



Annual Audit Letter 2016-17

United Lincolnshire Hospitals NHS Trust

July 2017

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This report is addressed to United Lincolnshire Hospitals NHS Trust (the Trust) and has been prepared for the sole use of the Trust. We take no responsibility to any member of staff acting in their individual capacities, or to third parties.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tony Crawley, the engagement lead to the Trust, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 6948981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.



Introduction

Introduction

Background

This Annual Audit Letter (the letter) summarises the key issues arising from our 2016-17 audit at United Lincolnshire Hospitals NHS Trust (the Trust). Although this letter is addressed to the directors of the Trust, it is also intended to communicate these issues to external stakeholders, such as members of the public. It is the responsibility of the Trust to publish the letter on the Trust's website at www.ulh.nhs.uk.

In the letter we highlight areas of good performance and also provide recommendations to help the Trust improve performance. We have included a summary of our key recommendations in Appendix A. We have reported all the issues in this letter to the Trust during the year and we have provided a list of our reports in Appendix B.

Scope of our audit

The statutory responsibilities and powers of appointed auditors are set out in the Local Audit and Accountability Act 2014. Our main responsibility is to carry out an audit that meets the requirements of the National Audit Office's Code of Audit Practice (the Code) which requires us to report on:

Financial Statements including the Annual Governance Statement	<p>We provide an opinion on the Trust's accounts. That is whether we believe the accounts give a true and fair view of the financial affairs of the Trust and of the income and expenditure recorded during the year.</p> <p>We also confirm that the Trust has complied with the Department of Health (DoH) requirements in the preparation of its Annual Governance Statement. We also confirm that the balances you have prepared for consolidation into the Whole of Government Accounts (WGA) are not inconsistent with our other work.</p>
Value for Money (VFM) arrangements	<p>We conclude on the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the Trust's use of resources.</p>

Adding value from the External Audit service

We have added value to the Trust from our service throughout the year through our:

- Attendance at meetings with members of the Executive Team and Audit Committee to present our audit findings, broaden our knowledge of the Trust and to provide insight from sector developments and examples of best practice;
- A proactive and pragmatic approach to issues arising in the production of the financial statements to ensure that our opinion is delivered on time;
- Supporting the Audit Committee's development session on Cyber Security; and
- Building a strong and effective working relationship with Internal Audit to maximise assurance to the Audit Committee, avoid duplication and provide value for money.

Introduction (cont.)

Fees

The scale audit fee set by Public Sector Audit Appointments Ltd (PSAA) for 2016-17 was £91,913 excluding VAT (2015-16: £91,913). This is the fee notified at the start of the year to the Trust's Audit Committee. In our report to the 26 May 2017 Audit Committee we referred to the additional audit work required this year as a result of:

- difficulties encountered during the audit caused by the 12 May 2017 'cyber attack' on the Trust;
- discussions and communications with management during the year regarding the proposed Settlement Agreement with a former Director; and
- the audit of plant, property and equipment and the evidence needed to support Estates manager's judgements regarding obsolescence

These issues were described in further detail and discussed with the Audit Committee at its meeting. We have estimated the total additional fee required for this work at around £2,370 excluding VAT. We have submitted our request to PSAA for their approval.

Our planned fee for the separate audit of the United Lincolnshire Hospitals Charitable Funds is £3,960 excluding VAT (2015-16: £3,960). This work is planned for August 2017.

We have also completed the work required to provide the Trust with the auditor's limited assurance opinion on its 2016-17 Quality Account. The fee for this work was £10,000 excluding VAT.

Acknowledgement

We would like to take this opportunity to thank the managers at the Trust for their continued support throughout the year.



Headlines

Headlines

This section summarises the key messages from our work during 2016-17.

<p>Value for Money (VFM) conclusion</p>	<p>The results of our work, notably the significant increase in deficit in the year, the uncertainty over the Trust's medium term financial standing, the continuing non-achievement of national performance standards and the regulators' findings and actions prevented us from being satisfied that, in all material respects, the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.</p> <p>Our conclusion reflected the arrangements in place and their effectiveness across the whole year. We acknowledge though that the Trust is continuing to take action to address its financial and performance difficulties, including measures designed to strengthen its business and financial management frameworks and taking action in response to concerns reported by regulators. The Trust is also working with commissioners and other key stakeholders in the health economy to address wider structural issues. We will take these planned improvements and their operation into account in our 2017/18 assessment of your arrangements.</p>
<p>Value for Money conclusion risk areas</p>	<p>We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks.</p> <p>Our work identified your financial and operational control and medium term financial standing as significant risks and our assessment of your arrangements in these areas contributed to the adverse VFM conclusion we gave.</p>
<p>Financial Statements audit opinion</p>	<p>We issued an unqualified opinion on the Trust's accounts on 30 May 2017. This means that we believe the accounts give a true and fair view of the financial affairs of the Trust and of the income and expenditure recorded during the year. No significant adjusted or unadjusted audit differences were identified as part of the audit.</p> <p>The significant matters from the audit which we reported to the 26 May 2017 Audit Committee included:</p> <ul style="list-style-type: none"> • financial controls on which we sought to place reliance were operating effectively; • the Trust's finance team provided a substantially complete set of working papers, referenced to our 'prepared by client' list on the first day of both the interim and final accounts visits. Staff were mostly able to provide any additional working papers or explanations promptly during the visit; • we encountered difficulty in progressing the audit whilst the Trust was unable to access its information systems following the 12 May 2017 'cyber attack' that impacted on many of the Lincolnshire NHS bodies. We as far as possible worked around this issue but it did lead to delays and inefficiencies; • as in 2015/16 we again needed to obtain further information during the audit from the Estates team to support the property valuations, and we repeated our recommendation made in the previous year aimed at improving this process; and; • we discussed with the Director of HR and the Interim Director Finance and Corporate Affairs the Trust's proposed Settlement Agreement with a former Director. Our observations, and the actions taken by management, have been reported to the Trust's Remuneration Committee and are to be reported to the Trust Board.

Headlines (cont.)

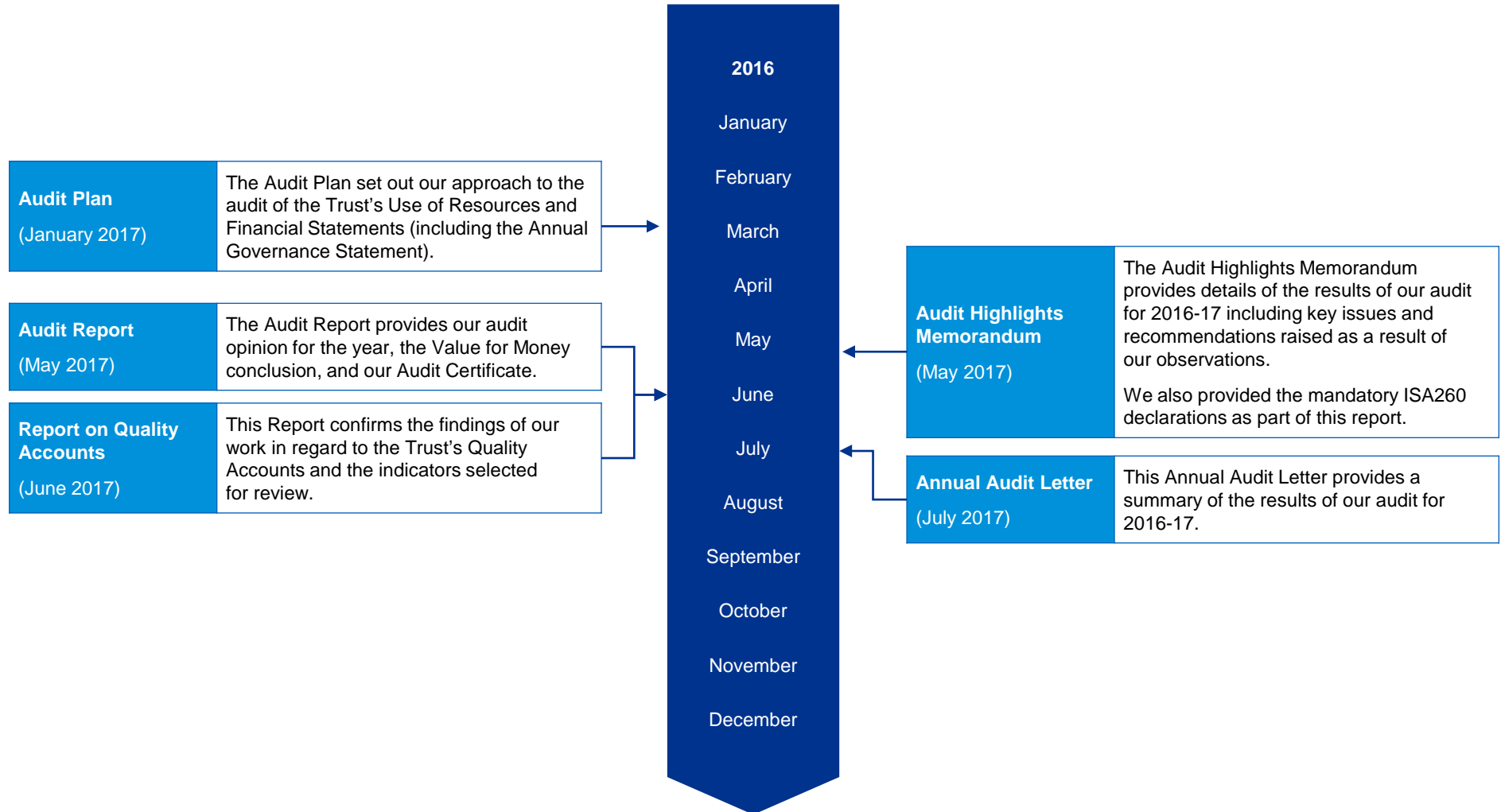
Financial statements audit work undertaken	<p>We are required to apply the concept of materiality in planning and performing our audit. We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. Our materiality for the audit was £8m (2015/16: £8m).</p> <p>We identified the following risk of material misstatement in the financial statements as part of our External Audit Plan 2016/17:</p> <p>Valuation of land and buildings - the asset valuation and impairment review processes are both estimates and therefore present a higher level of risk to the audit. The process can result in significant fluctuations in valuations between years. We did not identify any material errors or significant audit differences during our work. We repeated our previous year's recommendation regarding the improvements needed to the Trust's procedures for carrying out its annual obsolescence assessment.</p> <p>Recognition of NHS and non-NHS income - our work focused on the recognition of NHS income and non-NHS income and our testing considered the completeness, existence and accuracy of the balances recorded within the financial statements. We did not identify any material errors or omissions.</p> <p>Key areas of accounting judgement - our work focused on the key judgements in regards to provisions and accruals and our testing considered the completeness, existence and accuracy of the balances recorded within the financial statements. No material errors or other reporting matters were identified during our work.</p>
Annual Governance Statement	<p>We have also confirmed that the Trust have complied with the Department of Health requirements in the preparation of the Trust's Annual Governance Statement.</p>
Recommendations	<p>We are pleased to report that there are no new high risk recommendations arising from our 2016-17 audit work and there are none outstanding from previous audits.</p> <p>We did make medium and low priority recommendations, including matters reported in previous years where action is still required, regarding:</p> <ul style="list-style-type: none"> • the Trust's arrangements for carrying out the annual revaluation for Plant, Property and Equipment; • the arrangements for identifying and reporting Related Party Transactions; and • the operation of the Trust's finance network and general ledger access controls. <p>Trust managers have responded positively to these recommendations and we will follow up progress made as part of the 2017-18 audit.</p>
Public Interest Reporting	<p>We have a responsibility to consider whether there is a need to issue a public interest report or whether there are any issues which require referral to the Secretary of State under Section 30 of the Local audit and Accountability Act 2014. There were no matters in the public interest that we needed to report. We did though need to make a Section 30 referral as the Trust breached its 'breakeven duty' under the National Health Service Act 2006. The Trust's financial statements for the financial year ended 31 March 2016 reported an in- year financial deficit of £56.9 million, and a cumulative deficit of £162.8 million.</p>



Appendices

Appendix A

Summary of our reports issued





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