



Annual Audit Letter

Year ending 31 March 2018

Worcestershire Health and Care NHS Trust

17 July 2018



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Executive Summary

Purpose

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at Worcestershire Health and Care NHS 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 Committee as those charged with governance in our Audit Findings Report on 24 May 2018.

Our work

| | |
|---|--|
| Materiality | We determined materiality for the audit of the Trust's accounts to be £3,335,000, which is 2% of the Trust's gross revenue expenditure. |
| Financial Statements opinion | We gave an unqualified opinion on the Trust's financial statements on 24 May 2018. |
| NHS Group consolidation template (WGA) | We also reported on the consistency of the accounts consolidation template provided to NHS England with the audited financial statements. We concluded that these were consistent. |
| Use of statutory powers | We have not exercised any of our additional statutory powers or duties. |

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (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.

Executive Summary

| | |
|-------------------------------------|---|
| Value for Money arrangements | We were satisfied that the Trust put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Trust's Directors on 24 May 2018. |
| Quality Accounts | We completed a review of the Trust's Quality Account and issued our report on this on 27 June 2018. We concluded that the Quality Account and the indicators we reviewed were prepared in line with the Regulations and guidance. |
| Certificate | We certify that we have completed the audit of the accounts of Worcestershire Health and Care NHS Trust in accordance with the requirements of the Code of Audit Practice. |

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, working co-operatively with your finance team to deliver the opinion in a timeous fashion.
- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports
- Providing training – we provided your teams with training on financial accounts and annual reporting
- Supporting development – we provided workshops for Non Executive Directors throughout the year.

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 2018

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 £3,335,000, 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 also set a lower level of specific materiality of £250,000 for the Remuneration, which is an area of particular sensitivity.

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

Significant Audit Risks

These are the significant 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>Improper Revenue Recognition</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>Approximately 96% of the Trust's income is from patient care activities and contracts with NHS commissioners. These contracts include the rates for and level of patient care activity to be undertaken by the Trust. The Trust recognises 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) are subject to verification and agreement by the commissioners. As such, there is the risk that income is recognised in the accounts for these additional services that is not subsequently agreed to by the commissioners.</p> <p>We have identified the occurrence and accuracy of income from contract variations as a risk requiring special audit consideration.</p> | <p>We have:</p> <ul style="list-style-type: none"> evaluated the Trust's accounting policy for recognition income from patient care activities for appropriateness; gained an understanding of the Trust's system for accounting for income from patient care activities and evaluated the design of the associated controls; Agreed contracted income included in the financial statements to signed contracts Carried out substantive testing to agree a sample of additional non-contract activity income items included in the financial statements to invoices or other supporting documentation. | <p>Our audit work has not identified any issues in respect of revenue recognition</p> |
| <p>Management override of internal controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p> | <p>We have:</p> <ul style="list-style-type: none"> gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness evaluated the rationale for any changes in accounting policies or significant unusual transactions. | <p>Our audit work has not identified any issues in respect of management override of controls.</p> |

Audit of the Accounts

Significant 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>Valuation of property, plant and equipment</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 identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit</p> | <p>The Trust revalued its land and buildings as at 1 April 2017 based on valuation work undertaken by Cushman and Wakefield. The basis of valuation is Depreciated Replacement Cost on a Modern Equivalent Asset basis, which is in line with the GAM. The Trust has not made significant changes to the basis of valuation during 2017/18. We have:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate • reviewed of the competence, expertise and objectivity of the valuers used • reviewed of the instructions issued to valuation experts and the scope of their work • reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding. • tested revaluations made during the year to ensure they were input correctly into the Trust's asset register • Evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. <p>IAS16 and the GAM require that asset revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from fair value at the end of the reporting period (31 March 2018). As the Trust's valuation was undertaken as at 1 April 2017, we have considered whether any evidence exists to suggest that there may have been further material movements in asset valuations during 2017/18. This has included:</p> <ul style="list-style-type: none"> • seeking specific assurances from the valuer on their awareness of any factors that have arisen since undertaking the valuation which may have significantly altered the value • review of available information on movements in BCIS tender price indices in 2017/18 • representations from management that significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. <p>No evidence has come to light to suggest that there may have been further material movements in asset valuations during 2017/18.</p> | <p>Our audit work has not identified any issues in respect of valuation of property, plant and equipment.</p> |

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. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Trust's Audit Committee on 24 May 2018.

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.

Other statutory powers

We have not exercised any of our additional statutory powers or duties.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Worcestershire Health and Care NHS Trust in accordance with the requirements of the Code of Audit Practice. The audit certificate was issued on 24 May 2018.

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.

As part of our Audit Findings report agreed with the Trust in May 2018, we agreed recommendations to address our findings.

Overall Value for Money conclusion

We are satisfied that in all significant respects 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.

Value for Money conclusion

Key Value for Money Risks

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|--|---|---|
| <p>Delivery of financial plans</p> <p>The Trust has challenging financial savings targets within an overall context of financial constraints.</p> | <ul style="list-style-type: none"> We reviewed evidence of delivery against financial plans for 2017/18, the validity and sustainability of future financial plans, and the appropriateness of the assumptions made. | <p>Findings</p> <ul style="list-style-type: none"> The Trust delivered its 2017/18 financial plans, including CIPs, in full. The Board has approved 2018/19 plans for delivery of a £3.5m surplus and a further £3.5m of CIPs. Whilst delivery of CIPs is becoming increasingly challenging, the Trust has made good progress in identification of plans for the 2018/19 CIP (83% identified by the end of April 2018) and continues to work to ensure that 2018/19 CIPs are identified and delivered. <p>Auditor view</p> <ul style="list-style-type: none"> The Trust has a strong track record of delivery of financial plans and CIPs and, whilst the 2018/19 position is challenging, has made good progress in identification of plans for delivery of 2018/19 CIPs. |
| <p>Ensuring the STP delivers required outcomes</p> <p>We identified the collaborative working across the STP footprint as a particular risk.</p> | <ul style="list-style-type: none"> We assessed the processes in place by which the Trust ensures it makes the maximum contribution to ensuring that the STP delivers key outcomes for the wider health economy. | <p>Findings</p> <ul style="list-style-type: none"> The Trust continues to engage effectively with the STP process and is clearly contributing to its delivery via the involvement of senior Trust Board members, including the Trust CEO who acts as CEO for the STP. The STP has set out clear priorities and developed a range of work streams to support delivery of these priorities. <p>Auditor view</p> <ul style="list-style-type: none"> The Trust continues to engage effectively with the Herefordshire and Worcestershire STP process. |

Value for Money conclusion

Key Value for Money Risks

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|--|---|---|
| <p>Potential impact of CQC “Well Led” inspection due to take place in February – March 2018</p> <p>The Trust received a CQC “Well Led” inspection during February-March 2018. CQC examines key aspects of corporate governance.</p> | <ul style="list-style-type: none">• We have considered whether the findings from the recent CQC “Well Led” inspection impact on our 2017/18 VFM conclusion. | <p>Findings</p> <ul style="list-style-type: none">• We are not aware of any significant findings arising from recent CQC reviews which would impact on our VFM conclusion. <p>Auditor view</p> <ul style="list-style-type: none">• No impact on 2017/18 VFM conclusion. |

Quality Accounts

The Quality Account

The Quality Account is an annual report to the public from an NHS Trust about the quality of services it delivers. It allows 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 Account, following Department of Health (DH) guidance. We give an opinion as to whether we have found anything from our work which leads us to believe that:

- the Quality Account is not prepared in line with set DH criteria;
- the Quality Account is not consistent with other documents, as specified in the DH guidance; and
- the two indicators in the Quality Account where we have carried out testing are not compiled in line with DH regulations and do not meet expected dimensions of data quality.

Quality Account Indicator testing

We tested the following indicators:

- percentage of reported patient safety incidents resulting in severe harm or death during the reporting period; and
- percentage of admissions to acute wards for which the Crisis Resolution Home Treatment Team has acted as a gatekeeper during the reporting period.

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 Account 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 Account had been prepared in line with the requirements of the Regulations.
- We confirmed that the Quality Account was consistent with the sources specified in the DH Guidance.
- We confirmed that the commentary on indicators in the Quality Account 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 Account on 27 June 2018.

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and

Reports issued

| Report | Date issued |
|-----------------------|-----------------|
| Audit Plan | 8 February 2018 |
| Audit Findings Report | 24 May 2018 |
| Annual Audit Letter | 17 July 2018 |

Fees

| | Planned £ | Actual fees £ |
|-------------------|---------------|------------------|
| Statutory audit | 48,000 | 48,000 |
| Charitable Fund | 1,500 | 1,500 |
| Total fees | 49,500 | 49,500 |

Fees for non-audit services

| Service | Fees £ |
|--|--------|
| Audit related services | |
| - Assurance on your Quality Account | 7,500 |
| Non-audit services | |
| - Work in connection with the transfer of the UPI team | 30,000 |

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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