Annual Audit Letter 2016-17

Mid Yorkshire Hospitals NHS Trust

20 July 2017

Contents

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This report is addressed to Mid Yorkshire 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 Clare Partridge, 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 Mid Yorkshire 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.

In the letter we highlight areas of good performance and also areas where the Trust needs to improve performance. 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 A.

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	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. 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.
Value for Money (VFM) arrangements	We conclude on the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the Trust's use of resources.

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 and Governance 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;
- A review of general IT controls in place at the Trust highlighting any control weaknesses and areas for improvement; and
- Building a strong and effective working relationship with Internal Audit to maximise assurance to the Audit and Governance Committee, avoid duplication and provide value for money.

Introduction (cont.)

Fees

Our fee for the audit was £71,072 plus VAT (£71,072 in 2015-16). This fee was in line with that highlighted within our audit plan agreed by the Audit and Governance Committee in March 2017. Our fee for the external assurance on the quality accounts was £10,000 plus VAT (£10,000 in 2015-16). We have not completed any further non-audit work at the Trust during the year.

Acknowledgement

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

Headlines

Headlines

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

Value for Money (VFM) conclusion	We are required to report to you if we are not satisfied that the Trust has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Based on the findings of our work, we have concluded that the Trust has adequate arrangements to secure economy, efficiency and effectiveness in its use of resources, except for the following: — Financial Sustainability: the Trust incurred a deficit of £7.9 million in 2016-17 and had a cumulative deficit of £121.9 million as at 31 March 2017. The Trust has set a deficit budget of £2.3 million for 2017/18 which includes a cost improvement programme target of £24.7 million, and the Trust does not have sufficient cash to meet its commitments without receiving significant external funding.
Value for Money conclusion risk areas	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. Our risk assessment identified a significant risk relating to financial resilience and delivery of the cost improvement programme (CIP). Key findings from our work were as follows: — The Trust recorded a deficit position for 2016-17 of £7.9 million. The final outturn for 2016-17 included £3.9 million transitional support funding and £11.9 million sustainability and transformation funding. The deficit position for 2016-17 without these two exceptional funding items would have been £23.7 million. The CIP target was £26.0 million and £16.7 million was delivered in 2016-17. The deterioration in the Trust's financial outturn year-on-year was largely due to unplanned increases in expenditure (particularly relating to agency staff costs), the underachievement of the cost improvement programme (CIP), and a shortfall of £4.8 million of sustainability and transformation funding. — The Trust's 2017/18 financial plan forecasts a deficit of £2.3m, after sustainability transformation funding of up to £13.5 million. One of the key challenges going forward is delivering the full CIP target of £24.7m. — Due to a combination of systemic issues, rising demand and financial constraints, the Trust has struggled to hit key national performance targets over the past two years. Operating in a deficit position, with resources severely constrained, makes it difficult for the Trust to put in place measures to remediate these issues. The issues set out above are evidence of the need to improve arrangements for managing finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. On the basis of our work, we gave an except for conclusion in relation to the Trust's arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.
Financial Statements audit opinion	— We issued an unqualified opinion on the Trust's accounts on 26 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. — There were no unadjusted or adjusted audit differences. We reported one unadjusted presentational item as the Trust had not disclosed the name and qualifications of the external valuer, as required by paragraph 7.1.12 of the Financial Reporting Manual. — There were no significant matters which we were required to report to 'those charged with governance'.

Headlines (cont.)

Financial statements audit work undertaken	
Financial statements audit work undertaken	— 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 £6 million (2015-16: £6 million). — We identified the following risk of material misstatement in the financial statements as part of our External Audit Plan 2016-17: — *Valuation of Land and Buildings* - In 2016-17, the Trust did not commission a full revaluation of its land and building assets, it incorporated the use of Modern Equivalent Asset (MEA) valuation to its Hospital Building Assets as agreed with the NHSI on its opening balances as at 1 April 2016. We assessed the competence, capability, objectivity and independence of the Trust's external valuer and considered the information provided to the Trust in 2016-17, to inform its assessment of market value movements. We agreed the information provided by the valuer to underlying Trust records of the estate held. This included the Trust's application of MEA valuations and considered the reasonableness and practicality of the design and location of the hospital for the delivery of healthcare. We considered the adequacy of the disclosures about the key judgements and degree of estimation involved in arriving at the value of land and buildings as at 31 March 2017. Our valuation specialist reviewed the output from the external valuer and was comfortable with the approach taken by the Trust in incorporating the use of MEA valuation. — *Valuation of NHS Income and Receivables* – Our work focused on the accuracy and existence of NHS income and NHS receivables and we reviewed the information provided by the Trust as part of the 2016-17 Agreement of Balances (AoB) exercise to ensure it was consistent with the information in the accounts. We identified three income mismatches that were above the National Audit Office reporting threshold of £250k and we were satisfied that the Trust had recognised the correct amounts in its accounts. — *Fraudulent Revenue Recognition*: Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. Total operating revenue per the accounts was £504 million, of which NHS revenue from patient care activities was £445 million. Our work on NHS Income and Receivables, as set out above, addressed the risk of fraudulent revenue recognition in relation to this area of income. The remaining Income balance was £59 million and key items within this income stream included £11.9 million sustainability and transformation funding; £3.9 million of support funding; £8.3 million local authority contracts; and £15.0 million relating to education training and research. Our testing did not identify any issues. — *Management Override of controls*: Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. Our audit procedures included testing of journal entries, accounting estimates and significant transactions outside the normal course of business, and no instances of fraud were identified.

Headlines (cont.)

Annual Governance Statement	— 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.
Recommendations	— We did not raise any high risk recommendations as a result of our audit work in 2016-17. — We followed up 8 recommendations raised in 2015-16 and noted 6 had been implemented. One recommendation in relation to the delivery of the cost improvement programme was ongoing and the recommendation relating to Register of Interests was raised again in 2016-17.
Public Interest Reporting	— 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. This includes a duty under the Local Audit and Accountability Act 2014 to refer the matter to the Secretary of State if we have a reason to believe that the Trust, or an officer of the Trust, is about to make, or has made, a decision involving unlawful expenditure, or is about to take, or has taken, unlawful action likely to cause a loss or deficiency. — On 17 May 2017 a draft referral was submitted to PSAA and following confirmation, the final referral was submitted on 21 May 2017 to the Secretary of State under section 30b of the Local Audit and Accountability Act 2014 in respect of the Trust's failure to achieve its statutory break even duty.

Appendices

Appendix A

Summary of our reports issued

2017

January

February

March

April

May

June

July

August

September

October

November

December

Audit Plan (March 2017)	The Audit Plan set out our approach to the audit of the Trust's Value for Money arrangements and Financial Statements (including the Annual Governance Statement).
Audit Report (May 2017)	The Audit Report provides our audit opinion for the year, the Value for Money conclusion, and our Audit Certificate.
Report on Quality Accounts (May 2017)	This Report confirms the findings of our work in regard to the Trust's Quality Accounts and the indicators selected for review.
Audit Highlights Memorandum (May 2017)	The Audit Highlights Memorandum provides details of the results of our audit for 2016-17 including key issues and recommendations raised as a result of our observations. We also provided the mandatory ISA260 declarations as part of this report.
Annual Audit Letter (July 2017)	This Annual Audit Letter provides a summary of the results of our audit for 2016-17.