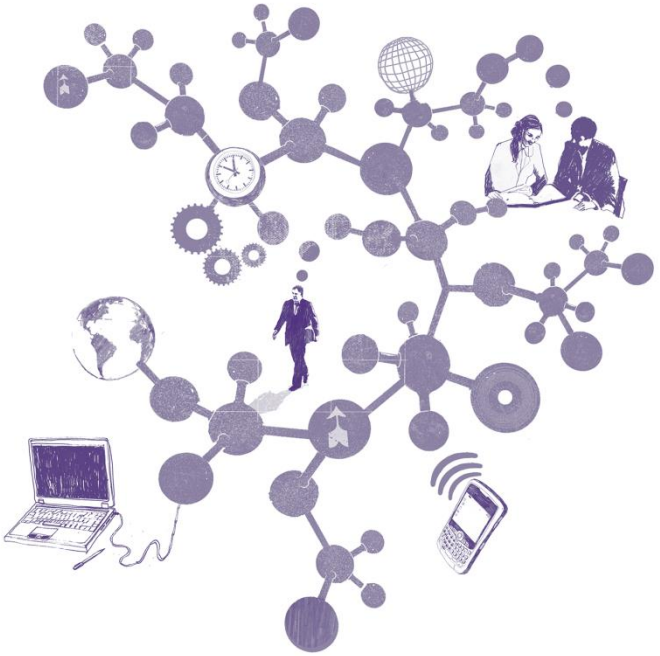
Annual Audit Letter for St George's University Hospitals NHS Foundation Trust

Year ended 31 March 2016

August 2016



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Section 1: Executive summary

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Executive summary

Responsibilities of the external auditors and 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, it is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Governors have appointed Grant Thornton UK LLP as 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 its use of resources.

We undertook our work in accordance with our Audit Plan issued to the Audit Committee in January 2016 and an updated version in March 2016, Code of Audit Practice ('the Code'), and International Standards on Auditing (UK and Ireland).

Purpose of this Letter

We reported the detailed findings from our audit work for 2015/16 to the Audit Committee and Board in our Audit Findings Report. The final version of the Audit Findings Report was communicated to the Board on 2 June 2016.

This Letter is addressed to the Governors of the Trust. It summarises the key findings arising from the work that we have carried out at the Trust for the year ended 31 March 2016:

- auditing the consolidated financial statements for 2015/16 (Section two)
- assessing the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources (Section three)
- reviewing the Trust's quality report (Sections four)
- other issues identified during 2015/16 (Section five).

Audit conclusions

We issued the following audit conclusions in relation to 2015/16:

- an unqualified opinion on the accounts which in our opinion give a true and fair view of the Trust's financial position as at 31 March 2016 and the Trust's income and expenditure for the year . The opinion included an emphasis of matter in relation to the material uncertainty of the Trust's ability to continue as a going concern;
- a qualified conclusion in respect of the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources; and
- a qualified limited assurance report on the Trust's quality report.

Executive summary (continued)

Key messages

2015/16 has been a challenging year for NHS provider trusts with the sector recording a total deficit for the year of nearly £2.5 billion. A significant number of NHS foundation trust auditors found it necessary to include an emphasis of matter within their audit reports to draw attention to material uncertainties in relation to the NHS foundation trust's ability to continue as a going concern. The financial environment for NHS foundation trusts continues to look difficult in 2016/17 with a forecast deficit of over £500m which appears optimistic at this stage.

Against this background, the Trust recorded a deficit for the year of £55.1m compared to an original planned deficit of £46m. We issued an emphasis of matter in relation to the material uncertainty of the Trust to continue as a going concern.

The Trust has set a deficit budget of £17.2m for 2016/17 which is based on achieving transformational savings of £42.7m and Sustainability and Transformation Fund payments of £17.6m. The latter is only secured if the Trust meets the stringent conditions attached in relation to financial and quality performance. We believe this target to be optimistic and not one that appears achievable taking on board past performance. We have raised concerns over the Trust's ability to reduce the financial deficit and deliver high quality care to meet these performance targets in the coming year. This led to the qualified 'adverse' value for money conclusion. We do however acknowledge that the Board recognises the scale of cultural change needed to improve performance and is committed to making these changes. It is too early in our view to evidence whether or not the wider organisation is truly bought into changing the way they work. The Trust has used a turnaround team during 2015/16 and continues to invest in turnaround to identify savings and improve the control environment across the Trust.

PwC carried out a detailed investigation during the year at the instigation of Monitor to understand the fast deterioration in the financial performance of the Trust. The report made 75 recommendations which the Trust has been in the process implementing during the year. The PwC report identified a culture of non compliance throughout the organisation and a clear lack of ownership and responsibility for delivering the budgets and complying with the Trust's financial control procedures. We believe that improving the control environment is a work in progress as our financial statements audit identified no clear indication of an improved control environment and identified significant weaknesses in the accounts and working paper preparation and the capacity of the finance team to deal with the statutory audit process.

The Trust could not provide adequate data trails to support the mandated indicators selected for detailed quality account testing. Both indicators were qualified as a result of this weakness. In addition, testing of the indicators identified a number of fails in the sample of 25 items selected. Our work suggests that the reliability of key non – financial performance data is open to question.

We will continue to monitor the Trust's financial and operational performance throughout 2016/17 and design an audit plan for that year that focuses on the key risk areas.

Acknowledgements

This Letter has been agreed with the Director of Finance and will be presented to the Audit Committee at its meeting in September 2016. We will present it to the Council of Governors on 13 October 2016.

Grant Thornton UK LLP
June 2016

Section 2: Audit of the accounts

01. Executive summary
02. Audit of the accounts
03. Value for Money
04. Audit related services
05. Other Issues

Audit of the accounts

Audit of the accounts

The key messages arising from our audit of the Trust's financial statements are:

- Our 2015/16 audit faced significant challenges due to the poor quality of the draft financial statements. The delays in providing supporting working papers for the start of the audit and slow responses to requested audit evidence during the onsite audit caused significant delays in carrying out the audit work. In addition, the audit process was hindered by the continued poor quality of some of the working papers provided to support the draft financial statements. This resulted in the audit overrunning the planned date for completion of all testing of 11 May. We were required to provide additional staff resource to work with officers to complete the audit testing which incurred £50,400 of additional audit fees for the Trust. The performance of the Trust in accounts closure is significantly worse that the majority of the other 50 NHS providers we audit. Its extremely important to note that high quality financial statements is not just down to the Finance team but requires buy in across the organisation , mainly in other back office services. In 2015/16 we saw poor support to Finance in a number of areas.
- Working papers for numerous areas in the accounts, including revenue, receivables, operating expenditure, payables, inventory, bank reconciliations and journal listings, had not been prepared for the agreed start date of our audit on 25 April. As a consequence, we delayed the start date for the audit by two days to allow the finance team time to prepare the appropriate working papers. We agreed with officers at the planning stage, and reported in the Audit Plan, that all working papers requested by us at the February audit visit should be submitted to us with the draft accounts on 22 April. We issued a detailed assessment of the working papers provided on this date on the evening of 22 April to ensure officers were clear about the work needed before the audit started the following Wednesday (27 April).
- A large proportion of the working papers supplied to us were of poor quality, including those relating to income, receivables, inventories and payables, which were required to be re-worked before they were in a sufficient condition for us to use to base our work on. This contributed to the delays experienced in the audit process. As an example, we did not receive the complete payables working papers to enable us to pick a sample for testing until 20 May.
- Numerous inaccuracies within the draft accounts have been noted including in relation to the income, provisions and financial instrument disclosure notes. The Trust should ensure that a detailed quality review of the draft accounts is undertaken prior to the submission to audit and Monitor.
- Our audit findings report included four adjustments identified by audit that impacted on the primary statements. We also identified 33 misclassification and disclosures amendments that were made to the final version of the accounts.
- Our audit also identified five internal control weaknesses. Further to this, two internal control weaknesses identified in the 2014/15 had not been implemented as agreed in the prior year. Recommendations have been made to improve the internal control environment of the Trust for preparing the accounts.
- We identified narrative amendments to the annual governance statement and annual report to ensure the latest governance developments at the Trust were fairly reflected as the drafts were not a true account of the changes in Board and continued weaknesses in arrangements.

Audit of the accounts (continued)

- The Trust has a planned deficit of £17.2m in 2016/17, which has been set at the Control Total applied by NHS Improvement. There is significant risk associated with the attainment of this target, both in relation to the Trust satisfying the conditions to qualify for £17.6m of funding from the Sustainability and Transformation Fund included within the budget and in relation to the delivery of the budgeted £50.1m savings to be delivered through the Transformation Programme. Though the Trust has secured £33.3m of cash facilities for 2016/17, the Trust expects that additional cash support will be required in 2016/17. Confirmation of the availability of further funding is yet to be provided as at the date of our opinion (2 June). Disclosure was included within the financial statements to reflect the assumptions used for the Trust's going concern assessment. As part of the audit process we reviewed the current funding agreements in place and considered the cash-flow forecasts prepared by the Trust. An emphasis of matter paragraph was included within our opinion to reflect the material uncertainty that exists.

Conclusion

The statutory deadline for submission of the audited Annual Report, including the quality report, to Monitor was 27 May.

Due to the problems arising during the audit we issued the audit opinion on 3 June 2016 which meant the Annual Report was a week later than the statutory deadline.

We issued an unqualified opinion that the Trust's accounts give a true and fair view of its financial affairs. This included an emphasis of matter.

The Trust needs to significantly improve its processes for producing statutory accounts and engaging with the audit process. We have held an accounts wash up meeting with key members of the finance team and the Trust is currently preparing an action plan. We recommend that progress against the plan is monitored by the Audit Committee.

Section 3: Value for Money

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Value for money conclusion

Value for money

We focused our work on the significant risk that we identified in the Trust's arrangements for securing economy, efficiency and effectiveness. In arriving at our conclusion, our main considerations were:

- The Trust incurred a deficit of £55.1m for 2015/16 compared to an original planned deficit of £46m
- The Trust set a deficit budget of £17.2m for 2016/17 which is based on achieving transformational savings of £50.1m and Sustainability and Transformation Fund payments of £17.6m. The latter is only secured if the Trust meets the stringent conditions attached in relation to financial and quality performance
- The Trust continues to be subject to enforcement action by NHS Improvement. On 29 July 2015, Monitor issued enforcement undertakings against the Trust under Sections 105 and 106 of the Health and Social Care Act 2012 in respect of shortcomings in its corporate governance arrangements and financial management standards, which the Trust needs to rectify.
- The October 2015 report of PwC highlights shortfalls in the Trust's financial management and governance arrangements. The report made 75 recommendations which the Trust has been implementing during the year. However, this has not led to improvements in the approach adopted by the finance team to deliver the accounts within the statutory deadline. The PwC report identified a culture of non compliance throughout the organisation and a clear lack of ownership and responsibility for delivering the budgets and complying with the Trust's financial control procedures. Key messages from the report around the culture of the Trust were "the lack of performance management culture across the Trust means there is little incentive to deliver budgets, nor are there repercussions when they are not delivered" and an "insufficient pace of change."

These identify weaknesses in the Trust's arrangements for:

- setting a sustainable budget with sufficient capacity to absorb emerging cost pressures;
- managing and reporting on performance against its budget and delivery of cost savings;
- managing the delivery of services so that performance targets are achieved on which funding; and
- responding to the service delivery issues, including financial management and governance arrangements and achievement of performance targets, raised by regulators and from independent reports which have not been fully resolved.

These issues are 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; and
- acting in the public interest through demonstrating and applying the principles of good governance to support informed decision making.

Value for money conclusion (continued)

Overall conclusion

Based on the work we performed to address the significant risk, we concluded that:

- because of the significance of the matters we identified in respect of the financial management arrangements and enforcement action by NHS Improvement, we are not satisfied that the Trust has made proper arrangements to secure economy, efficiency and effectiveness in your use of resources. We therefore issued a qualified 'adverse' conclusion.
- Achieving the 2016/17 target deficit is extremely challenging and requires both leadership from the Board and buy in from the whole organisation. The cultural change needed is deep rooted and long term.

Section 4: Quality Report

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Quality Report

Quality Report

We completed the work required by Monitor in respect of the Trust's quality report including:

- evaluating the design and implementation of the key processes and controls for managing and reporting the indicators
- making enquiries of management
- limited testing, on a selective basis, of the data used to calculate two mandated indicators back to supporting documentation
- comparing the requirements of the NHS Foundation Trust Annual Reporting Manual to the categories reported in the quality report.

Key messages

- Our work relating to the review of the content of Quality Report and its consistency with the requirements of the ARM progressed well and we concluded that the draft Quality Report was prepared to a high standard.
- Our testing of the two mandated indicators for 2015/16 was challenging. Despite originally requesting information to select our samples from on 11 April, we were not able to select our samples and commence our testing until 20 May. This was due to difficulties in obtaining appropriate data listings from the Trust.
- From our testing of the two indicators included in the Quality Report we are unable to conclude these are reasonably stated in all material respects in accordance with the ARM and supporting guidance. This is because the Trust has been unable to provide us with patient-level data sets for each indicator that can be reconciled to the reported indicators.
- The above testing indicates some risk that other non financial performance data may have data quality problems which cast doubt on its accuracy.
- In addition, our sample testing of both indicators noted further errors in the data provided:
    - RTT – Percentage of Incomplete Pathways over 18 weeks: 4 out of 25 samples failed as the Trust is incorrectly calculating the number of weeks a patient has been waiting for. All 4 cases related to the calculation of periods where the number of days is directly divisible by 7. The Trust's calculation formula rounds down incorrectly and so one week of waiting is lost from the total figure reported. This means the reported indicator in the quality report would be understated.
    - A&E – Waiting time target of patients discharged in 4 hours: 5 out of 25 samples failed as the 'checkout' time recorded on the Patient Administration System did not agree to the discharge records. For 2 of the failed cases, the Trust has recorded the cases as 'non-breach' and the actual leaving times have resulted in a breach. This means the reported indicator in the quality report would be overstated.
- We confirmed that the Quality Report had been prepared in all material respects in line with the requirements of the ARM and supporting guidance. We did however note there were a small number of minor inconsistencies in relation to areas where the Trust did not have available the required information to meet all of the mandated disclosure requirements.

Conclusions

As a result of the above findings, we provided a qualified limited assurance opinion on the Trust's quality report, in accordance with requirements, on 2 June 2016.

Section 5: Quality Report

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Section 5: Other Issues Identified

Turnaround Board

The Trust set up a Turnaround Board that meets fortnightly with both of the divisional improvement groups. This is chaired by the Chief Executive. The Board monitors the six transformation programme which comprise of 22 component projects (four divisions and 18 projects). Each of the projects are led by a Senior Responsible Officer (SRO) who is an Executive Director. Due to the changes at Chief Executive and the wider Executive Director team during there is a risk to the savings projects delivery and continuity on the Turnaround Board. There has been an impact on the progress of achieving 2016/17 savings in the first two months of the year as the changes in SRO's has led to delays in decision making to implement schemes whilst the interim SRO is updated with the required level of knowledge to approve decisions.

The Director of Turnaround left the Trust at the end of the 2015/16 financial year and a Chief Restructuring Officer has been appointed to lead on this for 2016/17. He is currently strengthening the project management office to ensure there is the correct level of support available for delivering the projects and savings.

Composition of the Board

The composition of the Board changed significantly during the year and since the year end date of 31 March 2016 that our audit opinion related to. The Chair, Chief Executive, Director of Finance, Performance and Informatics, and the Director of Corporate Affairs all left during the year. Interim Directors have been put in place, with the Chair being directly appointed by Monitor to oversee the required turnaround by Monitor.

In addition, the first interim Chief Executive only held the post for two weeks before being dismissed due to an investigation into fraudulent allegations from the previous Trust they worked at. The Trust is currently reviewing the appointment process followed to determine whether the fit and proper tests were carried out. The current interim Acting Chief Executive is the Medical Director. It is clear that the changes in leadership have been understandably disruptive and the Trust's needs a period of consolidation in 2016/17 for the new Board to be able to act in a coherent and effective manner.

Appendices

Appendix A: Fees

We confirm below our final fees charged for the audit.

Fees for audit services (excluding VAT)

	Per Audit plan £	Actual fees £
Trust audit	58,000	58,000
Additional fee	0	50,400
Total audit fees	**58,000**	**108,400**

Appendix B: Recommendations

The below table sets out the high risk recommendations made in relation to the 2015/16 audit.

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	**Finance function capacity** The Trust needs to review the finance function, including: • enhancing and clearly communicating the closedown processes to all officers who provide information for the Annual Report and Accounts • carrying out a quality review of all working papers before submission to audit alongside the draft financial statements • undertaking a review of the finance team structure and people to ensure that the right people are in the key posts • providing sufficient training to all people to carry out their roles once the revised structure is in place • the improvement action plan and progress against this should be reported to the Audit Committee throughout the year	High	Annual Accounts "post mortem" workshop with Grant Thornton w\c 16\5\16. Capability assessment. Action plan development based on "gap analysis". Audit tracker	Director of Finance, Operations 2016-17
2	**PwC report recommendations** • The Trust needs to carry out a post-implementation review of the PwC recommendations to ensure that the implementation has led to change in culture of compliance with financial control procedures.	High	Rather than a post – implementation review, which will probably inform us that there is still work to be done, the whole question of governance and financial control will be regularly reviewed as part of the work plan within F&PC.	Director of Finance, Operations 2016-17

Appendix B: Recommendations

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
3	**Quality report recommendations** • The Trust needs to ensure the three recommendations in the Quality Report are implemented as agreed by management. • The Trust should undertake a deep dive review of other performance data to ensure it is providing accurate data which the Board can rely on.	High	The Trust has initiated a significant project involving third party support (SYMBIO) to validate its RTT reporting and to improve the robustness of its process. The actions recommended by the auditors will be dealt with as part of this project.	
4	**Financial monitoring** • The Trust needs to closely manage the financial position by monitoring the delivery of turnaround projects and the achievement of performance targets to ensure STP funding is received. In our view the Board needs to be able to evidence throughout the year that accountability and responsibility are improving to demonstrate real ownership of the Trust's financial challenges throughout the organisation.	High	Significantly improved divisional performance management has been instigated by the Executive resulting in recovery plans and other mitigations for off plan performance. In addition, The Turnaround programme has increased its PMO resource to improve its benefits tracking capability.	Director of Finance, Operations 2016-17

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