



# Annual Audit Letter

*Year ending 31 March 2018*

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St George's University Hospitals NHS Foundation Trust

24 July 2018



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# Executive Summary

### Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at St George's University Hospitals NHS Foundation Trust (the Trust) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Trust and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Trust's Audit Committee as those charged with governance in our Audit Findings Report on 21 May 2018.

### Our work

<b>Materiality</b>	We determined materiality for the audit of the Trust's accounts to be £12,917,000, which is 2% of the Trust's gross revenue expenditure.
<b>Financial Statements opinion</b>	We gave an unqualified opinion on the Trust's financial statements on 24 May 2018.  We included a material uncertainty paragraph in our report on the Trust's financial statements to draw attention to the note which explains the basis on which the Trust has determined that it is still a going concern. This does not affect our opinion that the statements give a true and fair view of the Trust's financial position and its income and expenditure for the year.
<b>NHS Group consolidation template (WGA)</b>	We also reported on the consistency of the accounts consolidation template provided to NHS Improvement with the audited financial statements. We concluded that these were consistent.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.

### Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the National Health Service Act 2006 (the Act). Our key responsibilities are to:

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

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

# Executive Summary

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<b>Value for Money arrangements</b>	We were not satisfied that the Trust put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. This was due to Trust is being subject to financial and quality special measures throughout all of the year ended 31 March 2018. This also reflected the scale of the deficit incurred in 2017/18 and the deficit planned for 2018/19. We therefore issued an adverse value for money conclusion in our audit report to the Directors of the Trust on 24 May 2018.
<b>Quality Report</b>	We completed a review of the Trust's Quality Report and issued our report on this on 24 May 2018. We concluded that the Quality Report and the indicators we reviewed were prepared in line with the NHS foundation trust annual reporting manual and supporting guidance.
<b>Certificate</b>	We certify that we have completed the audit of the accounts of St George's University Hospitals NHS Foundation Trust in accordance with the requirements of the Code of Audit Practice.

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### Working with the Trust

- The audit progressed more smoothly than in previous years and there were clear improvements from prior years in the quality and timeliness of audit evidence provided. As a result, the audit was completed in advance of the national deadline and without any additional audit fees for overruns arising. We see this as a positive move forward
- This is down to stronger project management by the Trust and an improvement in response times to audit queries.
- In our previous audits we have reported significant concerns around the capacity and capability of the Trust's finance team. The Trust now has recruited strong individuals into senior finance posts and this has driven clear improvements in the Trust's level of preparation for the audit. However, the Trust has not undertaken any significant restructuring of the finance team and consequently some of the historical challenges around the capacity and capability of some members of the team remain.

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

**Grant Thornton UK LLP**  
**June 2018**

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# Audit of the Accounts

## Our audit approach

### Materiality

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

We determined materiality for the audit of the Trust's accounts to be £12,917,000, which is 2% of the Trust's gross revenue expenditure. We used this benchmark as, in our view, users of the Trust's financial statements are most interested in where the Trust has spent its revenue in the year.

We set a lower threshold of £250,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

### The scope of our audit

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

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

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

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

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

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

# Audit of the Accounts

## Key Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Improper revenue recognition</b></p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>82% of the Trust's income for 2017/18 was from patient care activities and contracts with NHS commissioners. These contracts included the rates for and level of patient care activity to be undertaken by the Trust. The Trust recognised patient care activity income during the year based on the completion of these activities. Patient care activities provided that are additional to those incorporated in these contracts (contract variations) were subject to verification and agreement by the commissioners. As such, we identified a risk that income may have been recognised in the accounts for these additional services that was not subsequently agreed to by the commissioners.</p> <p>We therefore identified the occurrence and accuracy of income from contract variations as a risk requiring special audit consideration and a key audit matter for the audit.</p>	<ul style="list-style-type: none"> <li>• We undertook the following procedures in relation to this risk:           <ul style="list-style-type: none"> <li>– evaluated the Trust's accounting policy for recognition income from patient care activities for appropriateness;</li> <li>– gained an understanding of the Trust's system for accounting for income from patient care activities and evaluated the design of the associated controls;</li> <li>– obtained an exception report from the Department of Health and Social Care (DHSC) that details differences in reported income and expenditure; and receivables and payables between NHS bodies; agreed the figures in the exception report to the Trust's financial records; and for differences calculated by the DHSC as being in excess of £250,000, obtained corroborating evidence to support the amount recorded in the financial statements by the Trust;</li> <li>– agreed amounts recognised as income from the 10 main NHS Commissioners in the financial statements, in respect of the main baseline monthly contract billings, to signed contracts;</li> <li>– agreed, on a sample basis, amounts for under and over-performance of contracted patient care activities with the main 10 NHS Commissioners to invoices or alternative evidence;</li> <li>– agreed, on a sample basis, income from residual income sources to invoices or alternative evidence;</li> <li>– agreed, on a sample basis, a sample of trade and other receivables at year end to invoices and subsequent cash receipts or, for cases in our sample where cash was yet to be receipted, to alternative evidence.</li> </ul> </li> </ul>	<p>Our audit work did not identify any issues in respect of this risk.</p>

# Audit of the Accounts

## Key Audit Risks - continued

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of property, plant and equipment</b></p> <p>The Trust revalues its land and buildings on an annual basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We therefore identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration and a key audit matter for the audit.</p>	<ul style="list-style-type: none"> <li>• We undertook the following procedures in relation to this risk:               <ul style="list-style-type: none"> <li>– assessed the competence, objectivity and capabilities of the Trust’s external valuer, Gerald Eve LLP;</li> <li>– assessed the appropriateness of the instructions issued to the valuer and the scope of their work;</li> <li>– assessed the appropriateness of the basis of the valuations and of management’s processes and assumptions applied in calculating the valuation estimates;</li> <li>– for a sample of assets revalued in the year, agreed the valuation in the valuer’s report to the Trust’s asset register and the financial statements;</li> <li>– assessed the overall reasonableness of the valuation movement for the year through comparison to of the percentage movements in asset values to relevant national property indices; and</li> <li>– obtained and challenged evidence for the assumptions made by management and the external valuer in relation to the valuation of its property, plant and equipment, including assumptions made around the use of an “alternative site” basis of valuation for specialised hospital buildings at St George’s Hospital.</li> </ul> </li> </ul>	<p>Our audit work did not identify any issues in respect of this risk.</p>

# Audit of the Accounts

## Key Audit Risks - continued

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Going concern material uncertainty disclosures</b></p> <p>As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management’s use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity’s ability to continue as a going concern.</p> <p>In light of the Trust’s recent financial performance, reliance on external cash support and forecast deficit financial outturn for 2018/19, management anticipate that it will take many years before the Trust’s income equals or exceeds its expenditure. The Trust will therefore require further cash support via revenue loans to pay its expenses in 2018/19 and 2019/20. The source and value of the loans has yet to be confirmed.</p> <p>We therefore identified the adequacy of disclosures relating to material uncertainties that may cast doubt on the Trust’s ability to continue as a going concern in the financial statements as a significant risk requiring special audit consideration. Given the sensitive nature of these disclosures, we identified this a key audit matter for the audit.</p>	<ul style="list-style-type: none"> <li>• We undertook the following procedures in relation to this risk:               <ul style="list-style-type: none"> <li>– held discussions with management about the financial standing of the Trust;</li> <li>– review management’s assessment of going concern, including the 2018/19 budget and a cash flow forecast covering up to 31 May 2019, and considered the reasonableness of the assumptions upon which these forecasts had been based;</li> <li>– gained an understanding of the arrangements through which the Trust requests revenue support loan funding from the Department of Health and Social Care; and</li> <li>– reviewed the completeness and accuracy of disclosures on material uncertainties with regard to going concern in the financial statements.</li> </ul> </li> </ul>	<p>Management identified a material uncertainty in respect of the future availability of revenue support loans from the Department of Health and Social Care and regarding the ability of the Trust to refinance a revenue support loan for £48.7m that falls due in March 2019. Following our review we concurred that these matters required reporting as material going concern uncertainties.</p> <p>We are satisfied with regard to the adequacy of the disclosures in the financial statements relating to material going concern uncertainties.</p> <p>We included a material uncertainty paragraph in our report on the Trust’s financial statements to draw attention to the note which explains the basis on which the Trust has determined that it is still a going concern. This does not affect our opinion that the statements give a true and fair view of the Trust’s financial position and its income and expenditure for the year.</p>



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# Audit of the Accounts

## **Audit opinion**

We gave an unqualified opinion on the Trust's financial statements on 24 May 2018, in advance of the national deadline.

## **Preparation of the accounts**

The Trust presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them, which were prepared to a higher standard of quality in previous years.

The finance team responded promptly and efficiently to our queries during the course of the audit. This represents a significant improvement in responsiveness compared to previous audits.

## **Issues arising from the audit of the accounts**

We reported the key issues from our audit to the Trust's Audit Committee on 25 May 2018.

In addition to the key audit risks reported above, two adjustments were posted to the financial statements to increase operating expenditure by £1,980k to derecognise a prepayment posted in respect of the Apprenticeship Levy, and a corresponding adjustment of £1,980k to increase accrued income.

We also identified a control recommendation for management in respect of inconsistencies between the Trial Balance and the Fixed Assets Register.

## **Annual Report, including the Annual Governance Statement**

We are also required to review the Trust's Annual Report, including the Annual Governance Statement. It provided these on a timely basis with the draft accounts with supporting evidence.

## **Whole of Government Accounts (WGA)**

We issued a group return to the National Audit Office in respect of Whole of Government Accounts, which did not identify any issues for the group auditor to consider.

## **Certificate of closure of the audit**

We are also required to certify that we have completed the audit of the accounts of St George's University Hospitals NHS Foundation Trust in accordance with the requirements of the Code of Audit Practice.

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# Value for Money conclusion

## Background

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

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

## Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work. The key risks we identified and the work we performed are set out overleaf.

We focused our work on the significant risks that we identified in the Trust's arrangements. In arriving at our conclusion, our main considerations were:

- The Trust delivered a deficit of £53.1 million in 2017/18, which represents a significant overspend compared to its budgeted deficit and control total of £28.5 million that was originally forecast at the start of the year. The Trust has forecasted a deficit of £29.0 million for 2018/19, which includes delivery of £50.0 million of transformational savings. On 22 March 2017, NHS Improvement placed the Trust into financial special measures, and the Trust continues to be subject to these arrangements.
- The Care Quality Commission (CQC) inspected the Trust in June 2016 and its 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. Following the publication of the report of the CQC, the Trust was placed into quality special measures. The Trust continued to remain in special measures during 2017/18.
- In July 2016, the Trust Board took the decision to cease reporting performance against the Referral To Treatment (RTT) performance indicator after an independent review identified significant data quality issues in relation to the recording of patients on incomplete pathways. In 2017/18, the Trust has continued to not report RTT performance. This is one of the key indicators against which the Trust is assessed by the Department of Health and Social Care and NHS Improvement and it is therefore important that the Trust rectify this position as soon as possible.

## Overall Value for Money conclusion

Because of the significance of the matters we identified in our work, we were not satisfied that the Trust put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018. **We therefore issued an 'adverse' Value for Money conclusion.**

This highlights that the Trust needs to make significant improvements to its arrangements in respect of financial and CQC performance. We recognise that the Trust Board identified compliance with CQC requirements and restoring the Trust to a position of financial balance as key priorities during 2017/18 and continue to drive transformation in these areas.

# Value for Money conclusion

## Significant Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Financial outturn and financial sustainability</b></p> <p>The Trust's audited financial statements for the year ended 31 March 2017 reported a deficit of £78.7million. The Trust budgeted for a deficit in 2017/18. As a result of the Trust's poor financial performance, in March 2017 NHS Improvement placed the Trust into Financial Special Measures.</p> <p>The current scale of the deficit will not be sustainable in the longer term and as such there is a risk that the Trust does not have sufficient arrangements in place to ensure medium term financial stability.</p>	<p>We reviewed the Trust's arrangements for putting together and agreeing its budget, including identification of savings plans; and its arrangements for monitoring and managing delivery of its budget and savings plans for 2018/19, including the impact on service delivery.</p> <p>We also met with senior finance personnel to discuss and review arrangements for returning the Trust to a position of financial stability.</p>	<p><b><u>Financial outturn</u></b></p> <p>The Trust delivered a deficit of £53.1m in 2017/18. This compares to a deficit of £78.7m attained in 2016/17 and a budget and control total set at the start of the year of a deficit of £28.5m. In June 2017, the Trust submitted a revised financial plan that showed a budgeted deficit of £45.0m and later in the year agreed a revised target of a £53.0m deficit with NHS Improvement later in the year. The deficit achieved was thus in line with this revised target.</p> <p>Cost Improvement Programme (CIP) performance during the year was good – the Trust delivered £43.6m of savings against a target of £43.5m. This represents a significant improvement on performance for 2016/17, when CIPs of £30.1m were delivered. Overall, though the Trust's financial position stabilised during 2017/18, with good CIP performance and a £25.6m reduction in the deficit compared to 2016/17, we concluded that significant further improvements are required to restore the Trust to financial balance.</p> <p><b><u>Financial planning</u></b></p> <p>The Trust has forecast a deficit of £29.0m for 2018/19. The forecast improvement in financial performance is phased during the year and the financial plan approved by the Board presents an underlying exit run rate of a £1.8m monthly deficit by the end of the 2018/19.</p> <p>Achieving the budgeted deficit will be a challenge and will require continued changes the Trust's arrangements for delivery of CIPs. This includes the need for further cultural change to build upon the progress made during 2017/18 encourage divisional management to take a greater level of accountability and ownership for delivery of CIPs.</p>

# Value for Money conclusion

## Significant Value for Money Risks - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Care Quality Commission (CQC) inspection</b></p> <p>An inspection by the Care Quality Commission (CQC) in June 2016 rated the Trust as requiring significant improvement. A follow-up CQC inspection in May 2017 identified that progress had been made in addressing its findings but that areas for improvement remain.</p> <p>We therefore identified a risk that the Trust would not be able to adequately respond to areas identified by the CQC as inadequate or requiring improvement.</p>	<p>We reviewed how the Trust is implementing and monitoring delivery of the action plan agreed to address the findings of the CQC inspection.</p> <p>We also reviewed correspondence from the CQC in relation to their findings from inspection visits during the year.</p>	<p><b><u>Findings from CQC inspections</u></b></p> <p>The CQC inspected the Trust in June 2016 and noted significant concerns around patient safety and the quality of the Trust's estate. The CQC served the Trust with a Section 29A Warning Notice on 26 August 2016 for breaches in regulations related to safe and fit premises at St George's Hospital, obtaining consent under the Mental Capacity Act, 2005, good governance and the fit and proper person requirement. On 1 November 2016, the CQC published its inspection report, which rated the Trust as "inadequate".</p> <p>In 2017, the CQC undertook a follow-up review to follow up on a Section 29A Warning Notice, which the issued in August 2016. As a result, there is no rating of this inspection. In their inspection report, published in August 2017, the CQC found that the Trust has partially met the requirements of the Section 29A Warning Notice. In particular, the CQC noted that the Trust has made significant improvements regarding mental capacity act assessments, premises and equipment, medicines management and managing incidents. However, the CQC stated that the Trust still needs to make further improvements with regards to the fit and proper persons' requirement, estates maintenance, accuracy of the referral to treatment data and governance.</p> <p>The CQC visited the Trust in March 2018 to undertake a further follow-up inspection. Its report on its findings from this inspection is yet to be published, but the Trust's directors have communicated to us that the initial feedback that they have received from the CQC has been positive.</p> <p><b><u>Quality Improvement Plan</u></b></p> <p>Following CQC inspection in June 2016, the Trust took prompt actions to implement a response to the concerns noted by the CQC and developed a Quality Improvement Plan (QIP) that assigned each of the 316 actions identified by the CQC as required to eight separate work-streams, each with an executive lead. The Trust has since continued to develop the QIP plan based upon feedback from the CQC, commissioners and other stakeholders, and in May 2017 revised governance arrangements for the QIP were implemented. A revised QIP was then published in October 2018 to update the original plan to reflect these subsequent developments.</p>

# Quality Report

## The Quality Report

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

## Scope of work

We carry out an independent assurance engagement on the Trust's Quality Report, following NHS Improvement (NHSI) guidance issued in February 2018. 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 specified in the NHS foundation trust annual reporting manual and supporting guidance;
- the Quality Report is not consistent with other information, as specified in the NHSI guidance; and
- the indicators in the Quality Report where we have carried out testing are not compiled in line with the NHS foundation trust annual reporting manual and supporting guidance and do not meet expected dimensions of data quality.

## Quality Report Indicator testing

We tested the following indicators:

- percentage of patients with a total time in A&E of four hours or less from arrival to admission, transfer or discharge;
- maximum waiting time of 62 days from urgent GP referral to first treatment for all cancers; and
- percentage of patient safety incidents resulting in severe harm or death.

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

## Key messages

- We confirmed that the Quality Report had been prepared in line with the requirements of the NHS foundation trust annual reporting manual and supporting guidance.
- We confirmed that the Quality Report was consistent with the sources specified in the NHSI Guidance.
- We confirmed that the commentary on indicators in the Quality Report was consistent with the reported outcomes
- Based on the results of our procedures, nothing came to our attention that caused us to believe that the indicators we tested were not reasonably stated in all material respects.

## Conclusion

As a result of this we issued an unqualified conclusion on the Trust's Quality Report on 24 May 2018.

# A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

## Reports issued

Report	Date issued
Audit Plan (initial)	11 January 2018
Audit Plan (updated)	12 April 2018
Audit Findings Report	21 May 2018
Annual Audit Letter	21 July 2018

## Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory audit	£66,000	£66,000	£72,500
<b>Total fees</b>	<b>£66,000</b>	<b>£66,000</b>	<b>£72,500</b>

## Fees for non-audit services

Service	Fees £
Audit related services	
- Review of the Trust's Quality Report	£10,000
Non-audit related services	
- Data recovery and analysis	£3,500

## Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Trust. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Trust's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Trust's policy on the allotment of non-audit work to your auditor.



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