



The Audit Findings for Liverpool Heart and Chest Hospital NHS Foundation Trust

Year ended 31 March 2017

May 2017

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25 May 2017

Dear Members of the Audit Committee

Audit Findings for Liverpool Heart and Chest Hospital NHS Foundation Trust for the year ending 31 March 2017

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK and Ireland) 260, the National Health Service Act 2006 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK and Ireland) ('ISA (UK&I)'), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Mike Thomas

Engagement lead

Chartered Accountants

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A Audit opinion

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Purpose of this report

This report highlights the key issues affecting the results of Liverpool Heart and Chest Hospital NHS Foundation Trust ('the Trust') and the preparation of the group and Trust's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK and Ireland) 260, and the National Health Service Act 2006 ('the Act').

Under legislation the Comptroller and Auditor General (C&AG) has a duty to prepare a code of audit practice prescribing the way in which auditors of public authorities are to required to carry out their audit functions. This Code of Audit Practice ('the Code') is prepared by the National Audit Office (NAO) on behalf of the C&AG. Section 10 of Schedule 6 of the Local Audit and Accountability Act 2014 mandates the application of this Code to Foundation Trust audits.

Under the Code we are required to report whether, in our opinion, the Group financial statements give a true and fair view of the financial position of the Trust and its income and expenditure. We are also required to give an opinion on some elements of the Remuneration report and some elements of the Staff Report. We are required to consider other information published together with the audited financial statements, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or otherwise misleading and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Trust has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in legislation and the Code, Act so that if we are not satisfied then we are required to report by exception.

The Act details the following powers and duties for Foundation Trust auditors, which we are required to report to you if applied:

- a referral to the regulator if we have reason to believe that the Trust or an officer of the Trust, is about to make, or has made, a decision involving unlawful expenditure. (section 6 of schedule 10 of the Act);
- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Trust or brought to the public's attention (section 3 of schedule 10 of the Act).

In addition to our responsibilities under the Code we are also required to carry out a limited assurance engagement on the Trust's Quality Report in accordance with the requirements of the "Detailed requirements for external assurance for quality reports for foundation trusts 2016/17" issued by NHS Improvement.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated February 2017.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- Completion of final sample testing
- Review of the cash flow statement
- review the final Agreement of Balances submission
- review of the final version of the financial statements and annual report, including the agreement to the FTCs
- obtaining and reviewing the management letter of representation
- review of revised versions of the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing the opinion

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the national deadline.

Key audit and financial reporting issues

Financial statements opinion

We have identified no adjustments affecting the Trust's retained surplus position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2017 recorded a retained surplus from continued operations of £1,183k for the Trust and £1,140k for the Group. We have also recommended a number of adjustments to disclosures to improve the presentation of the financial statements.

The key messages arising from our audit of the Trusts financial statements are:

- The accounts presented for audit were high quality and were available to us by the deadline.
- The accounts were supported by high quality working papers.
- We have only made minor amendments to the disclosures and presentation of the accounts.

Further details are set out in section two of this report.

Our anticipated audit opinion will be unqualified in respect of the financial statements (see Appendix B).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to consider the consistency of other information published with the financial statements, including the Annual Report and Annual Governance Statement (AGS). We are also required to carry out work to satisfy ourselves that disclosures made in your AGS are in line with guidance issued and consistent with our knowledge of the Trust.

Based on our review of the Trust's Annual Report and AGS we are satisfied that they are consistent with the audited financial statements. We are satisfied that the AGS meets the requirements set out in the NHS foundation trust annual reporting manual 2016/17 and associated guidance.

Controls

Roles and responsibilities

The Trust's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Trust.

Findings

Our work has not identified any control weaknesses which we wish to highlight for your attention.

Further details are provided within section two of this report.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Trust had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Further details of our work on other statutory powers and duties is set out in section four of this report.

Quality Report

We have completed our limited assurance procedures on the Trust's Quality Report, based on the 'Detailed requirements for external assurance for quality reports for foundation trusts 2016/17.' We have provided a separate report to the Trust's Council of Governors setting out our results and conclusions and planned limited assurance opinion.

The way forward

Matters arising from the financial statements audit and our review of the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Chief Finance Officer.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Chief Finance Officer and the finance team.

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
May 2017

Section 2: Audit findings

01. Executive summary

02. Audit findings

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Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK and Ireland) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £2.4m (being 2% of the group’s gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £122k. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate.

Balance/transaction/disclosure	Explanation	Materiality level
Related party transactions	The Trust conducts its business using public funds as such the related party disclosures ensure that the Trust discloses in full any transactions that have occurred with related parties.	£20,000
Disclosures of senior manager salaries and allowances in the remuneration report	Due to public interest in these disclosures and the statutory requirement for them to be made.	£5,000

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>The revenue cycles include fraudulent transactions (Improper income recognition) Under ISA (UK and Ireland) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>For this Trust, we have concluded that the greatest risk of material misstatement relates to the:</p> <ul style="list-style-type: none"> a) Occurrence of operating income from patient care activities and existence of associated receivables balances.; and b) Occurrence of other operating income including Sustainability and Transformation Fund (STF) income and existence of associated receivables balances <p>These are described in more detail below:</p> <p>This also addresses the presumed risk</p>	<p>As part of our audit work we have;</p> <ul style="list-style-type: none"> • Documented our understanding of management's controls over revenue recognition • Reviewed and tested revenue recognition policies • Tested material revenue streams including: <ul style="list-style-type: none"> - Agreeing a sample of contractual income to contract documentation - Agreeing a sample of contractual adjustment revenues to receipt or correspondence from the paying entity - Agreeing a sample of year-end receivables to supporting documentation and after date receipt - Agreeing Monitor Agreement of Balances (AoB) tool 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1	<p>a) Occurrence of operating income from patient care activities and existence of associated receivables balances</p> <p>Occurrence of income from patient care activities and associated receivables</p> <p>97% of the Group's income is derived from contracts with NHS commissioners for patient care activities. 80% of the Group's income from patient care activities is derived from contracts with the Trust's main commissioners. These contracts include the rates for and level of patient care activity to be undertaken by the Trust.</p> <p>The Trust recognises income from patient care activity during the year based on the completion of these activities. Patient care activities provided that are additional to those incorporated in the contracts with NHS commissioners, are subject to verification and agreement by the NHS commissioners. As such, there is the risk that income is recognised for these additional services that is not subsequently agreed to by the NHS commissioners.</p> <p>We therefore identified occurrence of income from patient care activities and the existence of associated receivables as a significant risk requiring special audit consideration.</p>	<p>Our audit work included, but was not restricted to:</p> <ul style="list-style-type: none"> evaluating the group's accounting policy for recognition of income from patient care activities for compliance with relevant accounting standards and guidance; gaining an understanding of the Trust's system for accounting for income from patient care activities and evaluating the design of the associated controls; agreeing, on a sample basis, amounts recognised as income from patient care activities in the financial statements to signed contracts, contract variations and invoices or supporting documentation, and associated receivables at year end to subsequent cash receipts or alternative evidence; obtaining an exception report from the Department of Health (DoH) that details differences in reported income and expenditure; and receivables and payables between NHS bodies; agreeing the figures in the exception report on a sample basis to the Trust's financial records; and for differences calculated by the DoH as being in excess of £250,000, obtaining corroborating evidence to support the amount recorded in the financial statements by the Trust. <p>The group's accounting policy for income, including its recognition, is shown in note 1.2 to the financial statements and related disclosures are included in notes 3 and 22.</p>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p> <p>Our review of the exception report from the Department of Health identified the following:</p> <p>The Trust is showing income that is £370k lower than the corresponding expenditure with the North West specialist commissioning hub.</p> <p>The Trust is showing a receivable which is £522k higher than the corresponding payable with the North West specialist commissioning hub.</p> <p>The Trust has supplied evidence supporting the figure that it has included in its accounts.</p> <p>The Trust is showing a payable that is £452k higher than the corresponding receivable by the Royal Liverpool and Broadgreen University Hospitals NHS Trust. The Trust has provided evidence for the figure that it has included in its accounts.</p>

Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1	<p>b) Occurrence of other operating income and the existence of associated receivables</p> <p>9% of the Group's operating income is from non-patient care sources.</p> <p>The Trust's other income includes £2,728,000 from the national Sustainability and Transformation Fund (the 'Fund'). Eligibility for income from the Fund is determined based on the Trust meeting quarterly financial targets agreed with NHS England. Income is paid quarterly in arrears, when the Government bodies (including the Department of Health, HM Treasury, NHS Improvement and NHS England) verify the Trust's achievement of these financial targets. At the year-end, income from the Fund for the final quarter is accrued before the achievement of the financial target has been verified. As such, there is the risk that income is recognised in the final quarter of the year may be misstated.</p> <p>The Trusts other operating income also includes £3,943,000 from a wide variety of sources such as sales of good and services to other trusts, staff recharges and pharmacy sales.</p> <p>We identified the occurrence of other operating income as a significant risk requiring special audit consideration</p>	<p>Our audit work included, but was not restricted to:</p> <ul style="list-style-type: none"> evaluating the group's accounting policy for recognition of other operating income for compliance with relevant accounting standards and guidance; gaining an understanding of the Trust's system of accounting for other non-patient care services income, and evaluating the design of the associated controls; agreeing income for the first three quarters of the year from the Fund recognised in the financial statements to cash receipts; assessing the validity of the income and associated receivables relating to the fourth quarter; agreeing the total income from the Fund, (including incentive and bonus payments, and additional income from the final distribution) to communications from NHS England; agreeing for the remaining population of other operating income, on a sample basis, amounts recognised in income in the financial statements to supporting evidence and associated receivable balances to cash receipts and other appropriate evidence. <p>The group's accounting policy for other operating income, including its recognition, is shown in note 1.2 to the financial statements and related disclosures are included in notes 4 and 22.</p>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>

Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
2.	Management override of controls Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.	As part of our audit work we have completed <ul style="list-style-type: none"> • Review of entity controls • Review of prior year accounting estimates, judgements and decisions made by management • Review of current year accounting estimates, judgements and decisions made by management • Testing of journals entries 	Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgements.
3.	Valuation of property, plant and equipment 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.	As part of our audit work we have completed: <ul style="list-style-type: none"> • Review of management's processes and assumptions for the calculation of estimates • Review of the competence, expertise and objectivity of any management expert used • Review of the instructions issued to valuation experts and the scope of their work • Review of how the valuation is carried out by the valuer. • Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding • Testing of revaluations made during the year to ensure they are input correctly into the Trust's asset register 	Our audit work has not identified any significant issues in relation to the valuation of PPE.

Audit findings against other risks continued

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	<p>Payroll expenditure (staff and directors costs) represents a significant percentage of the Trust's operating expenses.</p> <p>We identified completeness of payroll expenditure as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Employee remuneration accruals understated (Remuneration expenses not correct) 	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> Documented our understanding of management's controls over employee remuneration Reviewed and tested employee remuneration policies Reviewed 12 months of reconciliations from payroll to general ledger Completed analytical review of employee remuneration costs Reconciled total payroll costs from the accounts to the payroll system Reviewed any large or unusual payments Sample tested payments made to employees during 2016/17 Sample tested payments made in the new year for completeness 	<p>Our audit work has not identified any significant issues in relation to employee remuneration.</p>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)



Audit findings against other risks continued

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	<p>Non-pay expenses on other goods and services also represents a significant percentage of the Trust's operating expenses. Management uses judgement to estimate accruals of un-invoiced staff costs.</p> <p>We identified completeness of non- pay expenses as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> • Creditors understated or not recorded in the correct period (Operating expenses understated) 	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • Documented our understanding of management's controls over expenditure recognition • Reviewed and tested expenditure recognition policies • Sample tested non-pay expenditure streams throughout the year • Reviewed accounts payable listing and sample tested after-date payments for unrecorded liabilities • Reviewed the process for identifying year-end accruals to identify potential unrecorded liabilities • Reviewed any provisions made in respect of our understanding of liabilities from our review of minutes 	Our audit work has not identified any significant issues in relation to operating expenses
Group Accounts	The Trust prepared consolidated group accounts despite the balances being quantitatively immaterial to the group. They are consolidated based on control. Therefore the level of response required is Analytical	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • Reviewed the consolidation schedule 	Our audit work has not identified any significant issues in relation to preparation of the group accounts

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies and key estimates and judgements made and included in the Trust's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<p>Accounting policy 1.2 to the accounts confirms that:</p> <ul style="list-style-type: none"> Income in respect of services provided is recognised when, and to the extent that, performance occurs and is measured at the fair value of the consideration receivable. The main source of income for the trust is contracts with commissioners in respect of health care services. Where income is received for a specific activity which is to be delivered in a subsequent financial year, that income is deferred. Income from the sale of non-current assets is recognised only when all material conditions of sale have been met, and is measured as the sums due under the sale contract. The Trust follows IAS 18 in respect of revenue recognition Revenue is recognised based on when it is earned rather than received 	The Trust's accounting policy is in line with the template accounting policies for Foundation Trusts and is appropriate to the Trust's circumstances.	
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include: <ul style="list-style-type: none"> Useful life of PPE Revaluations Impairments Provisions Accruals 	Our audit work has not identified any issues in respect of the judgements and estimates made by management that we need to report to you.	

Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Going concern	The Directors have a reasonable expectation that the services provided by the Trust will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Directors' assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	●
Other accounting policies	The Trust has adopted the standard accounting policies as set out in the NHS Foundation Trust Annual Reporting Manual.	Our review of the accounting policies against required disclosures identified no issues.	●

Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Trust which is included in the Audit Committee papers
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation request for the Group to their banking establishments. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
6.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.

Other communication requirements continued

	Issue	Commentary
7.	Auditable elements of Remuneration and Staff Report	<ul style="list-style-type: none"> We are required to give an opinion on whether the part of the Remuneration and Staff Report subject to audit has been prepared properly in accordance with the requirements directed by the Secretary of State with the consent of the Treasury. We have audited the elements of the Remuneration and Staff report , as required by the Code. We are proposing an unqualified report.
8.	Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <p>We have not identified any issues we would be required to report by exception in the following areas</p> <ul style="list-style-type: none"> If the Annual Governance Statement does not meet the disclosure requirements set out in the NHS foundation trust annual reporting manual or is misleading or inconsistent with the information of which we are aware from our audit The information in the annual report is materially inconsistent with the information in the audited financial statements or apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group/Trust acquired in the course of performing our audit, or otherwise misleading. We have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider that the Annual Report is fair, balanced and understandable The annual report does not appropriately disclose matters that were communicated to the Audit Committee which we consider should have been disclosed.
9.	Review of accounts consolidation schedules and specified procedures on behalf of the DH group auditor	<ul style="list-style-type: none"> We are required to give a separate audit opinion on the Trust accounts consolidation schedules and to carry out specified procedures (on behalf of the NAO) on these schedules under the DH group audit instructions . In the group audit instructions the Trust was selected as a non-sampled component. We are completing our procedures on the Trust's accounts consolidation schedule. We do not anticipate there being any unadjusted inconsistencies between the financial statements and the accounts consolidation schedules which we are required to report in our opinion on the consolidation schedules.

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	<ul style="list-style-type: none"> Review the operating expenditure reports received from SBS to improve the matching of dr and cr balances. Review all other management information reports from SBS to ensure they are fit for purpose. 	<ul style="list-style-type: none"> Management have reviewed the types of reports available and while the matching of debit and credit balances can not be better matched the information produced for audit has removed a significant number of these.
2.	✗	<ul style="list-style-type: none"> Ensure each member of staff has a signed contract agreeing terms and conditions. 	<ul style="list-style-type: none"> Our sample testing identified six members of staff without a signed contract. In all cases supplementary information was available to confirm the member of staff was a valid employee.
3.	✓	<ul style="list-style-type: none"> We have recommended that the Trust expand it's going concern disclosure to include some of the more significant assumptions/presumptions contained within it. 	<ul style="list-style-type: none"> Management have taken a paper to the board which considers the key issues that the Board should consider as part of their going concern disclosures.

Assessment

- ✓ Action completed
- ✗ Not yet addressed

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type		Account balance	Impact on the financial statements
1	Misclassification	Note 34.2 Financial Instruments	The classification of the charity investment asset has been amended to 'Available for Sale' rather than 'Loans and Receivables'
2	Disclosure	Note 5.1 Audit Fees	The audit fee in note 5.1 did not originally include VAT.
3	Disclosure	Note 39 Related Party Transactions	The note has been amended following changes arising from the agreement of balances exercise and to include some omitted bodies.

Section 3: Value for Money

01. Executive summary

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Background

We are required by Schedule 10 to the National Health Service Act 2006 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

The Act and the Code only require us only to report by exception where we are not satisfied that Foundation Trusts have proper arrangements in place to secure value for money. However, we are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Trust.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 identifies one single 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.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in February 2017 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated February 2017.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Trust's arrangements for delivering economy, efficiency and effectiveness.

We have 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 good financial planning and reporting arrangements in place
- The level of challenge via “confirm and challenge” meetings
- The CIP improvement group
- The integration of risk management framework
- The culture of openness and transparency at the Trust
- The recognition for the need for transformational change

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on page 28.

Overall conclusion

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

- the Trust had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

We only report by exception in our auditors' report where we give a qualified conclusion. The text of our report, which confirms this under the 'matters on which we report by exception' section, can be found at Appendix B.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
Financial outturn and sustainability The Trust forecasted that it would incur a deficit in 2016/17 of £0.9 million including receipt of £2.2 million of STF monies.	<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 2016/17, including the impact on service delivery.</p> <p>We have reviewed the Trust's arrangements for agreeing, monitoring and updating its sustainability and operational plans, and for communicating key findings to the Board and Finance Committee.</p>	<p>The Trust have good financial reporting arrangements in place; it monitors and reports its performance against plans on a monthly basis.</p> <p>The Trust reported a deficit of £901,000 which was £27,000 better than its control total and secured £2.2 million of STF. It delivered £2.5 million recurrent cost improvements against a target of £3.7 million, the shortfall being bridged by non-recurrent measures of £0.96 million while more robust recurrent measures were developed. A high proportion of CIPs required for 2107/18 had been identified in February 2017 but 27% of schemes in Medicine were identified as high risk and needed further work. The Trust has a good understanding of the financial implications associated with the decisions it takes.</p> <p>The Trust is committed to recovering all outstanding debts which again is reported to the Board. The Trust recognises and is looking to improve their arrangements for understanding service level costs.</p> <p>The MTFP projects a surplus in 2017/18 as the Trust benefits from the change in tariffs.</p> <p>We concluded that there were no significant weaknesses in the Trust's arrangements for planning finances to support its strategic priorities and in using reliable financial information to support informed decision making. The Trust is aware of the challenges ahead and is taking steps to address them</p>

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 4: Other statutory powers and duties

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

We set out below details of other matters which we, as auditors, are required by the Act and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	Referral to the regulator	<ul style="list-style-type: none">We have not identified any issues which we need to refer to the regulator
2.	Public interest report	<ul style="list-style-type: none">We have not identified any matters that would require a public interest report to be issued

Section 5: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

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

Fees

	£
Foundation Trust audit	49,500
Total audit fees (excluding VAT)	49,500

Independence and ethics:

- Ethical Standards and ISA (UK and Ireland) 260 require us to give you timely disclosure of matters relating to our independence. We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements.
- We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Fees for other services

Service	Fees £
Audit related services	
Assurance on your quality report	7,000

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

Section 6: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	✓	✓

ISA (UK and Ireland) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the document on the Roles and Responsibilities of the National Audit Office (NAO) and local auditors issued by the NAO (<https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Role-of-NAO-and-local-auditors.pdf>)

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Trust's key risks when reaching our conclusions under the Code.

It is the responsibility of the Trust to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Trust is fulfilling these responsibilities.

Appendix

A. Audit Opinion

Appendix A: Audit opinion

We anticipate we will provide the Group with an unmodified audit report



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