Shrewsbury and Telford Hospital NHS Trust

Annual Audit Letter for the year ended 31 March 2017

June 2017

Ernst & Young LLP

Building a better working world

Contents

Public Sector Audit Appointments Ltd (PSAA) have issued a ''Statement of responsibilities of auditors and audited bodies". It is available from the Chief Executive of each audited body and via the PSAA website (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 (NHS and smaller bodies)" 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 Hospital NHS Trust following completion of our audit procedures for the year ended 31 March 2017.

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	Unqualified – the financial statements give a true and fair view of the financial position of the Trust as at 31 March 2017 and of its expenditure and income for the year then ended.
► Parts of the remuneration and staff report to be audited	We had no matters to report.
► Consistency of the Annual Report and other information published with the financial statements	Financial information in the Annual report and published with the financial statements was consistent with the Annual Accounts.

Area of Work	Conclusion
Reports by exception: ► Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Trust.
► Referrals to the Secretary of State [and NHS England]	We issued a referral to the Secretary of State Under Section 30 (1)(a) of the Local Audit and Accountability Act 2014 due to the breach of the Trusts statutory responsibility to achieve a breakeven financial position at 31 March 2017.
► Public interest report	We had no matters to report in the public interest.
► Value for money conclusion	On the basis of our work, and having had regard to the guidance issued by the Comptroller and Auditor General in November 2016, we were not satisfied that, in all significant respects, the Trust had proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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 30 May 2017
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 31 May 2017

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

Hassan Rohimun

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 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 2016/17 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.

Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2016/17 audit work was undertaken in accordance with the Audit Plan that we issued on 10 February 2017 and was 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 were responsible for:

Expressing an opinion:

- On the 2016/17 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 of 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 31 May 2017.

Our detailed findings were reported to the 30 May 2017 Audit Committee.

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

Significant Risk	Conclusion
Management override of controls A risk present on all audits is that management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.	We did not identify any material weaknesses in controls or any evidence of material management override. We did not identify any instances of inappropriate judgements being applied. We did not identify any transactions during our audit which appeared unusual or outside the Trust's normal course of business.
Revenue and expenditure recognition Auditing standards also require us to presume that there is a risk that revenue and	Our testing did not reveal any material misstatements with respect to revenue and expenditure recognition.

expenditure may be misstated due to improper recognition or manipulation. We respond to this risk by reviewing and testing material revenue and expenditure streams and revenue cut-off at the year end. We considered that this risk could be increased by the Trust's financial position resulting in a risk that the financial statements could be manipulated to ensure that the budgeted position was achieved.	Overall our audit work did not identify any issues or unusual transactions which indicated that there had been any misreporting of the Trust's financial position
Achieving Financial Balance The Trust is required to achieve break even each year, a challenge for any NHS organisation, and particularly for the Trust given the particular challenges of the local health economy and the inherited geographical split of the Trusts estate.	The Trust met its deficit target position as agreed with NHS Improvement. The Trust reported a deficit of £5.6M for the financial year and a cumulative deficit of £54M. We issued a Section 30 referral to the Secretary of State as the Trust was in breach of its statutory responsibility to break even. The Better Payments Practice Code requires NHS bodies to aim to pay all valid invoices by the due date or within 30 days of receipt of a valid invoice, whichever is later. The Trust suffered from an adverse cash position during the year and as a result performance against this target was not satisfactory with 65.1% of invoices being paid within target.

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We planned our procedures using a materiality of £3.3M, on receipt of the draft financial statements we reassessed our materiality and increased it to £3.5M. The basis of our

	assessment of materiality remained consistent with the prior years at 1% of gross revenue expenditure. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Trust.
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.17M

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

· Remuneration disclosures including any severance payments, exit packages and termination benefits: We fully tested these disclosures to supporting records for assurance

· Related party transactions: We agreed the consistency of these disclosures to balances tested elsewhere and the work completed on the Agreement of Balances for assurance.

We evaluated any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

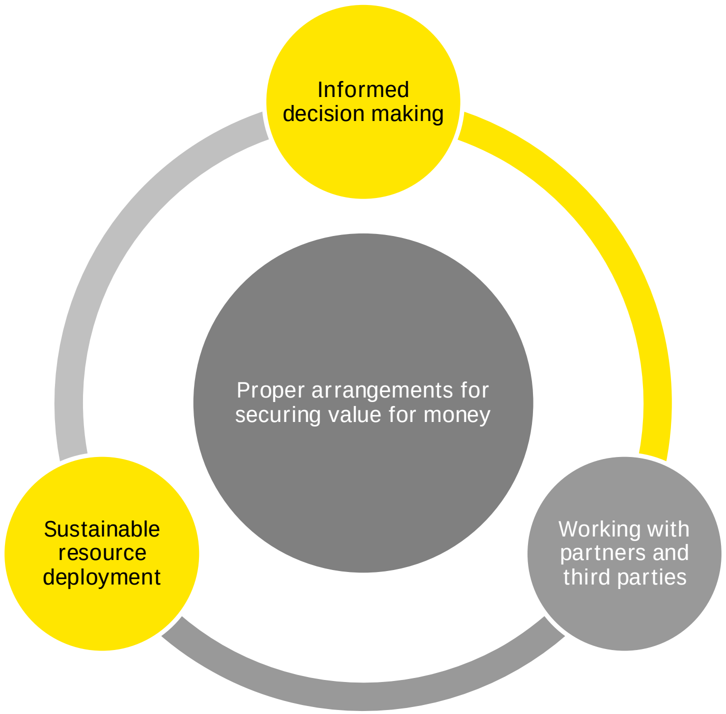
Value for Money

Value for Money

We were required to consider whether the Trust 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 identified significant risks in relation to these arrangements. The tables below presents the findings of our work in response to the risks identified and other significant issues that were brought to the attention of the Audit Committee.

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in November 2016, we were not satisfied that, in all significant respects, the Trust had proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017. We therefore issued a qualified (Adverse) value for money conclusion.

Significant Risk	Conclusion
The Trust is a financially challenged with reported £48M cumulative deficit in 2016/17. As at October 2016 and after allowing for the delivery of CIP savings projected over the remaining months of the year, it is forecast that the Trust will record an overspend at the end of the year amounting to £10M. This deficit is £4.5M in excess of the agreed control total with the NHSI.	For the financial year 2016/17 the Trust did not fully meet its Cost Improvement Plan target of £12.7M, delivering £10.9M of savings in year. However, the Trust reported an in year deficit of £5.6M, after receipt of £10.7M STF and STF Bonus, and in doing so it met its underlying control target as agreed by NHS Improvement. The in-year deficit and the cumulative deficit of £54M, represented a breach of statutory targets and as such we issued a referral to the secretary of state under Section 30 of the Local Audit and Accountability Act 2014.
The Trust reported in the 2015/16 annual governance statement that it is expecting to record deficits in each of the years to 2019/20 with a forecasted surplus to be achieved in 2020/21. This surplus is contingent on the reconfiguration of services delivered as part of the Future Fit programme. The Trust is one of 17 stakeholder organisations on the Programme Board of the Future Fit programme – a fundamental programme to enable sustainability of the provision of care across Telford and Wrekin and Shrewsbury. The programme, currently at Strategic Outline Case (SOC), 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, by consolidating acute A&E	The task for the Trust over the next two years is to reduce the recurrent deficit to £15.4M in 2017/18 and £12.1M by 2018/19. After allowing for STF funding in the years 2017/18 and 2018/19 the Trust will be required to deliver a control total deficit of £6M and £2.7M respectively. The 2017/18 financial plan assumes receiving in full Sustainability and Transformation Funds from NHS Improvement amounting to £9.3M. NHS Improvement stated that this sum will be reduced if the Trust fails to deliver A&E performance targets. Achieving this financial position will require the Trust to generate cost efficiencies, at a rate equivalent to 2 per cent of its cost base in each financial year. The Trust reported that it will make a deficit in each year until 2020/21when it is forecasting to generate a surplus as the result of a reconfiguration of services. This time line has not changed since 2015/2016 and is dependent on the delivery of the Future Fit Programme which as reported by the Trust was delayed by 14 months and is facing a number of risks, with approval of the business case yet to be formally agreed. Given the delay in the programme it is unlikely that the 2020/21 target for achieving a surplus will be met.

services on one site had not been agreed by all partner organisations.	
The Trust is reporting a number of risks on the fragility of clinical services and that key performance targets are not being achieved.	The Trust reported to the Board and in the Annual Governance Statement that: · It has not achieved A&E performance targets, due to increased activity and complexity of cases. Similarly the Trust has struggled to achieve the admitted Referral to Treatment targets. · There has been a 14% increase in Fit for Transfer lost bed days compared to prior year and that routinely occupancy is at 15% of bed capacity. Whilst the Trust has worked with partner agencies to improve the situation; and there has been an increase in funded care packages, this has not been sufficient to improve the situation. Given the over-riding responsibility of the Board for patient safety and experience, this remains a source of difficulty. · The sustainability of clinical services due to potential shortages of key clinical staff continues to be a significant issue, there is a risk of staffing gaps in key clinical areas for which the longer term plan is being developed through Future Fit and it has been difficult to attract staff to a split site service and without change it is likely to struggle to meet key national standards and guidance. · Delays in the Future Fit programme has resulted in resignations of staff from key clinical areas and there are a number of fragile services: - Emergency Department - Dermatology - Spinal surgery - Ophthalmology particularly glaucoma surgery; and - Neurology · It has a clear clinical service vision, but has been unable to progress the plans due to external constraints. It states that many services are fragile, due to staff shortages and that although a significant amount of work has taken place the public consultation has been further delayed and remains a significant issue for 2016/17.
The Trust is reporting risks on business continuity and backlog maintenance	The Trust reported to the Board and in the Annual Governance Statement that: · It is facing a number of significant risks in respect of backlog maintenance of IT infrastructure, necessary medical equipment as well as building maintenance. This is due to funding having been released to rectify more serious operational risks. In doing so it the Trust's expectation that buildings will close in the immediately foreseeable future. · Internal Audit issued a limited opinion report on IT controls and highlighted the lack of embedded business continuity plans across the Trust.
Regulator assessment of the Trust	NHS Improvement monitors NHS providers against a Single Oversight Framework. The framework is designed to help providers attain, and maintain, the Care Quality Commission ratings of 'Good' or 'Outstanding'. The Framework doesn't give a performance assessment in

	its own right but segment providers based on the level of support each provider needs. Each trust is segmented into one of the following four categories: 1. Providers with maximum autonomy: no potential support needs identified. 2. Providers offered targeted support: there are concerns in relation to one or more of the themes. Targeted support identified to address concerns, but providers not obliged to take it up. 3. Providers receiving mandated support for significant concerns: there is actual or suspected breach of licence and a Regional Support Group has agreed to seek formal undertakings from the provider or the Provider Regulation Committee has agreed to impose regulatory requirements. 4. Providers in special measures: there is actual or suspected breach of licence with very serious and/or complex issues. The Provider Regulation Committee has agreed it meets the criteria to go into special measures. NHS Improvement had placed the Trust in segment 3.

Other Reporting Issues

Other Reporting Issues

Department of Health/NHS England Group Instructions

We were 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

Annual Governance Statement

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

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

Breach of revenue resource limit and referral to Secretary of State

We had a duty to issue a Section 30 referral to the Secretary of State Under Section 30 (1)(a) of the Local Audit and Accountability Act 2014 due to the breach of the Trusts statutory responsibility to achieve a breakeven financial position at 31 March 2017, with the Trust reporting a deficit of £5.6M.

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. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware. However, we did report to the Audit Committee the following matters below:

Description	Impact
IT	No specific individual was allocated the responsibility of Security Compliance Manager at the Trust. These functions were being performed by the IT team. The lack of an assigned individual poses a risk in terms of the time taken to respond to security risks and data disruption. The Head of IT agreed with the assessment and the structure was being reviewed.
Contract Management	We identified that the Trust had issued but not received the countersigned Betsi Cadwaladr contract, value of £1.2M. We undertook additional procedures to confirm the reported income and recommended that the Trust ensure signed contracts are properly maintained. The Trust has noted our recommendation.

Appendix A

Audit Fees

Appendix A Audit Fees

Our fee for 2016/17 is in line with the position reported in our Annual Results Report.

Description	Final Fee 2016/17 £	Planned Fee 2016/17 £
Total Audit Fee – Code work	80,700	76,950
Non-audit work – Quality Accounts	10,000	10,000
Non-audit work – Charitable Funds	3,825	3,825

The increase in the audit fee was for the additional work we undertook in issuing the Section 30 referral and additional procedures to conclude on value for money.

We confirm that we did undertake non-audit work outside of the Public Sector Audit Appointment Ltd Code requirements in relation to our work on the Quality Report and Charitable Funds audit. We adopted the necessary safeguards in completing this work

EY | Assurance | Tax | Transactions | Advisory

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ED None

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