



The Annual Audit Letter for University Hospitals Plymouth NHS Trust

Year ended 31 March 2019

27 June 2019



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at University Hospitals Plymouth NHS Trust (the Trust) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Trust and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Trust's Audit Committee as those charged with governance in our Audit Findings Report on 23 May 2019.

Our work

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Trust's financial statements (section two)
- assess the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Trust's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Materiality	We determined materiality for the audit of the Trust's financial statements to be £8m, which is the equivalent of approximately 1.5% of the Trust's operating expenditure for the year.
Financial Statements opinion	We gave an unqualified opinion on the Trust's financial statements on 29 May 2019. We included a going concern material uncertainty paragraph in our report on the Trust's financial statements to draw attention to the note which explains the basis on which the Trust has determined that it is still a going concern. This does not affect our opinion that the statements give a true and fair view of the Trust's financial position and its income and expenditure for the year.
NHS Group consolidation template (WGA)	We also reported on the consistency of the financial statements consolidation template provided to NHS England with the audited financial statements. We concluded that these were consistent.
Use of statutory powers	We previously referred a matter to the Secretary of State, as required by section 30 of the Act, on 17 May 2017 in relation to the Trust's expected breach of its statutory break-even duty for the three year period ending 31 March 2019.

Executive Summary

Value for Money arrangements	We were satisfied that the Trust put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources except for the matter identified in respect of the Trust's financial forecasting. We therefore qualified our value for money conclusion in our Audit Findings Report which we presented to the Audit Committee on 23 May 2019 and in our audit opinion dated 29 May 2019.
Quality Accounts	We completed a review of the Trust's Quality Account and issued our report on this on 14 June 2019. We concluded that the Quality Account and the indicators we reviewed were prepared in line with the Regulations and guidance.
Certificate	We certified that we have completed the audit of the financial statements of University Hospitals Plymouth NHS Trust in accordance with the requirements of the Code of Audit Practice on 29 May 2019.

Acknowledgement

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

Grant Thornton UK LLP

June 2019

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Trust's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Trust's financial statements to be £8m, which is the equivalent of approximately 1.5% of the Trust's operating expenditure for the year. We used this benchmark as, in our view, users of the Trust's financial statements are most interested in where the Trust has spent its revenue in the year.

We also set a lower level of specific materiality of £20,000 for the senior officer remuneration disclosures.

We set a lower threshold of £300,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Annual Report to check it is consistent with our understanding of the Trust and with the financial statements included in the Annual Report on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Trust's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that income may be misstated due to the improper recognition of revenue. We rebutted this for the revenue streams of the Trust that are agreed in advance at a fixed price.</p> <p>We did not deem it appropriate to rebut this presumed risk for all other material streams of income.</p>	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> evaluated the Trust's accounting policy for recognition income from patient care activities and other operating revenue for appropriateness and compliance with the Department of Health and Social Care (DHSC)Group Accounting Manual 2018/19; updated our understanding of the Trust's system for accounting for income from patient care activities and other operating revenue, and evaluated the design of the associated controls <p><u>Patient Care Income</u></p> <ul style="list-style-type: none"> using the DHSC mismatch report, we investigated unmatched revenue and receivable balances over the NAO £0.3m threshold, corroborating the unmatched balances used by the Trust to supporting evidence; agreed, on a sample basis, income from contract variations and year end receivables to signed contract variations, invoices or other supporting evidence such as correspondence from the Trust's commissioners. <p><u>Other Operating Revenue</u></p> <ul style="list-style-type: none"> agreed, on a sample basis, income and year end receivables from other operating revenue to invoices and cash payment or other supporting evidence. 	<p>Our audit work did not identify any issues in respect of revenue recognition.</p>

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of internal controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Trust faces external pressures to meet agreed targets and we therefore identified management override of control, in particular journals, management estimates and transactions outside the normal course of business as a significant risk.</p>	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> evaluated the design effectiveness of management controls over journals; analysed the journals listing and determined the criteria for selecting high risk unusual journals; tested unusual journals made during the year and after the draft accounts stage for appropriateness and corroboration; gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness; evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. 	<p>Our audit work did not identify any issues in respect of these areas.</p>
<p>Going concern material uncertainty disclosures</p> <p>As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern.</p>	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> discussed the financial standing of the Trust with officers reviewed management's assessment of going concern assumptions and supporting information, e.g. 2019/20 operating plan, FIP programme and cash flow forecasts for 12 months following the expected date of our audit opinion evaluated the completeness and accuracy of disclosures on material uncertainties with regard to going concern in the financial statements. 	<p>We asked the Trust to revise its disclosure regarding the material uncertainty regarding the going concern issues.</p> <p>As noted on page 3 of this Annual Audit Letter, our audit report opinion was unqualified and included a material uncertainty relating to going concern.</p>

Audit of the Financial Statements

Significant Audit Risks (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings The Trust revalues its land and buildings on an annual basis to ensure that the carrying value is not materially different from the current value at the financial statements date. This valuation represents a significant estimate by management in the financial statements.</p>	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; evaluated the competence, capabilities and objectivity of the valuation expert using our own Auditor's expert; wrote to the valuer to confirm the basis on which the valuations were carried out; tested all revaluations made during the year to ensure they have been input correctly into the Trust's asset register and therefore reflected in the financial statements; ensured that all land and buildings were revalued during the year; challenged the information provided to the valuer at the start of the valuation exercise; challenged the assumptions used by the valuer; challenged how the valuer ensured completeness of the assets; determined whether the valuations provided were consistent with our understanding; considered whether clarified RICS guidance on asset lives was likely to have a material impact to the Trust 	<p>Our audit work did not identify any issues in respect of valuation of land and buildings.</p>
<p>Expenditure Recognition Trusts are facing significant external pressure to restrain budget overspends and meet externally set financial targets. In this environment, we have considered the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition as a significant risk.</p>	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> evaluated the Trust's accounting policy for recognition of non-pay expenditure for appropriateness gained an understanding of the Trust's system for accounting for non-pay expenditure and evaluated the design of the associated controls; updated our understanding of the Trust's goods received not invoiced accrual process, challenging key underlying assumptions, the appropriateness of the source of data used and the basis for calculations tested, on a sample basis, a listing from the cash book or equivalent of non-pay payments made in April tested, on a sample basis, the listing of non-pay expenditure including agency costs, agreeing the sampled items to supporting documentation to confirm accuracy, occurrence, completeness and classification. 	<p>Our audit work did not identify any issues in respect of expenditure recognition.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Trust's financial statements on 29 May 2019.

Preparation of the financial statements

The Trust again presented us with draft financial statements in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Trust's Audit Committee on 23 May 2019.

In addition to the key audit risks reported on the previous pages, we also undertook work on the Trust's additions to property, plant and equipment and the assets that were reported as being still under construction at the year end. Although we were satisfied that the financial statements were materially correct, we recommended that the Trust should improve its arrangements in this area.

Annual Report, including the Annual Governance Statement

We are also required to review the Trust's Annual Report, including the Annual Governance Statement. It provided these on a timely basis with the draft financial statements with adequate supporting evidence. We suggested some minor changes to the Trust's Annual Governance Statement, particularly around the need to include a clear conclusion on the effectiveness of the system of internal control.

Other statutory powers

We are also required to refer certain matters to the Secretary of State under section 30 of the Local Audit and Accountability Act 2014.

We previously referred a matter to the Secretary of State, as required by section 30 of the Act, on 17 May 2017 in relation to the Trust's expected breach of its statutory break-even duty for the three year period ending 31 March 2019.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of University Hospitals Plymouth NHS Trust in accordance with the requirements of the Code of Audit Practice on 29 May 2019.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

Overall Value for Money conclusion

We are satisfied that, in all significant respects, except for the arrangements for setting its 2018/19 budget, the Trust put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019. Further information is provided on the following pages.

Value for Money arrangements

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>The Trust was planning a small deficit of approximately £3m for 2018/19.</p> <p>Early in the financial year it became apparent that this outturn was not achievable and that the Trust was unable to identify remedial actions sufficient to enable it to deliver its original financial target.</p> <p>After dialogue with NHS Improvement, a revised budget for the year was submitted in October 2018 which showed an increased deficit of approximately £30m for the year, a proportion of which was due to the loss of Provider Sustainability Funding (PSF) of £11.1m.</p> <p>There was a risk that the Trust's financial management arrangements for setting and monitoring its budgets were inadequate.</p>	<p>As part of our work we:</p> <ul style="list-style-type: none"> Kept abreast of the developments throughout the year through discussions with officers and reviews of key documentation; Reviewed the Trusts original budget for 2018/19 and considered the annual financial improvement plan required to deliver this; comparing it to the previous year; Reviewed the Trusts revised budget for 2018/19 to understand the changes from the original submission; Considered NHS Improvement's review of the Trust's financial management arrangements Reviewed the outturn for the year and compared this to the revised budget; Assessed the delivery of the financial improvement plan for the year; Reviewed the plans for 2019/20 to assess their reasonableness. 	<p>Our view is that that the original budget for 2018/19 was not realistic and that the re-profiling of the savings plans for the year was insufficient to address the underlying financial pressures in the year.</p> <p>As a result, we concluded that the Trust's arrangements for setting its budget in 2018/19 were inadequate and we qualified our VFM conclusion accordingly.</p>

Value for Money arrangements

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>CQC Inspection</p> <p>On 15 August 2018, the Care Quality Commission (CQC) reported on the quality of the services provided by the Trust and how it used its resources. The overall assessment was 'requires improvement'.</p> <p>Following the inspection, the CQC issued two Warning Notices requiring the Trust to take urgent action to improve the management of medicines within its pharmacy services and ensure there were significant improvements in the diagnostic services.</p> <p>Per the CQC's framework, there was a risk that the Trust was not using its resources effectively and was providing care where the quality was below what is legally required.</p>	<p>As part of our work we:</p> <ul style="list-style-type: none"> • Reviewed the original CQC report, noting the direction of travel since the previous assessment by the CQC; • Assessed the narrative of the two warning notices; • Kept up to date with the developments since August 2018 through discussions with officers and review of key documentation; • Reviewed the Trust's action plan to address the issues raised by the CQC and assessed how effectively this was being monitored by the Board; • Reviewed the findings of the CQC's follow-up inspection which was reported in February 2019 	<p>On balance we have concluded that the Trust had adequate arrangements in place to address the issues raised by the CQC.</p> <p>In our Audit Findings Report we noted that the Trust has a very challenging agenda if it is to be financially sustainable whilst delivering high quality services. There are a vast number of actions and initiatives within the Trust and there is a very real risk that:</p> <ul style="list-style-type: none"> • the Trust could become overloaded by the sheer volume of these; • the focus is too much on the operational level of addressing myriad recommendations and actions and that the high-level strategic vision is overlooked. Co-ordination and rationalisation is essential if the Trust is to achieve its longer term vision of five strategic aims.

Quality Account

The Quality Account

The Quality Account is an annual report to the public from an NHS Trust about the quality of services it delivers. It allows Trust Boards and staff to show their commitment to continuous improvement of service quality, and to explain progress to the public.

Scope of work

We carry out an independent assurance engagement on the Trust's Quality Account, following Department of Health (DH) guidance. We give an opinion as to whether we have found anything from our work which leads us to believe that:

- the Quality Account is not prepared in line with set DH criteria;
- the Quality Account is not consistent with other documents, as specified in the DH guidance; and
- the two indicators in the Quality Account where we have carried out testing are not compiled in line with DH regulations and do not meet expected dimensions of data quality.

Quality Account Indicator testing

We tested the following indicators:

- Rate of clostridium difficile infections per 100,000 bed days
- Percentage of patient safety incidents resulting in severe harm or death

For each indicator tested, we considered the processes used by the Trust to collect data for the indicator. We checked that the indicator presented in the Quality Account reconciled to underlying Trust data. We then tested a sample of cases included in the indicator to check the accuracy, completeness, timeliness, validity, relevance and reliability of the data, and whether the calculation of the indicator was in accordance with the defined indicator definition.

Key messages

- We confirmed that the Quality Account had been prepared in line with the requirements of the Regulations.
- We confirmed that the Quality Account was consistent with the sources specified in the DH Guidance.
- We confirmed that the commentary on indicators in the Quality Account was consistent with the reported outcomes.
- Based on the results of our procedures, nothing came to our attention that caused us to believe that the indicators we tested were not reasonably stated in all material respects.

Conclusion

As a result of this we issued an unqualified conclusion on the Trust's Quality Account on 14 June 2019.

A. Reports issued and fees

We confirm below our final reports issued and fees charged during the year.

Reports issued

Report	Audit Committee Date
Audit Plan	10 December 2018
Audit Findings Report	23 May 2019
Annual Audit Letter	21 August 2019

Fees

	Planned Fees £	Actual Fees £	2017/18 Fees £
Audit Fees			
Trust statutory audit	51,638	51,638	51,638
Charitable fund audit (not yet started)	3,847	TBC	3,847
Non-audit Fees			
Quality account	8,000	8,000	8,000
Total fees	£63,485	TBC	£63,485

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Trust. The table summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Trust's auditor and have ensured that appropriate safeguards were put in place.
- The above non-audit services are consistent with the Trust's policy on the allotment of non-audit work to your auditor.
- No new services have been identified since our audit plan was produced.



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