



The Annual Audit Letter for St George's University Hospitals NHS Foundation Trust

Year ended 31 March 2017

13 July 2017

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Section 1: Executive summary

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Executive summary

Responsibilities of the external auditors and of the Trust

St George's University Hospitals NHS Foundation Trust (the Trust) is responsible for preparing and publishing its financial statements. The Trust is also responsible for preparing an annual report, including a quality report.

In addition, the Trust is responsible for putting in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources.

The Council of Governors appointed Grant Thornton UK LLP as external auditors of the Trust. In this role it is our responsibility to form opinions on the Trust's financial statements and quality report and on the Trust's arrangements for ensuring economy, efficiency and effectiveness in its use of resources.

We have carried out our audit in accordance with the National Audit Office's Code of Audit Practice and International Standards on Auditing (UK and Ireland) (ISAs). We undertook our work in line with the approach set out within our Audit Plan issued to the Trust's Audit Committee in January 2017 and our updated Audit Plan issued to the Audit Committee in March 2017.

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at St George's University Hospitals NHS Foundation Trust (the Trust) for the year ended 31 March 2017.

This Letter is addressed to the Council of Governors and is intended to provide a commentary on the results of our work to the Trust for the year ended 31 March 2017, covering the following areas:

- audit of the financial statements for the year ended 31 March 2017;

- assessment of the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources; and
- review of the Trust's quality report and testing of specified key performance indicators.

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 25 May 2017 and to the Trust Board in our updated Audit Findings Report on 31 May 2017.

Audit conclusions

We issued the following audit conclusions in relation to our audit of the Trust for the year ended 31 March 2017:

- An unqualified opinion on the financial statements, which in our opinion give a true and fair view of the Trust's financial position as at 31 March 2017 and of the Trust's income and expenditure for the year. Our audit report included an "emphasis of matter" paragraph. This highlighted material uncertainties relating to the Trust's ability to continue as a going concern as a result of the Trust's cash flow projections for 2017/18 and the borrowing facilities needed for the Trust to continue to operate in 2017/18 not yet being agreed.
- An adverse conclusion in respect of the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- An unqualified assurance report on the Trust's quality report.

Key messages

2016/17 has been another difficult year for the Trust from both a financial and operational perspective and has seen heightened regulatory intervention in the Trust and a significant decline in the Trust's financial performance.

The Trust has experienced significant financial difficulties during the year. The Trust has performed poorly from a financial perspective over the last three years and made a deficit of £55.1m for 2015/16. However the performance in 2016/17 represents a significant decline. The Trust made a deficit (for control total purposes) of £78.7m in 2016/17 against a deficit target of £17.2m that was set at the start of the year. This increase in the deficit was driven by a combination of operational pressures including the findings of the Care Quality Commission inspection, a failure to deliver a significant proportion of the £50m cost savings that the 2016/17 budget assumed and a failure to qualify for payments of £17.6m from the Sustainability and Transformation Fund that were contingent on the Trust meeting stringent conditions in relation to financial and quality performance. This represents an unsustainable level of performance and resulted in the Trust being placed into financial special measures by NHS Improvement in March 2017.

As a result of the continued operating deficit the Trust has been dependent on borrowings from the Department of Health to support its cash flow and to be able to meet its obligations. In 2016/17 it borrowed £87.6m, which was £55.2m more than forecast.

For 2017/18 the Trust has set a deficit budget of £28.5m, which was approved by the Trust Board in March 2017 and communicated to NHS Improvement. This is dependent on challenging assumptions around savings including a 10% reduction in the Trust's pay bill as well as attaining £60m of cost improvement savings, both of which assume savings well above the level that the Trust has historically been able to achieve. We understand that the Trust is currently in discussion with NHS Improvement around the realism of the budgeted deficit and what might represent an achievable position, but whatever position is agreed, the 2017/18 budget will be a challenge. The Trust has recently produced a Financial Recovery Plan that was shared with NHS Improvement in May 2017 and the implementation of this plan will be key to the Trust's return to a balanced financial position.

The Care Quality Commission (CQC) inspected the Trust in June 2016 and noted significant concerns around patient safety and the quality of the Trust's estate and their inspection report, published in November 2016, rated the Trust as "inadequate".

Though the report did highlight areas where the Trust was performing well, including outstanding practice in maternity, high survival rates for renal patients and noting that staff delivered care in a kind and professional manner, clear areas where improvement was required were flagged. This included the following significant findings:

- several areas of the hospital's estate were in a state of disrepair;
- there was variable adherence to infection control procedures;
- there was a lack of formal mental capacity assessments and best interest decision making as required under the Mental Capacity Act 2005;
- the Trust consistently failed to achieve the national 4-hour A&E waiting time target;
- the Trust had ceased national reporting of the RTT data due to data quality concerns;
- there was not always a systematic approach to the management of actions and learning from complaints;
- fit and proper persons, which is a legal requirement for trusts to undertake, was not fully embedded; and
- leadership across several departments was weak.

The majority of these findings reflect long-standing weaknesses in working practices and management oversight. As a result of these findings, the Trust was placed into quality special measures. We have noted that subsequent to the CQC inspection the Trust has taken prompt actions to respond to the concerns noted by the CQC and has developed a Quality Improvement Plan that assigned actions to resolve all of the areas for improvement noted by the CQC.

Key messages (continued)

As a result of the Trust's poor financial performance during 2016/17 and the findings of the Care Quality Commission, we issued an adverse audit conclusion in relation to the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources. Only a small (but growing) minority of Grant Thornton's NHS provider audit clients received such a severe audit conclusion in 2016/17 and this reflects the stark financial and operational position of the Trust.

Thanks to the clear focus of senior financial management, the Trust's financial statements were of an improved quality compared with the previous year and we did not identify any errors affecting the reported income and expenditure position. However we did experience significant difficulties in completing the Trust's audit, which was due largely due to issues with record keeping, audit trails, systems and controls and continued weaknesses in Finance department capability at an operational level. We also identified a number of changes required to disclosures and the presentation of the accounts. As a consequence the audit overran from the planned date for completion of the audit on 10 May 2017 by more than two weeks. The Trust has incurred an additional audit fee of £16,460 although this is significantly less than the additional audit fee of £50,400 that was charged as a result of the overrun of the 2015/16 audit.

Due to the uncertainty around the Trust's future cash flows, we included an "emphasis of matter" paragraph within our audit report to highlight the material uncertainties that exist around the Trust's future cash flows. The 2017/18 budget approved by the Board in March 2017 shows that additional revenues loans of £38 million will be required in 2017/18 to finance the Trust for the year, however the Trust has not yet agreed with NHS Improvement arrangements for these borrowings. If the deficit achieved in 2017/18 is greater than the £28.5m forecast then further additional borrowing will be required in order for the Trust to be able to meet its obligations.

We issued an unqualified conclusion around the Trust's quality report for 2016/17, which represents a significant improvement from the previous year when we issued an qualified conclusion in respect of the quality report. It should however be noted that we were unable to test one of the quality report indicators mandated for auditor assurance, being the Referral to Treatment (RTT) indicator as a result of significant data quality issues identified by the Trust during the year in relation to RTT reporting. While our opinion was not qualified in respect of this issue, we flagged this to the Council of Governors in our report on the Quality Report dated 16 May 2017 as a significant area of weakness in the Trust's arrangements for reporting performance against key indicators.

As part of our audit duties we are required to consider whether or not to issue a Public Interest Report. We have decided not to do this at this time because:

- The Trust's challenges are clearly in the public domain and clear regulatory oversight exists from both NHS Improvement and the Care Quality Commission.
- Through 2016/17 and into 2017/18 the Trust have invested significantly in new senior capacity at both Board level and throughout the organisation which have demonstrated that a recovery path is achievable. We will continue to monitor this position closely.

Acknowledgements

This Letter has been agreed with the Director of Financial Operations and will be presented to the Council of Governors on 13 July 2017.

Grant Thornton UK LLP
July 2017

Section 2: Audit of the accounts

01. Executive summary

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Audit of the accounts

Findings from audit of the accounts

In audit of the Trust for 2015/16 audit we experienced significant difficulties in our dealings with the Trust's finance team which resulted in the audit opinion being signed late, over a week after the national deadline. For 2016/17, while overall we have noted some positive improvement in the Trust's level of preparation for the audit process compared to the prior year thanks to the focus of senior management. Nevertheless our audit has faced significant challenges due to delays in the provision of appropriate evidence and explanations in response to audit queries.

In addition, while the draft financial statements presented for audit were of a much higher quality than in the previous two years, a higher volume of disclosure adjustments to the notes to the accounts have been identified than what we typically find during the audits of other NHS foundation trusts of similar size. A number of these issues reflect inherent weaknesses in the overall Trust control environment which is a longstanding problem which is well recognised by management.

While working papers produced by the Trust in support of the financial statements were generally of improved quality compared to the previous year and were provided in a more timely manner, a full set of working papers was not supplied to us until two days after the submission of draft accounts on the national deadline on 26 April and there were a number of working papers that were not prepared to the quality that we would expect.

We identified one adjustment that impacted on the primary financial statements, being the posting of a £3.1m impairment of property, plant and equipment, though this impairment was taken in full to the revaluation reserve and had no impact on the reported deficit for the year. We also identified 21 misclassification and disclosure amendments that were made to the final version of the financial statements.

During course of our audit we identified a number of internal control deficiencies as well as noting that the Trust had not fully addressed eight of the internal control weaknesses that we reported in the previous year. Recommendations have been made to improve the internal control environment of the Trust for preparing the accounts, which are in the action plan to this report.

Overall we consider that the issues that we experienced in completing the audit are indicative of systematic weakness within the Trust's financial control environment. In 2015, a report from PwC identified significant deficiencies in the Trust's financial management arrangements, many of which related to weaknesses in the Trust's finance team. While the Trust has since taken action to respond to the recommendations of PwC and has strengthened the senior management oversight of the finance team, many weaknesses remain. These include cumbersome and outdated financial systems that hinder effective financial management and in some areas staff members who are not equipped with the skills to perform their job. As a result, many basic accounting reconciliations such as the bank reconciliation, are not taking place on a regular basis.

The audit narrowly missed by two hours the national deadline for sign off of foundation trust audit opinions by midday on 31 May 2017, but this was due to some late changes to the annual report that were proposed by the Trust which could have been avoided if the report had been prepared earlier. Overall this still a good improvement on 2015/16.

Section 3: Value for money conclusion

01. Executive summary

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Value for Money conclusion

Findings from Value for Money review

Our review of the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources identified the following matters:

- The Trust delivered a deficit of £78.7 million in 2016/17, which represents a significant overspend compared to its budgeted deficit of £17.2 million. The Trust has set forecasting a deficit of £28.5 million for 2017/18, which includes delivery of £60.0 million of transformational savings. On 22 March 2017, NHS Improvement placed the Trust into financial special measures.
- The Care Quality Commission (CQC) inspected the Trust in June 2016 and their inspection report, published on 1 November 2016, gave the Trust an overall rating of 'Inadequate'. The report highlighted concerns in respect of quality, safety and overall governance arrangements at the Trust, and drew attention to the significant state of disrepair of areas of the Trust's estate. As a result of the findings of the CQC inspection, on 28 October 2016 NHS Improvement placed the Trust into quality special measures and issued enforcement and discretionary undertakings under Section 106 of the Health and Social Care Act 2012. NHS Improvement stated that the Trust is in breach of conditions of its licence in respect of quality, governance and Referral to Treatment (RTT) breaches, which the Trust needs to rectify.
- In July 2016, the Trust Board took the decision to cease reporting performance against the RTT performance indicator after an independent review identified significant data quality issues in relation to the recording of patients on incomplete pathways.

In the context of the National Audit Office's Code of Practice which governs our work, these matters identify weaknesses in the Trust's arrangements for:

- setting a sustainable budget with sufficient capacity to absorb emerging cost pressures due to the current configuration of services;
- ensuring quality of data maintained in respect of key performance indicators; and
- responding to service delivery issues raised by regulators, including deployment of workforce and governance arrangements.

These issues are also evidence of weaknesses in proper arrangements for informed decision making and sustainable resource deployment in:

- planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions;
- acting in the public interest through demonstrating and applying principles of good governance to support informed decision making; and
- deploying the workforce effectively to support the delivery of the Trust's strategic priorities.

On the basis of our work, having regard to the guidance issued by the National Audit Office, because of the significance of these matters we were not satisfied that, in all significant respects, St George's University Hospitals NHS Foundation Trust put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Section 4: Quality Report

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Quality Report

Scope of our work around the Quality Report

We carry out an independent assurance engagement on the Trust's Quality Report, following national guidance from NHS Improvement. We give an opinion as to whether we have found anything from our work which leads us to believe that:

- the Quality Report is not prepared in line with the criteria set by NHS Improvement;
- the Quality Report is not consistent with other documents specified in NHS Improvement's guidance; and
- limited testing, on a selective basis, of the data used to calculate two mandated indicators back to supporting documentation.

We also perform testing around a local indicator selected by the Trust's Governor's, though this is not covered by our assurance opinion.

Key messages

- Overall we noted some strong improvements in arrangements for supporting the Quality Report audit, with the Head of Quality Governance taking direct responsibility for supporting the audit process.
- Our work relating to the review of the content of the Quality Report and its consistent with the requirements of NHS Improvement progressed well and we concluded that the Quality Report was consistent with the relevant requirements.
- Overall we noted improvements in arrangements for supporting the Quality Report audit, with the Head of Quality Governance taking direct responsibility for supporting the audit process. From our testing of two mandated indicators, being the 4-hour A&E performance and 62 cancer wait indicators, we noted no significant issues and as such we have been able to issue an unqualified conclusion around the Quality Report. This is a significant improvement from 2015/16 when we issued a qualified opinion as a result of difficulties experienced by the Trust in providing us with appropriate patient-level data sets for each indicator that could be reconciled to the reported indicators.

- We were unable to test one quality report indicator that would have been mandated for auditor assurance had the Trust been reporting on it, being the Referral to Treatment (RTT) indicator. This is a result of significant data quality issues identified during the year that resulted in a decision by the Trust Board in July 2016 to cease reporting RTT performance. While our opinion was not qualified in respect of this issue, we flagged this to the Council of Governors in our report on the Quality Report dated 16 May 2017 as a significant area of weakness in the Trust's arrangements for reporting performance against key indicators. The issues around RTT reporting are significant in scale and raise significant concerns around the Trust's data quality generally. The Trust Board is taking action to resolve the issues identified around RTT, but this is a long-term project and the Trust is not expected to return to RTT reporting in 2017/18.
- Despite overall improvements in the Trust's level of preparedness for the Quality Report audit, we experienced some delay in completion of our work around the 62 cancer wait indicator and consequently were not able to commence our work around this indicator prior to the 16 May 2017 deadline agreed for the reporting of our findings around the Quality Report to the Council of Governors.

Conclusion

As a result of the above findings we provided an unqualified limited assurance opinion on the Trust's quality report.

Appendices

A. Fees

B. Recommendations

Appendix A: Fees

We confirm below our final fees charged for the audit:

Fees

| | Per Audit Plan £ | Actual Fees £ | 2015/16 fees £ |
|-------------------|---------------------|---------------------|-------------------|
| Trust audit | 58,000 | 58,000 | 58,000 |
| Additional fee | 0 | 14,500 | 50,400 |
| Total fees | 58,000 | 72,500 | 108,400 |

Fees for other services

| Service | Fees £ |
|---|--------|
| Assurance review of the Quality Report | 10,000 |
| Additional fee for review of the Quality Report | 1,960 |

Appendix B: Recommendations

Priority

| Rec no. | Recommendation | Priority | Management response | Implementation date and responsibility |
|---------|---|----------|---------------------|--|
| 1. | The Trust should undertake a further review of the finance team structure and people to ensure that the right people are in the key posts. Once the revised structure is in place the Trust should ensure that all people receive sufficient training to be able to undertake their role. | High | Accepted | June 2017 – Robert Flanagan (Director of Financial Operations) |
| 2. | A detailed review of the Fixed Asset Register should be performed to identify any historical misstatements of asset values not previously picked up from management review. | High | Accepted | June 2017 – Robert Flanagan (Director of Financial Operations) |
| 3. | The Trust should consider options for procuring an alternative Fixed Asset Register system or options for using the current system in a more effective way. | High | Accepted | 31 March 2018 – Robert Flanagan (Director of Financial Operations) |
| 4. | Bank reconciliations should be performed in a timely manner on at least a monthly basis and be subject to appropriate management review. | High | Accepted | August 2017 – Robert Flanagan (Director of Financial Operations) |
| 5. | The Trust should review the petty cash difference between the bank and cash GL codes and reconcile this on a monthly basis | High | Accepted | August 2017 – Robert Flanagan (Director of Financial Operations) |
| 6. | Members of the finance team should be reminded of their responsibility to ensure that appropriate authorisation for posting journal entries is obtained and properly documented. | Medium | Accepted | Immediate – Robert Flanagan (Director of Financial Operations) |

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

A. Action plan (continued)

Priority

| Rec no. | Recommendation | Priority | Management response | Implementation date and responsibility |
|---------|--|----------|---|--|
| 7. | The Trust should consider options for moving to an electronic system for authorisation of journal entries. | Medium | Accepted – part of processes and systems plan | 31 March 2018 – Robert Flanagan (Director of Financial Operations) |
| 8. | A process for regular review of aged balances on the accounts payable system that are awaiting approval should be introduced and any balances for which management do not believe payment is reasonably foreseeable written off. | Medium | Accepted | July 2017 – Robert Flanagan (Director of Financial Operations) |
| 9. | A review should be performed of the accounts receivable ledger to identify and write-off aged balances deemed irrecoverable. | Medium | Accepted | July 2017 – Robert Flanagan (Director of Financial Operations) |
| 10. | The Trust should improve arrangements to resolve and agree AoB mismatches with counterparties such that a lower number of mismatches arise going forward. | Medium | Accepted | September 2017 – quarterly – Robert Flanagan (Director of Financial Operations) |
| 11. | The Trust should implement improved arrangements for maintaining appropriate documentation for all transactions recorded on the general ledger. | Medium | Accepted | September 2017 – Robert Flanagan (Director of Financial Operations) |
| 12. | The Trust should develop a disaster recovery plan covering the main financial systems. | Medium | Accepted | June 2017 – Larry Murphy (Chief Information Officer) and Paul Linehan (Head of Quality Governance) |
| 13. | The controls for performing the year end stock take should be strengthened including improving training for staff involved in the count. | Medium | Accepted | September – Chief Pharmacist, Head of Procurement (when appointed) |

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

A. Action plan (continued)

Priority

| Rec no. | Recommendation | Priority | Management response | Implementation date and responsibility |
|---------|---|----------|---------------------|--|
| 14. | Backup arrangements should be put in place to ensure that the monthly VAT reconciliation is still completed in a timely manner in the event of temporary staff absence. | Low | Accepted | September 2017 – Robert Flanagan (Director of Financial Operations) |
| 15. | The Trust should ensure that all employees have signed contracts in the future. | Low | Accepted | Director of Human Resources and Organisational Development, September 2017 |
| 16. | Declaration forms should be signed by Board members as part of the leavers process | Low | Accepted | Immediate - Director of Human Resources and Organisational Development, September 2017 |

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice



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