators): C-diff: limited assurance. VTE: qualified

The Royal Wolverhampton NHS Trust

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23 May 2018

Content

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Important Notice

This report is presented under the terms of our audit engagement letter. This report is addressed to The Royal Wolverhampton NHS Trust (the Trust) and has been prepared for your use only. Circulation of this report is restricted. The content of this report is based solely on the procedures necessary for our audit. We accept no responsibility towards any member of staff acting on their own, or to any third parties. The National Audit Office (NAO) has issued a document entitled Code of Audit Practice (the Code). This summarises where the responsibilities of auditors begin and end and what is expected from the Trust. External auditors do not act as a substitute for the Trust'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.

Basis of preparation: We have prepared this External Audit Report (Report) in accordance with our letter of appointment dated 18 December 2017.

Purpose of this report: This Report is made to the Trust's Audit Committee in order to communicate matters as required by International Audit Standards (ISAs) (UK and Ireland), and other matters coming to our attention during our audit work that we consider might be of interest, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report, or for the opinions we have formed in respect of this Report. This Report is subject to disclosure restrictions.

Limitations on work performed: This Report is separate from our audit opinion included in the Trust's Annual Reports and Accounts and does not provide an additional opinion on the Trust's financial statements, nor does it add to or extend or alter our duties and responsibilities as auditors reporting. We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report. The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit: Our audit is almost complete and matters communicated in this Report may change pending signature of our audit report. We will provide an verbal update on the status of our audit at the Audit Committee meeting. We would highlight our final checks and procedures plus receipt of the following items:

- Final disclosure checks and review of presentational adjustment of the financial statements;
- Final disclosure checks on the Quality Report and Annual Report inc. AGS;
- Final review of the remuneration report;
- Receipt of Management Representations; and
- Agreement of Balances; follow up of mismatches queries.

Summary

Summary

Financial Statements Audit

We intend to issue an unqualified audit opinion on the accounts following the Board adopting them and receipt of the management representations letter.

We have completed our audit of the financial statements. We have also read the content of the Annual Report (including the Remuneration Report) and reviewed the Annual Governance Statement (AGS). Our key findings are:

- There is one unadjusted audit difference in respect of provision for NHS debt, explained in section 2 and appendix 2.
- We have agreed presentational changes to the accounts with Finance, mainly related to compliance with the Department of Health Group Manual for Accounts (GAM) 2017/18.
- In addition to our routine requests we are asking for management representations over key factors and assumptions underpinning the £4.8 million of income recognised in the Trust accounts over which there is an ongoing dispute with Wolverhampton CCG, explained in section 2.
- We have reviewed the draft annual report and have provided comments to management. We will review a final version and provide any further comments.

Other Matters

We intend to issue an unqualified Group Audit Assurance Certificate to the NAO regarding the Whole of Government Accounts submission, made through the submission of the summarisation schedules to Department of Health.

We are satisfied that the Trust has addressed the recommendations raised in our 2016/17 report. We have made two recommendations as a result of our 2017/18 work. They key recommendations relate to in year fixed asset register controls and securing financial sustainability. All recommendations are shown in appendix 1.

In auditing the accounts of an NHS body auditors must consider whether, in the public interest, they should make a report on any matters coming to their notice in the course of the audit, in order for it to be considered by Trust members or bought to the attention of the public; and whether the public interest requires any such matter to be made the subject of an immediate report rather than at completion of the audit. There are no matters that we wish to report .

We are required to certify that we have completed the audit of the Trust financial statements in accordance with the requirements of the Code. If there are any circumstances under which we cannot issue a certificate, then we must report this to those charged with governance. There are no issues that would cause us to delay the issue of our certificate of completion of the audit.

Value for money

Based on the findings of our work, we have concluded that the Trust has adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

However, we have made one recommendation in relation to financial sustainability finances will be tougher in the future, resulting in more stress on the CIP process for the next year. The 2017/18 CIP programme included 31% recurrent CIP vs non recurrent, the trust will need to ensure it has robust governance and accountability processes in place for CIP going forward.

Quality Accounts

We have completed our audit of the Trust’s Quality Accounts:

- You have achieved a clean limited assurance opinion on the content of your Quality Accounts which could be referenced to supporting information and evidence provided. This represents an unmodified audit opinion on the Quality Accounts.
- This year we have also tested venous thromboembolism (VTE) and clostridium difficile (C-Diff) as the two mandated indicators. Our detailed testing on the indicators has concluded that we are able to give a clean limited assurance opinion on the presentation and recording of C-Diff but we are not able to give a limited assurance opinion on the presentation and recording of VTE, as detailed in section 4.

KPMG

Financial Statements Audit

Financial Statements Audit

We audit your financial statements by undertaking the following tasks:

Work Performed	Accounts production stage: Before	During	After
1. Business Understanding: review your operations	✓	✓	–
2. Controls: assess the control framework	✓	–	–
3. Prepared by Client Request (PBC): issue our prepared by client request	✓	–	–
4. Accounting standards: agree the impact of any new accounting standards	✓	✓	–
5. Accounts Production: review the accounts production process	✓	✓	✓
6. Testing: test and confirm material or significant balances and disclosures	–	✓	✓
7. Representations and opinions: seek and provide representations before issuing our opinions	✓	✓	✓

We have completed the first six stages shown above and report our key findings below:

1. Business Understanding	In our audit plan we assessed your operations to identify significant issues that might have a financial statements consequence. We confirmed this risk assessment as part of our audit work. We have provided an update on each of the risks identified later in this section.
2. Assessment of the control environment	We have assessed the effectiveness of your key financial system controls that prevent and detect material fraud and error. We found that the financial controls on which we seek to place reliance are operating effectively. We have made one recommendation which relates to the in year controls regarding the fixed asset register to GL reconciliation. We believe that this recommendations (which is shown in appendix 1) will strengthen your control environment. We have reviewed the work undertaken by Grant Thornton, your internal auditors, in accordance with ISA610 and used the findings to inform and planning and audit approach. We have chosen not to place reliance on their work due to the approach we adopted for the financial statements audit.
3. Prepared by client request	We produced this document to summarise the working papers and evidence we ask you to collate as part of the preparation of the financial statements. We discussed and tailored our request with the Financial Controller and this was issued as a final document to the finance team. The work papers provided were of a high quality and the use of the KPMG Clara site by the finance team enabled an efficient method of accessing working papers.
4. Accounting standards	We work with you to understand the changes to accounting standard and other technical issues. For 2017/18 these changes have related to: • Updates to the content of the annual report – impact of these changes were not significant, and we have reviewed your Annual Report against the requirements set out within the DHSC Group Accounting Manual; and • The inclusion of mandated headings for number of the prime financial statements and notes – no significant issues to report.

Financial Statements Audit

5. Accounts Production	We received complete draft accounts by 24 April 2018 in accordance with the Department of Health's deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Department of Health. As in previous years, we will debrief with the Finance team to share views on the final accounts audit. Hopefully this will lead to further efficiencies in the 2018/19 audit process. In particularly we would like to commend Trust finance staff who were available throughout the audit visit to answer our queries. We thank the finance team for their co-operation throughout the visit which allowed the audit to progress and complete within the allocated timeframe.
6. Testing	We have summarised the findings from our testing of significant risks and areas of judgement within the financial statements on the following pages. During the audit we identified only presentational issues which have been adjusted as they have no material effect on the financial statements.
7. Represent-ations	You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We will provide a draft of this representation letter to the Chief Financial Officer on 21 May 2018. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We are asking management to provide specific representations on the following: • The Trust has income of £4.8 million from 2016/17 in dispute with Wolverhampton CCG. We are requesting specific management representations on this balance as the arbitration process will not be undertaken until early in the new financial year.

We are required under ISA 260 to communicate to you any matters specifically required by other auditing standards to be communicated to those charged with governance; and any other audit matters of governance interest.

We have not identified any other matters to specifically report.

Financial Statements Audit

Results of our testing on areas of high audit risk

In our External Audit Plan 2017/18, presented to you in December 2017, we identified the areas assessed as significant risks in terms of their impact on our financial statements audit opinion. We have now completed our testing of these areas and over the next pages set out:

- The results of the procedures we performed over Valuation of land and buildings and Recognition of NHS receivables and income which were identified as significant risks within our audit plan;
- The results of our procedures to review the required risks of the fraudulent risk of revenue recognition and management override of control; and
- Our view of the level of prudence you have applied to key balances within your financial statements.

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Valuation of land and buildings	Property, plant and equipment £331,382K, PY £306,710K and impairments, £1,410K, PY £22,544K	Having performed the revaluation of Land, Buildings and Dwellings under Modern Equivalent Assets (MEA) using an alternative site methodology in 2016-17, a desktop revaluation has been conducted for 2017-18 year end. We undertook detailed work to understand the approach to the desktop revaluation including the review of asset lives performing the following work over the valuation, existence, ownership, completeness and accuracy of material fixed asset balances. — Upon completion of the revaluation exercise, we reviewed the revaluation basis and considered its appropriateness (including the continued use of Alternative Site Methodology). — We considered the source of the information provided to, and used by, the valuer, and undertook appropriate testing to ensure both its completeness and accuracy, including the existence of assets and floor area measurements. — We provided challenge around the basis of the indices used by the valuer in the revaluation methodology. — We confirmed the appropriateness of any amendments made by management to the information received from the valuer before being incorporated into the financial statements by reconciling the valuation report to the financial statements. — We undertook work to understand the basis upon which additions and disposals were incorporated in to the MEA Alternative Site Valuation methodology, including the impact on asset lives. We did not identify any evidence of material misstatement as a result of our audit work, however we did identify one non-material adjustment as set out within appendix 2 regarding the classification of assets between PPE assets under construction and intangibles assets under construction.

Financial Statements Audit

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Recognition of NHS receivables and income	Income from activities, £464,033K, PY £442,957K	The trust receives over 80% of its income from NHS commissioners of healthcare services. Of the trust's reported total income, £441.9 million (2016/17, £425.2 million) came from Clinical Commissioning Groups (CCG) and NHS England. The Trust's income from activities increased by £21m between 2016-17 and 2017-18. Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant audit risk. We recognise that the incentives in the NHS differ significantly to those in the private sector which have driven the requirement to make a rebuttable presumption that this is a significant risk. Incentives that should be considered focus on the desire to avoid regulatory attention or to mask financial errors or irregularities which could be seen to apply in a public sector context. We therefore classified income recognition as a significant audit risk for 2016-17 and have outlined below the audit work we undertook. This work focused on the recognition of NHS income and non-NHS income and considered the completeness, existence and accuracy of the balances recorded within the financial statements. — we assessed the outcome of the agreement of balances exercise with other NHS bodies. Where there were mismatches over £300,000 we obtained evidence to support the Trust's reported income figure; — we gained an understanding of the Trust's system for accounting for healthcare income and the controls in place. — we tested a sample of income to supporting documents and receipt of cash. — we also checked the consistency of income recorded by the Trust against expenditure recorded by the commissioners resulting from the agreement of balances exercise. We discussed and confirmed whether the Trust is in formal dispute or arbitration in relation to any material income balances and examined the supporting correspondence, including if appropriate any legal advice given, in relation to the expected outcome as recorded within the financial statements; and — we confirmed the basis upon which any provisions for debt have been made, including the completeness and accuracy of the aged receivables analysis. We did not identify any evidence of material misstatement as a result of our audit work. However, we did identify one non-material, non-adjusted difference in relation to provisions for NHS debt. The Trust have provided for £5.2m of NHS related debt. Whilst we recognise this approach is 'prudent' in relation to these outstanding payments, Section 5.103 of the GAM states that *"group bodies should not normally impair for receivables due from other DHSC group bodies"*. This adjustment is in line with our approach in the prior year, as set out within appendix 2.

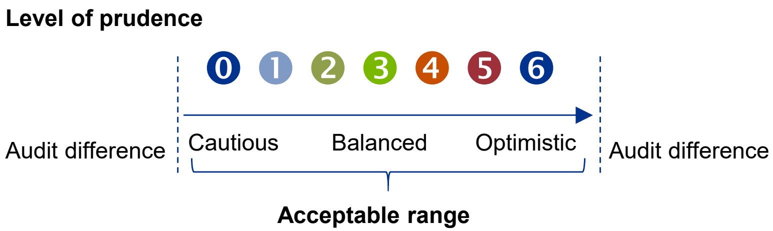
Financial Statements Audit

Risks that ISAs require us to assess in all cases	Why	Our findings from the audit
Fraud risk from revenue recognition	Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. We recognise that the incentives in the NHS differ significantly to those in the private sector which have driven the requirement to make a rebuttable presumption that this is a significant risk. These incentives in the NHS include the requirement to meet regulatory and financial covenants, rather than broader financial reporting or share based management concerns. Given the financial challenges in the Sector we did not rebut this significant risk.	We have classified recognition of NHS income as a significant audit risk for 2017-18 and have outlined above the audit work we have undertaken in regards to this, which has fulfilled our responsibilities for this objective.
Fraud risk from management override of controls	Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We have considered that there is a heightened risk of management override of control based upon the incentives and performance oversight offered and deployed by NHSI during the 2017/18 period.	Our procedures, including testing of journal entries, accounting estimates and significant transaction outside the normal course of business, no instances of fraud were identified. We have performed specific procedures to: • Understand the Q4 judgement management reach which have led to receipt of STF funding; • Review accounting judgements which are impacting the reported outturn position (see page 12); • Reconciled the year-end performance to in year financial report to ensure that divergence in performance can be understood and justified; and • Reviewed the year-end cut-off processed to ensure that revenue and expenditure items have been reflected within the correct period.

Financial Statements Audit

Judgements in your financial statements

We always consider the level of prudence within key judgements in your financial statements. We have summarised our view below using the following range of judgement:



Assessment of subjective areas				
Asset/liability class	**Current year**	**Prior year**	**Balance (£m)**	**KPMG comment**
Provisions	4	2	£6.8 (PY:£6.1)	The Trust has recognised a range of provisions totalling £6.8 million in its accounts. Whilst many areas of provision are similar to the prior year, overall the balance has increased by £0.7m. The majority of the increase relates to an increase in provisions against NHS debt. Our testing of a sample of significant provisions indicated the Trust was taking an optimistic approach, providing less than its policy relating to provisions for debtors . As instructed to trusts through the Agreement of Balance guidance, '*although a provision for bad debts may be a requirement for non-WGA bodies, DH bodies following the Manual should not make provisions for WGA bodies, especially organisations within the Department of Health accounting boundary*', (para 6.57).
Accruals	3	3	£16.9 (PY:£18.6)	In addition to assessing a range of accrual categories with largely unchanged values from the prior year, we identified that £1.5 million of the decrease related to the purchase of a linear accelerator in 2016-17.

Financial Statements Audit

Assessment of subjective areas				
Asset/liability class	**Current year**	**Prior year**	**Balance (£m)**	**KPMG comment**
Deferred income	3	3	£3.2 (PY:£3.7)	We have not identified any significant changes in the manner of deferring income. The Trust recognised deferred income – relating to monies received for maternity pathways, where the patients can choose to take future appointments at other trusts. This is slightly more prudent than some other trusts, which have chosen not to defer similar income streams, however, the accounting treatment is appropriate.
Injury cost recovery	3	3	£0.3 (PY:£0.2)	The Trust applied a provision for impairment of receivables of 22.84% of accrued injury cost recovery (ICR) revenue to reflect the average value of claims withdrawn, as advised to the DH by the Compensation Recovery Unit.
Partially completed spells	3	3	£2.8 (PY:£2.5)	The Trust has apportioned revenue relating to patient care spells that are part-completed at the year-end across the two financial years on the basis of length of stay at the end of the reporting period compared to expected total length of stay.
Debtors provisioning – non-NHS	3	3	£2.1 (PY:£1.6)	The Trust has calculated a provision for the impairment of receivables of £2.104 million. This is based on a documented methodology which takes into account past performance of recoverability of invoices that are beyond the due date for payment. In providing for debts which are less than 57 days old, the Trust considers the circumstances specific to the debt.
Assets (lives, VAT and valuations)	4	4	£331.4 PY (PY:£306.7)	The Trust changed its valuation estimation technique to the “Alternative site” methodology in 2016/17. We have detailed work performed in Section 2 of this report under ‘Results of our testing on areas of high audit risk’. We have reviewed the asset lives and these are in line with the valuation methodology. We have confirmed VAT is included correctly in the valuation of land and buildings.

Financial Statements Audit

Annual report

We have read the contents of the Annual Report (including the Accountability Report, Performance Report and AGS) and audited the relevant parts of the Remuneration Report. Based on the work performed:

- We have not identified any inconsistencies between the contents of the Accountability, Performance and Director's Reports and the financial statements.
- We have not identified any material inconsistencies between the knowledge acquired during our audit and the director's statements. As Directors you confirm that you consider the that the annual report and accounts taken as a whole are fair, balanced and understandable and provides the information necessary for patients, regulators and other stakeholders to assess the Trust's performance, business model and strategy.
- The part of the Remuneration Report that is required to be audited were all found to be materially accurate;
- The AGS is consistent with the financial statements and complies with relevant guidance subject to updates as outlined within section three; and

Independence and Objectivity

ISA 260 also requires us to make an annual declaration that we are in a position of sufficient independence and objectivity to act as your auditors, which we completed at planning and no further work or matters have arisen since then.

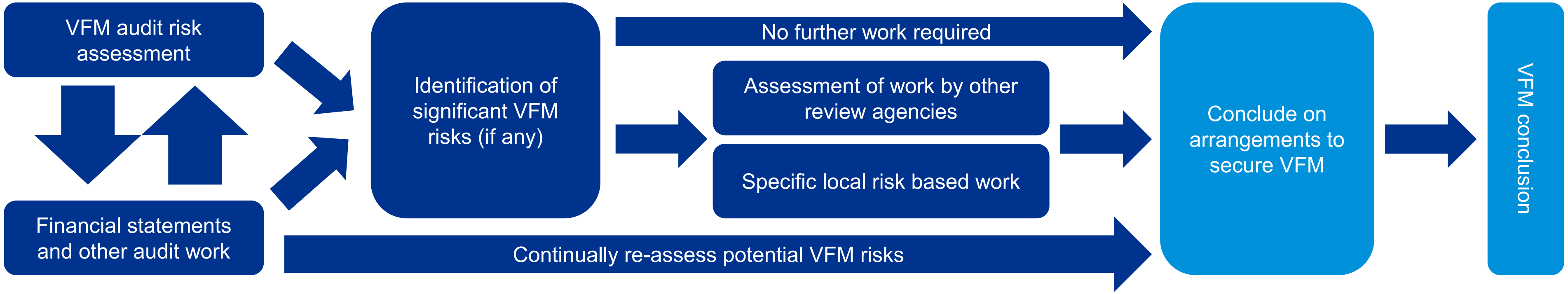
Audit Fees

Our fee for the audit was £53,100 plus VAT (£53,865 plus VAT in 2016/17). This fee was in line with that highlighted within our audit plan agreed by the Audit Committee in December 2018. Our fee for the external assurance on the quality accounts was £8,500 plus VAT (£9,000 plus VAT in 2016/17). We have not completed any non-audit work at the Trust during the year.

Value for Money

Value for Money

For 2017/18 our value for money (VFM) work follows the NAO's guidance. It is risk based and targets audit effort on the areas of greatest audit risk. Our methodology is summarised below. We identified 1 significant VFM risk which is reported overleaf and provide a summary below of the routine work required to issue our VFM conclusion, which is that we are satisfied that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018, based upon the criteria of informed decision making, sustainable resource deployment and working with partners and third parties.



AGS review	Regulatory review	Other matters considered in risk assessment
We reviewed the 2017/18 AGS and took into consideration the work of internal audit. We confirm that the AGS reflects our understanding of the Trust's operations and risk management arrangements.	We considered the outcomes of relevant regulatory reviews (NHS Improvement, CQC, etc.) in reaching our conclusion. The Trust's NHS Improvement financial sustainability risk rating is 2. For the Trust to go to segment 1 (1 being the best), assurance would be required of a fully developed CIP. The Trust's current CQC rating is requires improvements, being good in three of the five categories but requires improvement in well-led and safe during the June 2015 inspection. The Trust was recently re-inspected by the CQC in February and March 2018 and the Trust is awaiting the draft report. These outcomes and conclusions from our work have not led us to identify significant issues relating to VfM for the trust.	As part of our risk assessment we reviewed various matters, including: — core assumptions in the 2017/18 and 2018/19 Annual Plan; — governance arrangements in respect of the Trust's CIP programme to ensure recurrent cost improvement schemes are identified and delivered; — current operational performance including A&E and RTT; — performance against the 2017/18 financial plan; — the Trust's cash position throughout the year; and — financial support received.. The outcome of our review is reported overleaf in our summary of findings of our identified VFM risks.

Value for Money

Significant risk based VFM audit work

The table below sets out the detailed findings of our significant risk based VFM work. This work was completed to address the residual risks remaining after our assessment of the higher level controls in place to address the VFM risks identified in our planning and financial statements audit work.

Value for money risk	Why this risk is significant	Our audit response and findings
Financial sustainability and delivery of savings plans	The Trust recognises the financial challenges it faces, as per the risks highlighted in its Board Assurance Framework. The plan was to achieve an £1.6m surplus (before STF) however in agreement with NHS Improvement in December 2018 the forecast outturn was reduced to a deficit of £4.3m. We have undertaken a detailed consideration of the Trust's financial position and financial sustainability. Receipt of STF income was based on the operational and financial performance of the trust, £9.9 million of the trust's target control total of £11.6 million was reliant on meeting STF targets, including A&E performance. To help achieve the target, the trust managed a range of financial pressures including the delivery of £24.9 million of the cost improvement programme (CIP) of c.£26.9 million. **Audit approach** We have performed work to assess the Trust's financial sustainability. This included: — the identification of any significant one-off items included within the reported headline result; — the level of savings achieved against target at each quarter and reported to Board and the measures taken to ensure delivery of CIPs; — considering compliance with the agency spending caps; and — considering any correspondence with NHSI relating to the performance of the Trust.	The Trust has delivered a positive financial outcome in 2017/18 and continued with its strategic aims for example in developing the shared Pathology Services with other providers. It has also met many operational pressures during the year, notably maintaining elective work during the winter pressures period and attracted CQUIN funds. We undertook work to understand the key issues underpinning 2017-18 in meeting the Trust's outturn position of £7.3m (pre valuation movements). This positive year-end position is a credit to the efforts of the Trust to address increasing financial pressure across the system whilst delivering good patient care and continuing to progress its strategic aims. Whilst the Trust received £8.5m of STF funding, A number of significant financial issues and risks have been resolved in the Trust's favour, for example £6m of funding in respect of Cannock Hospital, albeit on a non-recurring basis. It also met its Agency spending cap albeit by £0.3m, 2.8% of the total cap. In addition, the Trust has continued to use external support to delivery its CIPs and this has helped embed clear management arrangements for reporting and escalation. The Trust has also embraced the Getting It Right First Time programme and expect to benefit from greater clinical engagement across the four workstreams. Whilst savings should be consequential to this work, it is an important opportunity for the Trust to re-engage with clinicians. *continued overleaf*

Value for Money

Value for money risk	Why this risk is significant	Our audit response and findings
Financial sustainability and delivery of savings plans		We critically assessed the evidence of meetings between the Trust and NHSI during the period and found positive and open discussions and sharing of information between the Trust on finance as well as across a range of operational and performance issues. However, the year-end position also contains a number of underlying issues that will continue to require significant Director efforts to address and resolve: • In 2017/18 31% CIPs were achieved recurrently, meaning a significant proportion were achieved from non-recurrent means. The Trust's reporting has shown this difference throughout the year and each schemes respective risk ratings. The Finance and Performance Committee has scrutinised performance throughout the year and also suggested improvements to reporting to help them discharge their responsibilities which the Trust has responded to. • The March 2018 Trust Board approved a financial plan agreeing to the NHSI control total of £16.2m surplus. The Trust has a significant CIP challenge of £35m for 2018/19. However, not all plans were in place at the start of the year. NHSI report concerns over the Trust's ability to deliver this target and continues to keep a watchful eye over its progress. The control total has subsequently been revised to a surplus of £11.209m for 2018/19. The CIP challenge of £35m has been revised to £25m after a vacancy factor has been applied across the Trust. • The Trust has yet to resolve satisfactorily a £4.8m debt with its main commissioner regarding the 'Clinician A' model developed to divert admissions at the point of ED. Whilst this has clearly been a focus of discussion between NHSI and the Trust since before the end of 2016/17, no resolution between the CCG and the Trust was achieved during 2017/18. NHSI expect to undertake an arbitration process early in the new financial year.

KPMG

Quality Account

Quality Account

Conclusion on content of Quality Accounts

Subject to carrying out our final checks to review changes made by the Trust after the date of this report, we are satisfied that there is sufficient evidence to provide a limited assurance opinion on the content of the quality accounts.

Work performed and findings

We consider two criteria:

- Review of content to ensures it addresses the requirements set out in the Quality Accounts Regulations; and
- Review of content in the quality accounts for consistency with other information by the Department of Health in its 'Auditor Guidance 2014/15.

Our findings are set out below:

Issue considered	Findings
Inclusion of all mandated content	The content of the quality report presented for audit was accurately reported in line with the quality report regulations.
Are significant matters in the specified information sources reflected in the quality accounts and significant assertions in the quality accounts supported by the specified information sources?	We identified that the Trust reflected its significant matters, relevant to the selected priorities from the specified information sources, in its quality account. ■ Significant assertions in the quality report are supported by the relevant information sources; and ■ Significant assertions in the draft of the quality report were supported by the specified information sources.

Quality Account

Audit of indicators within the Quality Accounts

We carried out work on two mandated indicators, which require a public opinion, chosen by the Trust from a list of three available indicators as specified by the Department of Health in its guidance:

- Rate of clostridium difficile infections (C-Diff); and
- Percentage of patients risk assessed for VTE.

Conclusion

Please note that the extent of the procedures performed is reduced for limited assurance. The nature of the procedures may be different and less challenging that those used for reasonable assurance. Therefore, our work was not a 'reasonable assurance audit' of either the performance indicators or the processes used to collate and report them.

Our work on the two mandated indicators has concluded that there:

- is sufficient evidence to provide a limited assurance opinion in respect of C-Diff; and
- is not sufficient evidence to provide a qualified limited assurance opinion in respect of VTE.

During 2017/18 the Trust's VTE Group addressed the findings of our work from 2016/17 and the implementation of this new system. Since 1 April 2018 the Trust has operated its replacement VTE database and therefore the audit for the 2017/18 period has been undertaken using the data available from the previous system. As a result, we cannot provide a limited assurance opinion for VTE because from our testing:

- the VTE database used by the Trust for VTE reporting has a number of weaknesses that mean that the reports produced cannot be fully relied on and do not meet the requirements of national guidelines; and
- when we compared the Trust's Unify submission to the VTE database reports we were unable to agree records to the source data from the supporting systems.

We have made one high priority recommendation (#1) to help address these issues. We have also made a high priority recommendation to help strengthen the approach to monitoring and reporting VTE assessments after the 24 hour threshold has been reached (#2). We have made five recommendations in total (with one medium and two low priority).

Results of our work

We have set out overleaf the key findings from our work as described above in relation to the two mandated indicators. In reaching our conclusions we required to have assessed the design and operational of the systems of control over the data against the six data quality dimensions defined by the NAO. In reaching our conclusion, we have assessed these arrangements to consider whether they can be graded as:

- **Green**: No improvement to achieve compliance with the dimensions of data quality noted.
- **Amber**: Opportunities to achieve great efficiency or better control in compliance with the dimensions of data quality noted.
- **Red**: Concern that systems will not achieve compliance with one or more aspects of the dimensions of data quality and therefore a limited assurance opinion cannot be provided.

Quality Account

<table>
<tr><th colspan="4">Design of system and processes and operation</th><th rowspan="2">Results of our sample testing</th><th rowspan="2">Conclusion reached</th></tr>
<tr><th>Data quality dimension</th><th>Design</th><th>Operation</th><th>Commentary on ratings</th></tr>
<tr><td colspan="6">Mandated Indicator: Rate of clostridium difficile infections, with performance recorded in Quality Accounts of 9.58%

Performance target: 13.1% (national average 13.3%)</td></tr>
<tr><td>Accuracy</td><td>●</td><td>●</td><td>We have observed the re-running of the procedure to extract the 2017-18 report of faecal sample data from the TDNexLab software application. Whilst we found that the data extraction process and checks are not documented (see recommendation 5), we have reconciled the numerator to the data provided in this report. We have also reconciled the denominator to the KH03 returns.</td><td rowspan="7">A sample of 25 test results were selected from the relevant Trust systems and the supporting laboratory data was obtained and reviewed for completeness.</td><td rowspan="7">We have not come across any indications that data for this indicator is not produced in line with national guidance.

We have made two recommendations to strengthen the audit trail of reasons for exclusions and to underpin the reconciliation processes in operation with written procedures.</td></tr>
<tr><td>Completeness</td><td>●</td><td>●</td><td>We have reviewed and documented the processes and procedures used by the Trust to exclude items from the indicator against relevant guidance. We have obtained the source data and used this in our sample testing to review the application of these procedures in practice. No issues were identified.</td></tr>
<tr><td>Relevance</td><td>●</td><td>●</td><td>We have reconciled the records of all positive test results in the year to the number used in the indicator. We have obtained a breakdown of all exclusions and the documented reasons for the exclusion. We used this information to inform our sampling and further checking.

We found that the reason for excluding faecal samples from C-Difficile testing was not always recorded. As a result, we could not readily check that the exclusion was in line with the indicator guidance. Data analytics was used to confirm that in all but two cases, testing not been performed in line with guidelines and/or would not have been attributable to the Trust - see recommendation 4.</td></tr>
<tr><td>Reliability</td><td>●</td><td>●</td><td>We have confirmed that there have been no significant changes which may raise additional risks to the system for collecting and processing data. We reviewed the Trust’s standard operating procedures and found that they were in line with the guidance and actual practice.</td></tr>
<tr><td>Timeliness</td><td>●</td><td>●</td><td>We have confirmed that the system used to record the data underpinning the indicator updates with results after completion of each laboratory test. We have reviewed submissions made to Public Health England in 2016-17 and performance reports submitted to the Trust Board and found no issues.</td></tr>
<tr><td>Validity</td><td>●</td><td>●</td><td>We have agreed the details of a sample of positive test results to laboratory records and source documents.</td></tr>
<tr><td>Overall</td><td>●</td><td>●</td><td>There are appropriate arrangements in place to ensure the quality of data for this indicator.</td></tr>
</table>

Quality Account

Design of system and processes and operation				Results of our sample testing	Conclusion reached
Data quality dimension	**Design**	**Operation**	**Commentary on ratings**		
Mandated Indicator: Percentage of patients risk assessed for VTE, with performance recorded in Quality Accounts of 95.6% Performance target: 95%					
Accuracy	●	●	We vouched the Unify submission to the VTE database reports, but were unable to reconcile this database with the source data from feeder systems. The Trust did not provide a reconciliation for audit and does not reconcile routinely the database to feeder systems. As a result, the Trust's reporting for the VTE indicator (both numerator and denominator) could be misstated, see recommendation 1.	We reviewed a sample of 25 selected to provide coverage across the year, across a range of departments and balances which were associated with a cohort or manual validation changes were prioritised for testing. We found one case which had been incorrectly marked as VTE cohort assessed, but which did not meet the criteria and should have been breaches. We attempted to confirm time from admission to VTE assessment for three cases and found two of these did not correspond to patient records. We found three patients who had been in hospital for five days or more with out a VTE assessment.	We have found a number of issues with the VTE database the Trust uses which suggest that the indicator may not be presented in line with national guidance.
Completeness	●	●	We found that the VTE database used to generate the UNIFY submission had a number of fundamental weaknesses that made it impossible to rely on the reports generated. These weaknesses were an inability to reconcile back to source data from feeder systems; errors in automated cohort coding (1 of 6 cohort assessed patients in our sample of 25 had been automatically coded as cohort assessed by the database in error and technicians were unable to determine the extent to which this error could apply to the wider population); errors in recording of the number of VTE assessments completed (in year the Trust's own testing found instances where Vitalpac software showed assessments were completed but for unidentified reasons the database did not reflect this; database is unable to calculate consistently the time between admission and VTE assessment (in 2 of the 3 cases we reviewed the time as per patient records and Vitalpac was different from the database and Trust staff confirmed this would be a result of systematic problems with the database), see recommendation 1.		
Relevance	●	●	Due to limitations with the VTE database the Trust was unable to calculate the number of patients VTE assessed within 24 hours, as per the UNIFY definition. As a result for 2017/18 the figures reported were on a per admission basis, see recommendation 1.		
Reliability	●	●	We found that the data as per the Unify submission was consistent the data reported in the Trust Board papers in March 2018. However, as in 2016/17, there we found a number of issues with the Trust's data reporting processes - see recommendation 1.		
Timeliness	●	●	The data for the majority of VTE risk assessments are captured in real-time as they are updated onto Vitalpac. Also, the UNIFY submissions were made on a timely basis.		
Validity	●	●	We found that the data validation and submission process is not documented in full from start to finish, see recommendation 3.		
Overall	●	●	We found that arrangements for this indicator required improvement and as a result data may not be presented in line with national guidance.		

Appendices

Recommendations raised and followed up

The recommendations raised as a result of our work in the current year are as follows:

Priority rating for recommendations					
❶	Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷	Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸	Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
Financial Statements			
1	❸	**Fixed asset register to General Ledger reconciliation** The reconciliation between the fixed asset register and general ledger was not performed for months six, seven and eight (after the capital accountant left the Trust). We reviewed a reconciliation at month nine with no differences and discussed with management. A new capital accountant took over this control in February and are responsible for completing on a monthly basis. At the year end we have confirmed this control is now in place. The trust should ensure that succession planning is in place to ensure that controls continue to operate effectively when staff changed occur.	
Value for money			
2	❷	**Securing financial sustainability** Whilst the Trust delivered against its control total, its delivery of its planned CIP of £26.9 million was achieved with 69% of non-recurrent measures. This places additional strain looking forward into 2018/19, where the Trust is planning to deliver a CIP of £35 million. We acknowledge that the Trust has sought to strengthen its governance around CIP delivery over the last year, having established a PMO and a bi-weekly Finance Recovery Board, chaired by the CEO. In delivering the CIP for 2018/19, the Trust needs to focus its efforts on reducing reliance on non-recurrent measures to help address its underlying financial deficit.	

Recommendations raised and followed up

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
1	❶	VTE Indicator: VTE Database During 2017/18, the Trust's VTE Group addressed the findings of our work from 2016/17 and the implementation of a new system. Since 1 April 2018 the Trust has operated its replacement VTE database to support reporting from 2018/19 and to strengthen associated control processes. Following the 2016/17 audit, the Trust wrote to the NHS Improvement Analytics Hub to clarify the meaning of 'on admission'. On 20 September 2017 they confirmed that the 'on admission' criteria means within 24 hours and not per admission. The Trust has not been able to generate a figure for 2017/18 based on within 24 hours as a result of the VTE database in calculating length of time from admission to VTE assessment. All figures were reported to UNIFY on a 'per admission' basis. Our work was focussed on the 1 April 2017 to 31 March 2018 period and as a result of the timing of these two developments outlined above, we found similar issues to those in 2017/18. We found that the current VTE database and its reports used to generate the UNIFY submission had a number of weaknesses: • No reconciliation maintained from source data to feeder systems; • Errors in automated cohort coding (1 of 6 cohort assessed patients in our sample of 25 had been automatically coded as a cohort assessed by the database in error); • Errors in recording of the number of VTE assessments completed. The Trust's own testing found instances where Vitalpac software showed assessments were completed but for unidentified reasons the database records did not match this; • Inconsistently calculating the time between admission and VTE assessment (in 2 of the 3 cases we reviewed, the time as per patient records and Vitalpac was different from the database). **Recommendation** In replacing the current VTE database, the Trust should review the findings from the 2016/17 and 2017/18 audits and ensure that their IT infrastructure and reporting processes are robust enough to ensure timely and reliable recording of VTE performance.	

Appendix 1

Recommendations raised and followed up

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
2	❶	**VTE indicator: VTE Assessment Monitoring of Breaches After 24 hours** As part of our risk based approach to the sample of 25, we selected breaches where no VTE assessment was completed in 24 hours. We found three cases where a VTE assessment was not completed for 5 days or more during the patient's hospital stay. We also found that current reporting from both the VTE database and Vitalpac, whilst identifying breaches at 24 hours, was not used to monitor and flag those breaches that were continuing for these longer periods. **Recommendation** As part of the establishment of a new database and the review of their VTE reporting facilities, the Trust should ensure that there are reports to track cases that have breached at 24 hours and ensure they are promptly VTE assessed after that point.	
3	❸	**VTE Indicator: Strengthening documentation and review** The Trust has not fully documented its data validation and submission process. It plans to do this as part of its review of processes with the introduction of a new VTE database and reporting facility. At the time of our work we found that the person responsible for making manual amendments to VTE database reports was also responsible for signing off the UNIFY submissions. A separation of duties between making amendments and signing off the submission would mitigate against the risk of accidental or deliberate errors. We also found that the VTE Group had incorporated data quality into its terms of reference but had yet to agree how this role would be implemented in practice as part of its workplan. **Recommendation** Following the introduction of the new VTE database and updated reporting facilities, the Trust should document fully its data validation process including the quality review arrangements. The Trust should maintain an accurate record of all manual changes made and of its formal review and approval process for these changes. This should ensure an appropriate segregation of duties. The VTE Group should seek to be clear on how in practice it intends to fulfil its role in terms of data quality.	

Appendix 1

Recommendations raised and followed up

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
4	2	**C-Difficile Indicator: Data entry omissions** When faecal samples are received in the microbiology laboratory they undergo a screening process and review against the prescribed criteria to determine if a C-Diff test is required. For 2017-18, the system recorded 4,361 samples with an acceptable exclusion result or reason. However, we found 3,993 cases in which there were blank or undetermined fields and so the exclusion reason could not be immediately identified. A similar issue was reported in 2016/17 where the respective figures were 4,492 and 4,136 respectively. Using other fields or searches of source records it was possible for laboratory staff to identify the reason for no test being performed, with the exception of 13 cases, where tests for C-diff should have been completed but were not, and of these there were two cases that if tested and C-diff was identified could have been attributable to the Trust. In the unlikely event that both were positive cases, it would not make a difference to the overall achievement of the C-diff target. **Recommendation** Where the decision to exclude a sample from C-Diff testing is taken, the Trust should enforce mandatory recording of the reason in the system.	
5	3	**C-Difficile Indicator: Data extraction and checking process** The data extraction process and checks are not documented. **Recommendation** The Trust should agree and document the parameters used for extracting data from the TDNexLab software application into the C-Diff spreadsheet. As part of Trust's approval of the monthly data submission to Public Health England, the officer submitting the return should evidence confirmation that the correct parameters have been used and all positive C-Diff cases have been included.	

Appendix 1

Recommendations raised and followed up

We have also follow up the recommendations from the previous years audit, in summary:

Total number of recommendations	Number of recommendations implemented	Number outstanding (repeated below):
4	4	0

Appendix 2

Audit Differences

Under UK auditing standards (ISA (UK&I) 260) we are required to provide the Audit Committee with a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK&I) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the Audit Committee, details of all adjustments greater than £300K are shown below:

Unadjusted audit differences (£m)				
No.	Detail	SOCI Dr/(cr)	SOFP Dr/(cr)	Comments
1	**NHS debt provision** Dr Patient Care Income Provisions Cr Operating expenses	- (£5.2)	£5.2 -	The trust has recognised £5.2 million of provisions in respect of income recorded from NHS bodies for services the Trust has provided in year. Section 5.103 of the GAM discourages this *"group bodies should not normally impair for receivables due from other DHSC group bodies"*.
Total		£5.2	£5.2	

Under UK auditing standards (ISA UK&I 260) we are required to provide the Audit Committee with a summary of adjusted audit differences (including disclosures) identified during the course of our audit. One presentational adjustment is shown below, there were other minor presentational differences which were 'clearly trivial' these have been adjusted in the financial statements but not recorded below.

Adjusted audit differences (£000)				
No.	Detail	SOCI Dr/(cr)	SOFP Dr/(cr)	Comments
1	**Intangible AUC** Cr Assets under construction (PPE) Dr Intangible software licences additions		(459) 459	Reclassification of intangible assets under construction from PPE assets under construction to intangible asset additions. The trust capitalises all additions to capital projects under PPE assets under construction, assets under construction that are intangible should be recorded separately as intangible assets under construction.
Total		£-	£-	

Appendix 2

Audit Differences

We are required to report any inconsistencies greater than £300,000 between the signed audited accounts and the consolidation data and details of any unadjusted errors or uncertainties in the data provided for intra-group and intra-government balances and transactions regardless of whether a Trust is a sampled or non-sampled component. We have provided details of the inconsistencies that we are reporting to the NAO as follows:

Counter party	Type of balance/ transaction	Balance as per Trust (£'000)	Balance as per counter party (£'000)	Difference (£'000)	Comments on Difference
04Y-NHS Cannock Chase CCG	Income	46,288	46,839	(551)	Confirmation with management in progress
14C-West Midlands Specialised Commissioning Hub	Income	94,270	93,726	544	Confirmation with management in progress
05Y-NHS Walsall CCG	Income	30,121	30,462	(341)	Confirmation with management in progress
RBK-Walsall Healthcare NHS Trust	Expenditure	370	698	(328)	Confirmation with management in progress
06A-NHS Wolverhampton CCG	Debtor	10,478	5,610	4,868	Confirmation with management in progress
Q77-West Midlands Local Office	Debtor	-	434	(434)	Confirmation with management in progress
05V-NHS Stafford and Surrounds CCG	Debtor	-	394	(394)	Confirmation with management in progress
04Y-NHS Cannock Chase CCG	Debtor	2,863	3,242	(379)	Confirmation with management in progress
CBA033-NHS England	Creditor	-	379	(379)	Confirmation with management in progress

Appendix 3

Audit Independence

The purpose of this Appendix is to communicate all significant facts and matters that bear on KPMG LLP's independence and objectivity and to inform you of the requirements of *ISA 260 (UK and Ireland) Communication of Audit Matters to Those Charged with Governance.*

Integrity, objectivity and independence

We are required to communicate to you in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

We have considered the fees paid to us by the Trust for professional services provided by us during the reporting period. We are satisfied that our general procedures support our independence and objectivity.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail. There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to the Board of Governors.

Audit matters

We are required to comply with *ISA (UK and Ireland) 260 Communication of Audit Matters to Those Charged with Governance* when carrying out the audit of the accounts.

ISA 260 requires that we consider the following audit matters and formally communicate them to those charged with governance:

- Relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement lead and audit staff.
- The general approach and overall scope of the audit, including any expected limitations thereon, or any additional requirements.
- The selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the Trust's financial statements.
- The potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements.
- Audit adjustments, whether or not recorded by the entity that have, or could have, a material effect on the Trust's financial statements.

Appendix 3

Audit Independence

- Material uncertainties related to event and conditions that may cast significant doubt on the Trust's ability to continue as a going concern.
- Disagreements with management about matters that, individually or in aggregate, could be significant to the Trust's financial statements or the auditor's report. These communications include consideration of whether the matter has, or has not, been resolved and the significance of the matter.
- Expected modifications to the auditor's report.
- Other matters warranting attention by those charged with governance, such as material weaknesses in internal control, questions regarding management integrity, and fraud involving management.
- Any other matters agreed upon in the terms of the audit engagement.

We continue to discharge these responsibilities through our attendance at Audit Committees, commentary and reporting and, in the case of uncorrected misstatements, through our request for management representations.

Auditor Declaration

In relation to the audit of the financial statements of the Trust for the financial year ending 31 March 2018, we confirm that there were no relationships between KPMG LLP and the Trust, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards in relation to independence and objectivity.

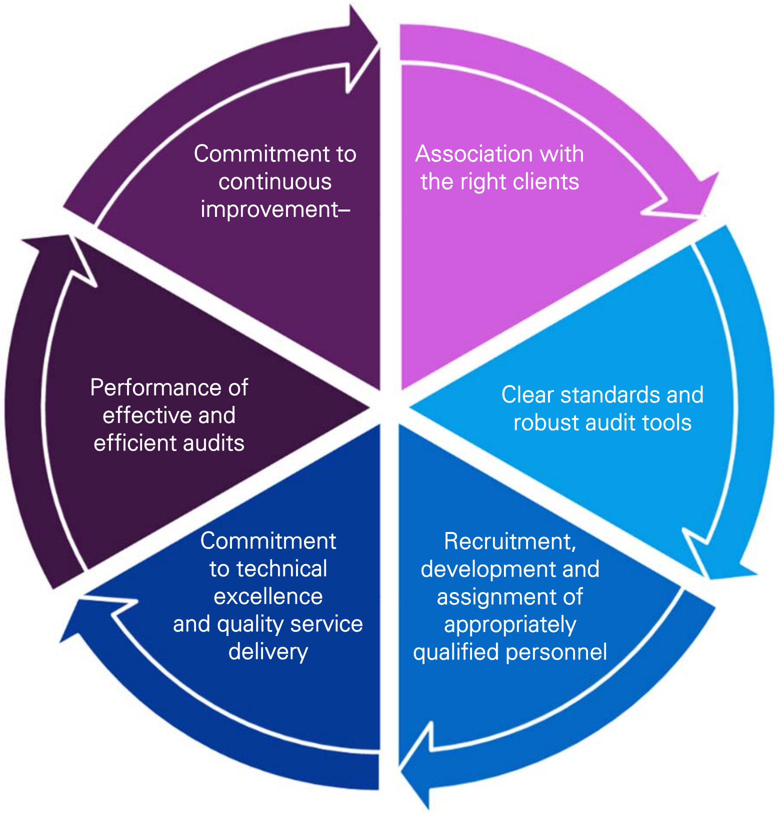
Appendix 4

KPMG's Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework

- Comprehensive effective monitoring processes
- Proactive identification of emerging risks and opportunities to improve quality and provide insights
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management



- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Relationships built on mutual respect
- Insightful, open and honest two way communications

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- Independence policies

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members and specialists

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