



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

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Year ended 31 March 2019

17 July 2019



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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 2019.

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 23 May 2019.

## Our work

## 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 comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

<b>Materiality</b>	We determined materiality for the audit of the Trust's financial statements to be £12.95m, which is 1.5% of the Trust's prior year gross operating costs.
<b>Financial Statements opinion</b>	We gave an unqualified opinion on the Trust's financial statements on 24 May 2019.  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 financial statements consolidation template provided to NHS England 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.

# Executive Summary

<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 because of the significance of the matters we identified in respect of the Trust's financial performance and CQC performance . We therefore issued an adverse value for money conclusion in our audit report to the Directors of the Trust on 24 May 2019.
<b>Quality Report</b>	We completed a review of the Trust's Quality Report and issued our report on this on 24 May 2019. 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 certified that we have completed the audit of the financial statements of St George's University Hospitals NHS Foundation Trust in accordance with the requirements of the Code of Audit Practice on 24 May 2019.

## Working with the Trust

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in May, delivering the financial statements 5 days before the deadline, releasing your finance team for other work.

- Sharing our insight – we provided regular audit committee updates
- Providing training – we provided your teams with training on financial statements and annual reporting

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**  
July 2019

# Audit of the Financial Statements

## 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 financial statements to be £12,950,000, which is 1.5% of the Trust's prior year operating costs. 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 £300,000, 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 financial statements 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 Financial Statements

## Key Audit Matters

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>Revenue recognition</b></p> <p>Trusts are facing significant external pressure to restrain budget overspends and meet externally set financial targets, coupled with increasing patient demand and cost pressures. In this environment, we considered the rebuttable presumed risk under ISA (UK) 240 that revenue may be misstated due to the improper recognition of revenue.</p> <p>We rebutted this presumed risk for the revenue streams of the Trust that are principally derived from contracts that are agreed in advance at a fixed price. We determined these to be income from:</p> <p>Block contract income element of patient care revenues</p> <p>We did not deem it appropriate to rebut this presumed risk for all other material streams of patient care income and other operating revenue.</p>	<p>We undertook the following procedures in relation to this risk:</p> <ul style="list-style-type: none"> <li>evaluated the Trust's accounting policy for recognition of income from patient care activities and other operating revenue for appropriateness and compliance with the DHSC Group Accounting Manual 2018/19</li> <li>Updated our understanding of the Trust's system for accounting for income from patient care and other operating revenue, and evaluated the design of the associated controls</li> </ul> <p>Patient Care Income</p> <ul style="list-style-type: none"> <li>used the DHSC mismatch report, we investigated unmatched revenue and receivable balances over the NAO £0.3m threshold, corroborating the unmatched balances used by the Trust to supporting evidence;</li> <li>agreed, on a sample basis, income from contract variations and year end receivables to signed contract variations, invoices or other supporting evidence such as correspondence from the Trust's commissioners</li> <li>evaluated the Trust's estimates and the judgments made by management on with regard to corroborating evidence in order to arrive at the total income from contract variations recorded in the financial statements.</li> </ul> <p>Other Operating Revenue</p> <ul style="list-style-type: none"> <li>agreed, on a sample basis, income and year end receivables from other operating revenue to invoices and cash payment or other supporting evidence</li> </ul>	<p>We were able to conclude that this risk did not crystallise.</p>

# Audit of the Financial Statements

## Key Audit Matters - 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>The Trust is facing significant financial challenges and has reported a deficit position for 2018/19, with a further budget deficit forecast for 2019/20, although at £3m and if achieved would be the smallest deficit for many years. The Trust has received financial revenue support in 2018/19 and will require further working capital cash support to pay its expenses and loan commitments in the future.</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. Given the sensitive nature of these disclosures, this is one of the most significant assessed risks of material misstatement.</p>	<p>We have reviewed management's going concern assessment and considered the reasonableness of the key assumptions expressed.</p>	<p>Our audit opinion makes reference to the material uncertainty related to going concern.</p>
<p><b>Valuation of land and buildings</b></p> <p>The Trust revalues its land and buildings on an annual basis to ensure that the carrying value is not materially different from the current value at the financial statements date. This valuation represents a significant estimate by management in the financial statements.</p> <p>Management engaged the services of a valuer to estimate the current value as at 31 March 2019. The valuation of land and buildings is a key accounting estimate which is sensitive to changes in assumptions and market conditions.</p>	<p>We undertook the following procedures in relation to this risk:</p> <ul style="list-style-type: none"> <li>evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work</li> <li>evaluated the competence, capabilities and objectivity of the valuation expert</li> <li>wrote to the valuer to confirm the basis on which the valuations were carried out</li> <li>challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>tested, on a sample basis, revaluations made during the year to ensure they were been input correctly into the Trust's asset register</li> <li>evaluated the assumptions made by management for any assets not revalued during the year and how management satisfied themselves that these are not materially different to current value.</li> <li>Comparison between the indices employed by the management expert to the data provided by the auditors expert</li> </ul>	<p>We were able to conclude that this risk did not crystallise.</p>

# Audit of the Financial Statements

## **Audit opinion**

We gave an unqualified opinion on the Trust's financial statements on 24 May 2019.

## **Preparation of the financial statements**

The Trust presented us with draft financial statements in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

## **Issues arising from the audit of the financial statements**

We reported the key issues from our audit to the Trust's Audit Committee on 20 May 2019.

## **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 financial statements 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 certified that we have completed the audit of the financial statements of St George's University Hospitals NHS Foundation Trust in accordance with the requirements of the Code of Audit Practice on 24 May 2019.



# 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 risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Trust in May 2019, we agreed recommendations to address our findings.

## 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 2019.

# Value for Money conclusion

## Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Financial sustainability</b></p> <p>The Trust's audited financial statements for the year ended 31 March 2018 reported a deficit of £53million. The Trust initially agreed a budgeted deficit in 2018/19 of £29 million with NHS Improvement. As a result of the Trust's poor financial performance, in March 2017 NHS Improvement placed the Trust into Financial Special Measures and this remains the case in 2018/19.</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>As part of our work we have 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 2019/20, including the impact on service delivery. We also met with key officers to discuss and review arrangements for returning the Trust to a position of financial stability.</p>	<p><b>Financial Outturn</b></p> <p>The Trust has delivered a deficit of £45.4m in 2018/19. This compares to a deficit of £53.1m attained in 2017/18 and a budget and control total set at the start of the year of a deficit of £29m.</p> <p>The key drivers of the variance between the budgeted deficit of £29m and the actual deficit of £45.4m included income from SLAs being lower than budgeted for. The Trust determined that was driven by lower volumes of activity than anticipated. This resulted in the Trust not achieving the pre-PSF control target after the first quarter when PSF income was received. During the year, cardiac surgery was suspended and this reduced the level of income coming into the Trust.</p> <p>Overall the Trust's financial position has improved during the year, with good CIP performance and a £8.3m reduction in the deficit compared to 2017/18, significant further improvements are required to restore the Trust to financial balance. The Trust remains in financial special measures.</p> <p><b>Financial planning</b></p> <p>The Trust has forecast a control total deficit of £3m for 2019/20, which is based on the following key assumptions:</p> <ul style="list-style-type: none"> <li>CIP of £45.8m will be achieved</li> <li>There will be PSF, MRET and FRF income of 34.7m</li> </ul> <p>A key area of risk highlighted by the Trust within the financial plan approved for 2019/20 is around achieving the plan and being in receipt of the new funding streams and the identification and delivery of CIPs. The resolution of these issues will have a significant bearing on whether the Trust is able to achieve its forecast deficit of £3m on 2019/20.</p> <p>Achieving the budgeted deficit will be a challenge and will require continued changes the Trust's arrangements for delivery of CIPs.</p> <p>The Trust has forecast that £27.2m of capital loans and £3m of working capital loan funding will be required in 2019/20, and financing to repay existing loans in March 2020 of £48.7m and £15.1m, and is currently in discussion with NHS Improvement around agreeing the necessary funding arrangements.</p>

# Value for Money conclusion

## Value for Money Risks

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 in June 2016 rated the Trust as requiring significant improvement. A follow-up CQC inspection in May 2017 and March - April 2018 identified that progress had been made in addressing their findings but that areas for improvement remain. The rating was changed from 'inadequate' to 'requires improvement' in July 2018 but the Trust remains in quality special measures</p> <p>There is a risk that the Trust will not be able to adequately respond to areas identified by the CQC as requiring improvement.</p>	<p>As part of our work we have reviewed how the Trust is implementing and monitoring delivery of the action plan agreed to address the findings of the CQC inspection.</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 on 26 August 2016 for breaches in regulations related to safe and fit premises at George's Hospital, obtaining consent under the Mental Health capacity Act 2005, good governance and 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, as such there was no rating of this inspection. The 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 had made significant improvements regarding mental health capacity act assessments, premises and equipment, medicines management and managing incidents. However the CQC stated that the Trust still needed 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. The report was published in July 2018 and the rating was changed to 'requiring improvement'. Of the five areas covered by the review, four were judged to 'require improvement' and 1 was judged 'good'. This signifies an overall improvement from the previous inspection but that the Trust still has to make further improvements. The Trust remains in quality special measures.</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 2019. 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

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 a limited assurance report on the Trust's Quality Report on 24 May 2019.

## A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and confirm there were no fees for the provision of non audit services.

### Reports issued

Report	Date issued
Audit Plan	10 January 2019
Audit Findings Report	20 May 2019
Annual Audit Letter	17 July 2019

### Fees

	Planned £	Actual fees £	2017/18 fees £
Statutory audit	68,500	68,500	66,500
Quality report	8,000	8,000	10,000
<b>Total fees</b>	<b>76,500</b>	<b>76,500</b>	<b>76,500</b>



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