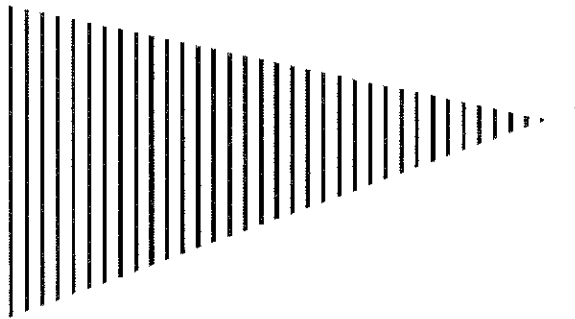


# Shrewsbury and Telford Hospitals NHS Trust

Annual Audit Letter for the year ended 31 March 2016

JULY 2016

Ernst & Young LLP



Building a better  
working world

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies 2015-16". It is available from the Chief Executive of each audited body and via the PSAA website ([www.psaa.co.uk](http://www.psaa.co.uk))

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment from 1 April 2015' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Directors/Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



## Executive Summary

## Executive Summary

We are required to issue an annual audit letter to Shrewsbury and Telford Hospitals NHS Trust (the Trust) following completion of our audit procedures for the year ended 31 March 2016.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Trust's: ► Financial statements	<p>Based on our review of your internal control environment and assessment of key business risks we designed a risk based audit testing strategy. As a result of our detailed testing and use of EY data analytics tools we obtained sufficient evidence to form a conclusion on your financial statements (see page 10 to 12 for more detail).</p> <p>We concluded that the financial statements give a true and fair view of the financial position of the Trust as at 31 March 2016 and of its expenditure and income for the year then ended and issued an unqualified opinion.</p>
► Parts of the remuneration and staff report to be audited	<p>We reviewed the parts of the Remuneration and Staff Report to be audited to assess if they were properly prepared in accordance with the Accounts Direction made under the National Health Service Act 2006.</p> <p>We concluded that the parts of the remuneration and staff report subject to audit were properly prepared.</p>
► Consistency of the Annual Report and other information published with the financial statements	<p>We reviewed the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements or from the knowledge acquired by us in the course of performing the audit.</p> <p>Based on the results of our work we concluded that the financial information in the Annual report was consistent with the Annual Accounts.</p>

Area of Work	Conclusion
Reports by exception:	We reviewed the Governance Statement to assess if it was consistent with our understanding of the Trust and with guidance issued.
▶ Consistency of Governance Statement	We did not identify any inconsistencies and did not have any matters to report by exception.
▶ Referrals to the Secretary of State	We have the power to make a referral to the Secretary of State if we have reason to believe the Trust or an officer of the Trust is making a decision that would incur unlawful expenditure, or undertaking a course of that would be unlawful and likely to cause a loss or deficiency. We made a referral to the Secretary of State regarding the Trusts breach of breakeven duty; further details of this referral are contained on page 16 of this report.
▶ Public interest report	We have duty to consider if there are any matters coming to our notice that should be brought to the public's attention through a public interest report We had no matters to report in the public interest.
▶ Value for money conclusion	We have a responsibility to report to you by exception if we are not satisfied that the Trust has put in place proper arrangements to secure economy efficiency and effectiveness in its use of resources. We issued a qualified 'except for' value for money conclusion in regards to the Trusts weaknesses in proper arrangements for planning finances and working with partners effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. Further details of this conclusion are provided on page 14 – 15 of this report.

Area of Work	Conclusion
Reporting to the Trust on its consolidation schedules	We concluded that the Trust's consolidation schedules agreed, within a £250,000 tolerance, to your audited financial statements
Reporting to the National Audit Office (NAO) in line with group instructions	We had no matters to report

As a result of the above we have also:

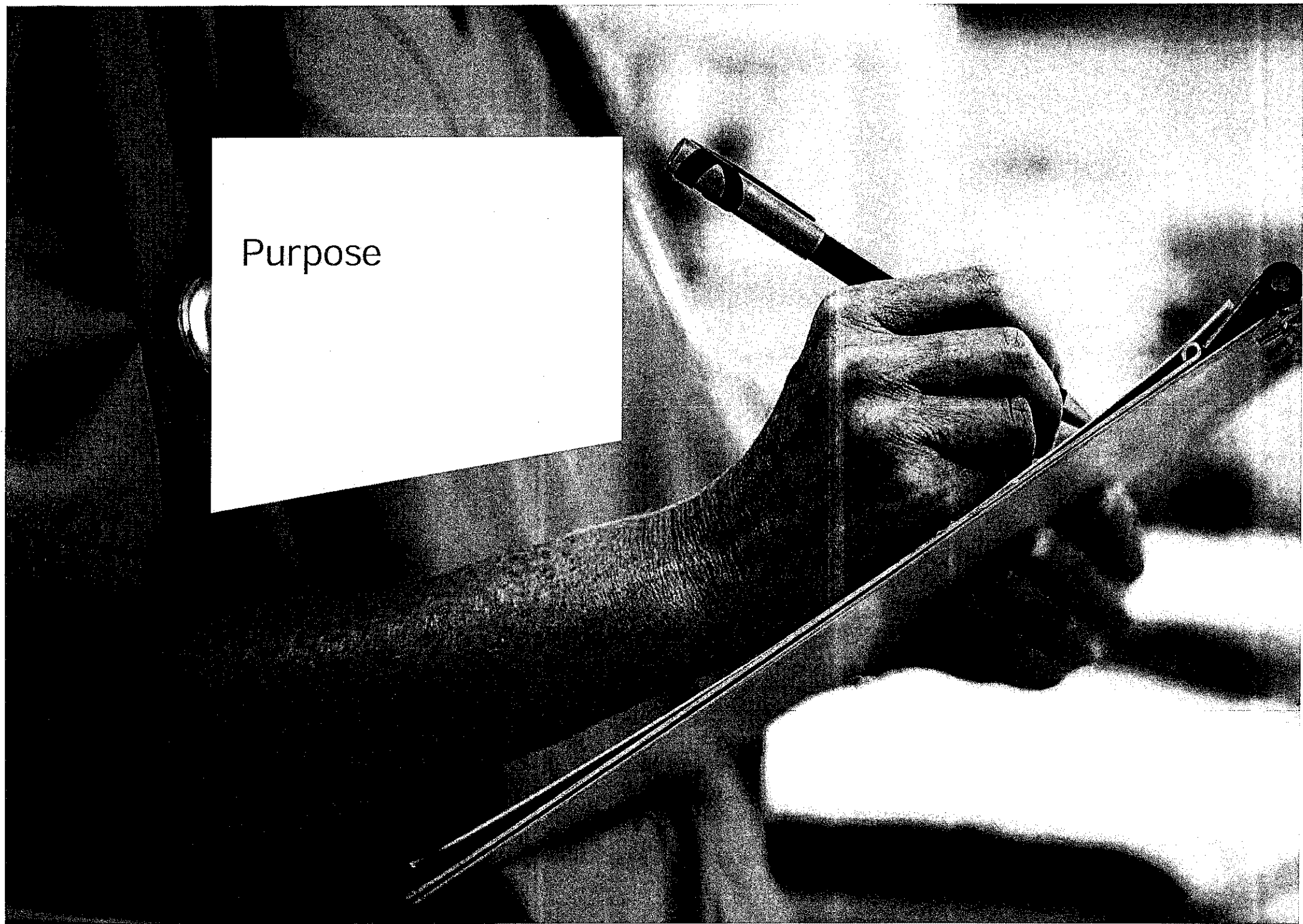
Area of Work	Conclusion
Issued a report to those charged with governance of the Trust communicating significant findings resulting from our audit.	Our Audit results report was issued on 2 June 2016
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 2 June 2016

We would like to take this opportunity to thank the Trusts staff for their assistance during the course of our work.

Hassan Rohimun

Executive Director  
For and on behalf of Ernst & Young LLP

Purpose



## Purpose

### The Purpose of this Letter

The purpose of this annual audit letter is to communicate to those charged with governance, Directors and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Trust.

We have already reported the detailed findings from our audit work in our 2015/16 annual results report to the Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Trust.



A high-contrast, black and white photograph of a person in a suit, with the word 'Responsibilities' overlaid on a white rectangular area. The person is wearing a dark suit jacket over a light-colored shirt. The image is heavily stylized with high contrast, resulting in a loss of mid-tones and a grainy, almost binary appearance. The word 'Responsibilities' is centered within a white rectangular area that is partially obscured by the person's arm and the suit. The background is dark and indistinct.

# Responsibilities

## Responsibilities

### Responsibilities of the Appointed Auditor

Our 2015/16 audit work has been undertaken in accordance with the Audit Plan that we issued on 11 February 2016 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

Expressing an opinion:

- ▶ On the 2015/16 financial statements;
- ▶ On the parts of the remuneration and staff report to be audited;
- ▶ On the consistency of other information published with the financial statements, including the annual report; and
- ▶ On whether the consolidation schedules are consistent with the Trust's financial statements for the relevant reporting period.

Reporting by exception:

- ▶ If the annual governance statement does not comply with relevant guidance or is not consistent with our understanding of the Trust;
- ▶ To the Secretary of State for Health if we have concerns about the legality of transactions or decisions taken by the Trust; and
- ▶ Any significant matters that are in the public interest.
- ▶ Forming a conclusion on the arrangements the Trust has in place to secure economy, efficiency and effectiveness in its use of resources.

Reporting on an exception basis any significant issues or outstanding matters arising from our work which are relevant to the NAO as group auditor.

### Responsibilities of the Trust

The Trust is responsible for preparing and publishing its statement of accounts, annual report and annual governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



# Financial Statement Audit

## Financial Statement Audit

### Key Issues

The Annual Report and Accounts is an important tool for the Trust to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Trust's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 2 June 2016.

Our detailed findings were reported to the 2 June 2016 Audit Committee and 2 June 2016 Board meeting.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
Management override of controls	<p>To address the risk of management override we:</p> <ul style="list-style-type: none"><li>Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, using our data interrogation tools to focus on specific areas of risk.</li><li>Reviewed the accounting estimates for evidence of management bias, and</li><li>Evaluated the business rationale for significant unusual transactions</li></ul> <p>Based on the audit procedures undertaken we did not identify any evidence of management override.</p>
Revenue and expenditure recognition	<p>To address the risk of fraud in revenue and expenditure recognition we:</p> <ul style="list-style-type: none"><li>Reviewed and tested recognition policies</li><li>Reviewed and discussed with management any accounting estimates on revenue or expenditure recognition for evidence of bias</li><li>Developed a testing strategy to test material revenue and expenditure streams, including testing contracts expenditure to supporting agreements and contract variations</li><li>Reviewed and tested revenue cut-off at the period end date</li><li>Reviewed agreement of balances data and investigate significant differences (outside</li></ul>

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of tolerances)

Based on the audit procedures undertaken we did not identify any evidence of fraud in revenue and expenditure recognition.

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Revaluation of the Trust estate

To address the risk incorrect valuation of the Trust estate we:

Carried out procedures to understand the scope of work performed by the Specialist valuer

Reviewed and commented on the valuation methodology applied

Identified, verified, and tested significant assumptions

Performed comparative analysis

Reviewed the Trusts accounting policies to ensure they are in line with the policies adopted in the revaluation exercise.

Considered any proposed prior year adjustments, and the revenue implications of these.

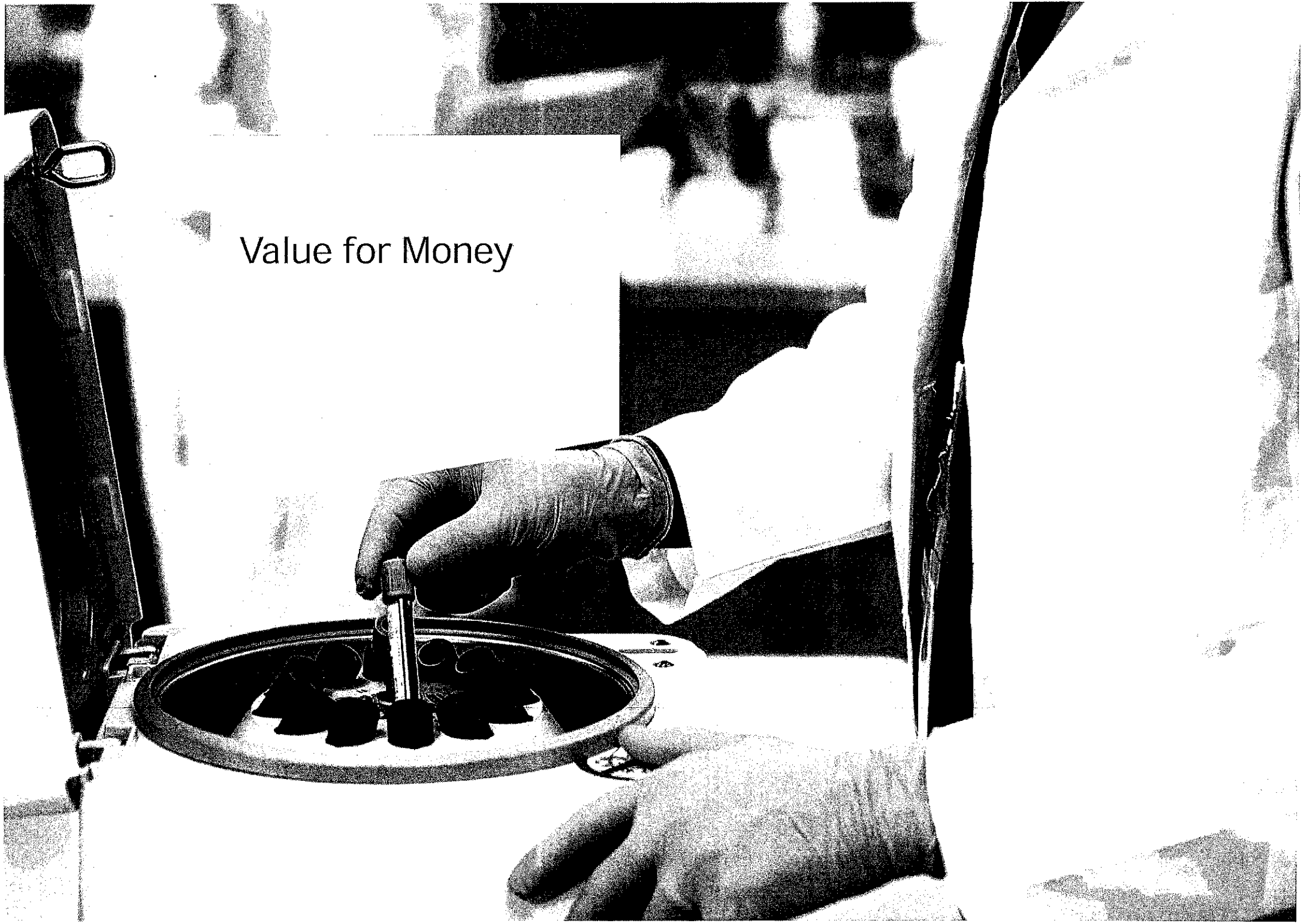
Undertook testing to confirm the existence and ownership of material items of property, plant and equipment.

Our testing did not reveal any material misstatements with respect to the revaluation of the Trusts estate in the year.

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Other Key Findings	Conclusion
<p>We identified two misstatements within the draft financial statements, which management chose not to adjust. These were in regards to:</p> <ul style="list-style-type: none"> <li>• £1.7 million understatement of depreciation charges as a result of changes to asset lives</li> <li>• Capitalised expenditure on assets of £0.5 million not being de-recognised when the asset is no longer in use. This does not have an impact on the Financial position as reported in the SOCI</li> </ul> <p>The cumulative impact of these two misstatements would lead to a decrease in the financial position in the SOCI of £1.7 million</p>	<p>Management have given a specific representation for the reason not to adjust the financial statements, in the management representation letter. The reason stated was that management 'holds a different view over the correct application of the IAS 8 Accounting Standard and is assuming a consistent approach over the treatment of subsequent expenditure'.</p>

Value for Money

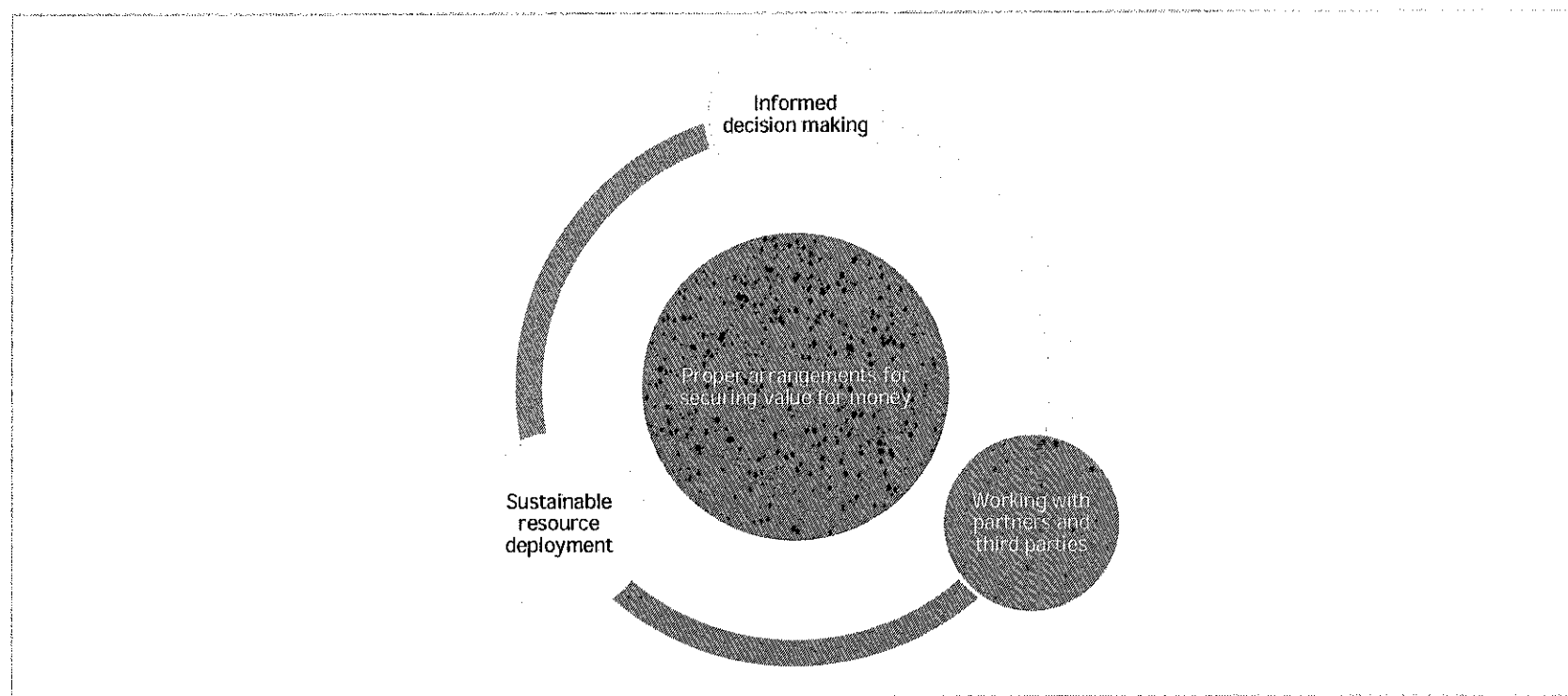


## Value for Money

We are required to consider whether the Trust has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.





We issued a qualified 'except for' value for money conclusion in relation to the Trusts weaknesses in proper arrangements for planning finances and working with partners effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

We identified the following areas to bring to your attention:

### Key Findings

Shrewsbury and Telford Hospitals NHS Trust is a financially challenged Trust with a reported £48.7 million cumulative deficit. This is a position which has not improved on a year on year basis and the Trust has reported in the 2015/16 annual governance statement that it is expecting to record deficits in each of the years to 2019/20 and that a forecasted surplus in 2020/21 is contingent on the reconfiguration of services.

The Trust is one of 17 stakeholder organisations on the Programme Board of the Future Fit programme. Future Fit aims to assess the changing needs of Shropshire's population and design appropriate NHS services that will meet the future needs of the local population. There is recognition by all partners that the consolidation of A&E services to one site is part of the solution to delivering a sustainable local health service. However, at the time of issuing our opinion on 2 June, the Strategic Outline Case to consolidate services to the Telford site had not agreed by all partner organisations.

We reported in our Audit Results Report on 2 June that the Trust continues to experience pressures on capacity which are generating clinical risk. Performance in some key areas continues to be below national targets. As at 31/3/16 the trust was reporting performing at 85.55% for 4 hour A&E waits against the national target of 95%, and the Trusts referral to treatment performance (number of completed admitted pathways where the patient waited 18 weeks or less) is reported as 70.46% against the national target of 90%. The Trust's Board Assurance Framework (BAF) had amber and red risks relating to quality and safety, performance standards, workforce, service reconfiguration and finance and investment. Future Fit is intended to provide a long term sustainable solution to the pressures on the health system in Shropshire. However, the Trust is aware that the pace of change is not sufficient to resolve the short term pressures and challenges which it is facing.

For the purposes of our value for money conclusion we concluded that the above were evidence of weaknesses in proper arrangements for planning finances and working with partners effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

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## Other Reporting Issues



## Other Reporting Issues

### Department of Health Group Instructions

We are only required to report to the NAO on an exception basis if there were significant issues or outstanding matters arising from our work. There were no such issues to report.

### Annual Governance Statement

We are required to consider the completeness of disclosures in the Trust's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with relevant guidance.

We completed this work and did not identify any areas of concern.

### Referral to Secretary of State

We must report to the Secretary of State any matter where we believe a decision has led to, or would lead to, unlawful expenditure, or some action has been, or would be, unlawful and likely to cause a loss or deficiency.

On the 11 May 2016 we issued a section 30 referral under the Local Audit and Accountability Act 2014 to the Secretary of State.

Spending in excess of the revenue resource limit is unlawful. This referral was issued because the Trust reported a cumulative deficit of £48.7 million and it is forecasting to report deficits in each of the years to 2019/20.

### Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Trust or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

### Control Themes and Observations


As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed.

It is the responsibility of the Trust to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Trust has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We adopted a fully substantive approach and have therefore did not test the operation of controls. Our documentation and walkthrough of the Trusts systems did not identify any significant deficiencies in the design of internal controls that might result in a material misstatement in your financial statements of which you are not aware.

As a result of our testing we did identify scope to improve certain internal control processes and made recommendations accordingly. In the table below we highlight the two recommendations which we classified as high priority:

Description of findings	Recommendation
<p><u>Contracts</u></p> <p>During our testing we identified that the contract with the Powys Teaching Health Board had not been signed until February 2016 for the 2015/16 financial year.</p>	<p>The Trust should ensure that all contracts with commissioners are agreed and signed in a timely manner.</p>
<p><u>Asset Lives</u></p> <p>In our view the retrospective writing back of depreciation previously charged is not in accordance with accounting standards, it is our view that the correct practice is to calculate depreciation based on the current value and the remaining life. As a result we concluded that the £1.7 million (of which £1.4 million and £0.3 million relates to purchased and donated assets respectively) writing back of depreciation was a misstatement in the accounts and should have been corrected.</p>	<p>We recommended that the 2015/16 financial statements should have been amended to correctly account for depreciation. The Trust did not accept this recommendation. Management gave a specific representation for the reason not to adjust the financial statements, in the management representation letter. The reason stated was that management 'holds a different view over the correct application of the IAS 8 Accounting Standard and is assuming a consistent approach over the treatment of subsequent expenditure'.</p>

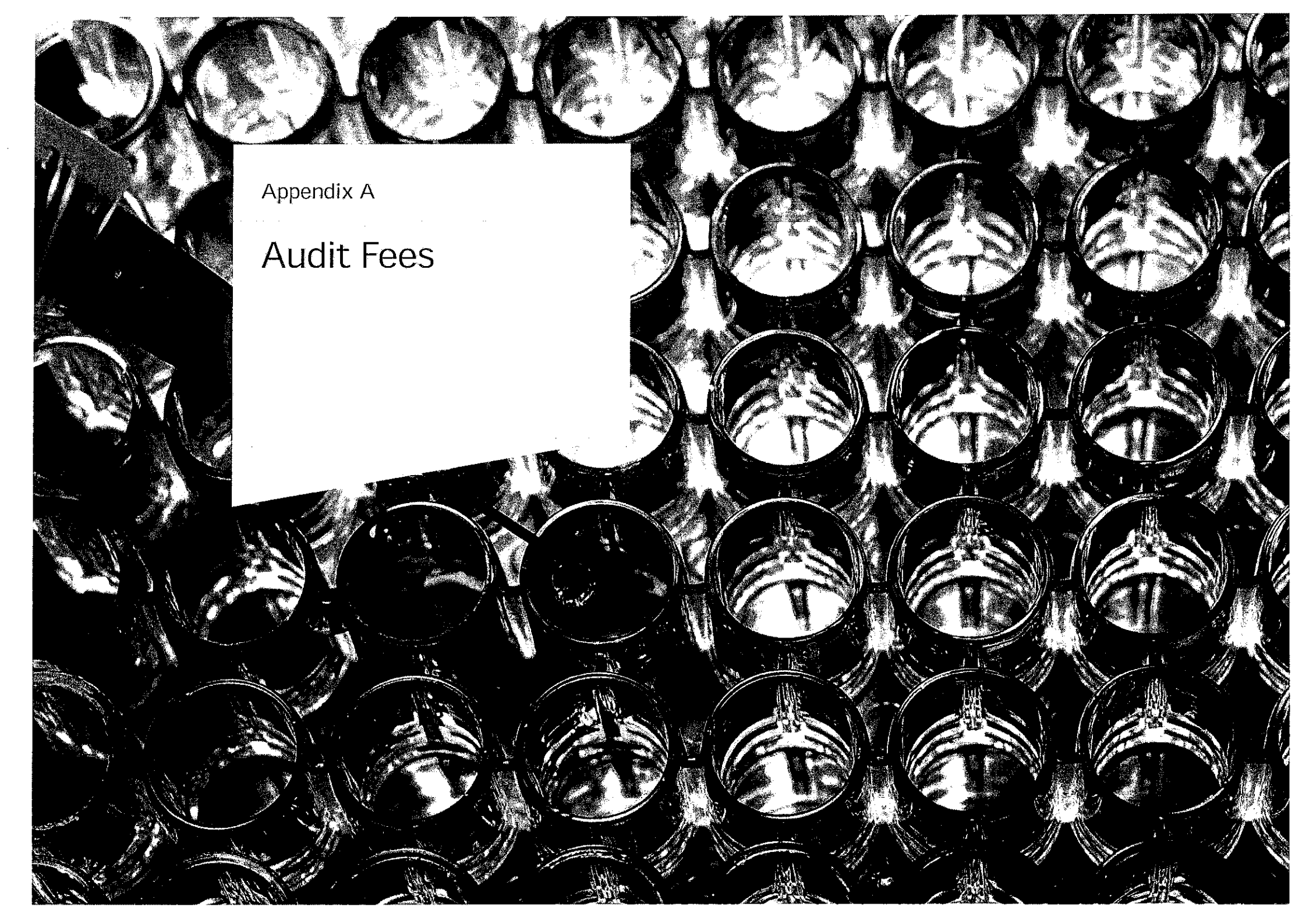


Focused on your  
future

## Focused on your future

Area	Issue	Impact
NHS provider financial pressures	<p>Draft 2015/16 financial statements show NHS providers overspent by a record £2.45 billion for the year. The scale of this overspending is unprecedented. Despite additional funding and significant efforts to reduce deficits, record numbers of trusts overspent and the overall deficit is likely to be three times higher than in 2014/15. Some 48 trusts reported a deficit of more than £20 million, including 11 trusts reporting an individual deficit of more than £50 million.</p> <p>At the same time, performance against key targets is continuing to deteriorate and there are increasing concerns over the quality of services. Providers as a whole missed the Accident and Emergency waiting target of seeing 95 percent of patients within four hours for the final quarter of the year, and waiting lists for routine operations reached 3.34 million.</p> <p>It is not yet clear whether trusts' financial performance for the year will cause the Department of Health to exceed its spending limit for 2015/16, a serious breach of parliamentary protocol. Whether or not there is a breach, NHS trusts will start 2016/17 with a collective deficit of around £1 billion more than planned. Without change there is the potential for the increasing financial pressure to impact further on levels of patient care.</p>	<p>The scale of the financial challenges faced by NHS providers impacts all aspects of their operations. It is therefore a key driver of audit risk and impacts our approach.</p>
Sustainability and Transformation Plans	<p>NHS England's document, Delivering the Forward View: NHS planning guidance 2016/17-2020/21, published in December 2015, asks local health systems, including local government, voluntary and community partners, to work together to secure transformation change in healthcare planning and delivery.</p> <p>For this purpose England has been divided into 44 local health systems, made up of local councils, CCGs and NHS and other providers. Each health system needs to produce, by the end of June 2016, a Sustainability and Transformation Plan covering the next five years.</p>	<p>Bodies will need to work together to a far greater extent than ever before to ensure that sustainability and financial plans are viable, and successfully delivered. Failure to do this could have wider adverse financial and service delivery consequences across the whole local area.</p> <p>As your external auditor we need to gain an understanding of your wider approach and plans, and the impact of greater partnership working on your governance, internal control and financial</p>

Area	Issue	Impact
	<p>The initial requirement is for CCGs and providers to control expenditure and stay within budget in 2016-17. Subsequently, spending and performance will need to be managed sustainably over the following four years in order to access the available transformation funding. This is intended to fund changes to service delivery while maintaining and improving patient safety and quality over the years 2017-21. Failure to deliver on targets agreed will result in bodies being unable to access transformation funding, which will from now on be the only additional funds available.</p>	<p>reporting.</p>



Appendix A

## Audit Fees



## Appendix A Audit Fees

Our fee for 2015/16 was reported in our 2 June 2016 Annual Results Report.

Description	Planned Fee 2015/16 GBP	Final Fee 2015/16 GBP	Predecessor auditor final fee 2014/15 GBP
Total audit fee – Code work	76,950	86,150	116,713
Total audit fee – Charitable funds	3,825	3,825	3,825
		NB: Final fee to be confirmed upon completion of work	
Non-audit work - Quality Accounts	10,000	10,000	10,000
Other non-audit work	0	0	22,035
TOTAL	90,775	99,975	152,573

The additional fee for code work in 2015/16, which is subject to approval by PSAA, relates to:

- £1,200 section 30 referral work
- £4,500 valuation work
- £3,500 VFM work

We confirm that we have undertaken non-audit work outside of the Public Sector Audit Appointment Ltd Code requirements in relation to our work on the Quality Report. We have adopted the necessary safeguards in our completion of this work.

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ED None

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