Norfolk Community Health and Care NHS Trust

Annual Audit Letter for the year ended 31 March 2015

July 2015

Ernst & Young LLP

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The Board of Directors
Norfolk Community Health and Care NHS Trust
Elliott House
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31 July 2015

Dear Board members,

Annual Audit Letter 2014-15

The purpose of this Annual Audit Letter is to communicate to the Directors of Norfolk Community Health and Care NHS Trust (the Trust) and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work in our 2014-15 annual results report to the Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this Letter.

The matters reported here are the most significant for the NHS Trust.

We would like to take this opportunity to thank the NHS Trust staff for their assistance during the course of our work.

Yours faithfully

Neil A Harris
For and on behalf of Ernst & Young LLP
Luton
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Relevant parts of the Audit Commission Act 1998 are transitionally saved by the Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015 for 2014/15 audits.

The Audit Commission's 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the accountable officer of each audited body and via the Audit Commission's website.

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Executive summary

We undertook our 2014-15 audit work in accordance with the Audit Plan that we issued on 28 November 2014. We conducted our audit in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Trust is responsible for preparing and publishing its statement of accounts, annual report and annual governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- Expressing an opinion on:
  - the 2014-15 financial statements;
  - the parts of the remuneration report to be audited;
  - the consistency of other information published with the financial statements, including the annual report; and
  - whether the summarisation schedules are consistent with the Trust's financial statements for the relevant reporting period.
- Reporting by exception:
  - if the annual governance statement does not comply with Department of Health guidance or is not consistent with our understanding of the Trust;
  - to the Secretary of State for Health if we have concerns about the legality of transactions of decisions taken by the Trust; and
  - any significant matters that are in the public interest.
- Forming a conclusion on the arrangements the Trust has in place to secure economy, efficiency and effectiveness in its use of resources.
- Reporting to the National Audit Office (NAO) on an exception basis any significant issues or outstanding matters arising from our work which is relevant to the NAO as group auditor.

Summarised below are the results of our work across all these areas:

Area of work	Result
Opinion on the:	
Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Trust as at 31 March 2015 and of its expenditure and income for the year then ended
Parts of remuneration report to be audited	No matters to report – the Trust prepared the remuneration report properly within the rules set.

Opinion on the:

Consistency of the annual report and other information published with the financial statements	Financial information in the annual report and published with the financial statements was consistent with the annual accounts
Reports by exception:	
► Consistency of annual governance Statement	The annual governance statement was consistent with our understanding of the Trust
► Referrals to the Secretary of State	No matters to report
► Public interest report	No matters to report in the public interest.
Value for money conclusion	We issued an unqualified value for money conclusion
Reporting to the Trust on its summarisation schedules	We concluded that the Trust's summarisation schedules agreed to the audited financial statements except for a £1.6 million difference within the 2013/14 opening balances for financial instruments. The difference arose because of a locked cell within the summarisation schedule preventing the required prior period amendment. The Trust notified the Trust Development Authority, who accepted the reason for the difference and its inclusion in our opinion. This issue has no impact on the financial position of the Trust.
Reporting to the National Audit Office (NAO) in line with group instructions	We reported to the NAO the £1.6 million inconsistency within the 2013/14 opening balances for financial instruments as highlighted within the report on the summarisation schedules. This issue has no impact on the financial position of the Trust.

As a result of the above we have also:

Issued a report to those charged with governance of the Trust communicating significant findings resulting from our audit.	Audit results report issued on 1 June 2015
Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.	Issued on 4 June 2015

2. Key findings

2.1 Financial statement audit

The annual report and accounts is an important tool for the Trust to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Trust's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and issued an unqualified audit report on 4 June 2015.

We reported our detailed findings to the 4 June 2015 Audit Committee.

The Trust produced its accounts by the 23 April 2015 deadline. We consider the Trust's processes for producing the accounts, including the supporting working papers, were very good. The main issues identified as part of our audit were:

- **Significant risk 1: Risk of fraud in revenue recognition and management override of controls**

- The Trust faces continuing financial pressures because of reduced external funding and is also seeking to achieve Foundation Trust status with associated targets. This increases the pressure on management to achieve financial targets and presents a risk of fraud in accounting for revenue within the financial statements.
- We have completed testing as set out in our Audit Plan, which included:
  - testing the appropriateness of journal entries;
  - reviewing accounting estimates for evidence of management bias;
  - evaluating reasons for significant unusual transactions;
  - identifying fraud risks during the planning stages; and
  - determining an appropriate strategy to address those identified risks of fraud such as undertaking more detailed work on testing to make sure the Trust had allocated transactions to the correct year.
- We have no significant issues to report from the work undertaken.

- **Other key findings: Non-current asset register and depreciated assets**

- Our 2013/14 audit found weaknesses in the Trust's non-current asset register in the presentation of information and the ease of agreement with the underlying records. Our 2013/14 audit results report highlighted the register also included assets valued at £6.7 million (including former community equipment store assets to the value of £3.8 million now in patients' homes) which are fully depreciated but still in use. These assets are in the Trust's accounts at nil net book value. A risk exists that some of these assets are obsolete
- During 2014/15, management improved the presentation of information within the non-current asset register.
- Management also undertook an exercise to determine those assets which are unlikely to be returned to the Trust and those other assets that are no longer in use. Management has updated the narrative in Note 14.1 to disclose the total value written out of the financial statements as £5.1 million, split between patient loan assets in the community (£3.8 million) and other categories (£1.3 million) of fully depreciated assets.

Management agreed one amendment above our tolerable error of £1.339 million.

In 2013/14 management included £1.6 million for goods received not invoiced within Note 23: Non-NHS payables - revenue. For 2014/15, our audit identified that management recorded the equivalent figure of £1.2 million within Non-NHS accruals and deferred income. The Trust amended the 2014/15 financial statements on the basis that payables are recorded on receipt of an invoice.

To achieve consistency of treatment, management re-classified £1.6 million in 2013/14 from Non-NHS payables – revenue to Non-NHS accruals and deferred income. The re-classification also impacts on Note 27.3 financial liabilities within financial instruments. The Trust marked the disclosure notes as restated and provided an explanation for the restatement.

This amendment is a classification error within the disclosure note and does not impact on the Statement of Financial Position within the financial statements.

2.2 Value for money conclusion

We carry out sufficient and relevant work to conclude whether the Trust has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This is known as our value for money conclusion.

In accordance with guidance issued by the Audit Commission, our 2014-15 value for money conclusion was based on two criteria. We consider whether the Trust had proper arrangements in place for:

- Securing financial resilience; and,
- Challenging how it secures economy, efficiency and effectiveness

We issued an unqualified value for money conclusion on 4 June 2015. We noted the following issues as part of our audit.

Key finding 1: Financial resilience

- The Trust recorded a £2.7 million retained surplus in 2014/15 against its target of £1.8 million. This compares with retained surpluses of £3.1 million in 2013/14 and £2.7 million in 2012/13. The Trust reported a cumulative surplus of £11.1 million.
- The Trust revised its target surplus from £1.8 million to £2.6 million. This primarily arose as the commissioners agreed not to fine the Trust for breaches of waiting times. This resulted in a £0.5 million improvement in the Trust’s forecast outturn surplus in February 2015.
- In achieving the surplus, the Trust reported recurrent Cost Improvement Plan (CIP) savings of £3.6million against its target of £5.5million, a shortfall of £1.9 million. The Trust also had in-year cost pressures of £1.9 million. In addressing both the CIPs shortfall and the cost pressures, the Trust achieved its surplus through non-recurrent means by the use of £1.3 million reserves and £4.0 million vacancy savings.
- We have reviewed financial resilience by considering the Trust’s financial position and modelling the Trust’s shortfall in CIPs to consider the impact on future surpluses. In addition, we have also considered the findings of reports by the Care Quality Commission (CQC), PWC (through a tender exercise organised by the Trust) and the Trust Development Authority (TDA) relevant to the Trust’s level of vacancies and governance arrangements for CIP delivery.
- Based on the Trust’s past record and cumulative surpluses and modelling tool, we do not have immediate concerns regarding financial resilience for 2014/15 and beyond.
- We have concluded that the Trust has good financial planning and reporting through its regularly updated Integrated Business Plan and Financial Strategy. The documents include scenario planning, including the potential outcome of tenders for future contract arrangements, financial risks and relevant assumptions.

- For 2015/16, management is forecasting a £1.3 million surplus for reporting purposes. The technical surplus will be £0.2 million, after allowing for a £1.1 million technical adjustment for the loss on the sale of surplus assets to the Department of Health.
- Achieving this surplus again depends on delivery of the Trust’s CIPs. The Trust forecasts it needs to achieve £23 million recurrent CIPs from 2015/16 to 2019/20 to meet its surplus targets. The 31 May 2015 forecast outturn for 2015/16 shows the Trust delivering £4.5 million CIPs against a 2014/15 target of £6.9 million. The Trust needs to bridge this £2.4 million gap and in particular, of this sum, the £2.1 million unidentified CIPs.
- Management has acknowledged that should it not be able to identify recurrent schemes to bridge the £2.4 million gap, non-recurrent means will be needed to make up the shortfall as identified through its financial strategy. Until plans are developed, this could include the planned use of the Trust's contingency reserve of £2.0m.
- However, the use of non-recurrent funds to achieve surpluses is unsustainable. The Board needs to continue to take robust action to:
  - reduce the Trust’s dependence on non-recurrent means; and
  - meet its recurrent CIP target for 2015/16 and in the medium term.
- The Board will also need to understand the impact of recent major tender exercises on its financial strategy, once contract negotiations have been completed.

2.3 Department of Health group instructions

Reporting to the Department of Health and the National Audit Office

The Department of Health amended the group reporting instructions this year. The new instructions required us to report to the National Audit Office (NAO) only on an exception basis if there were significant issues or outstanding matters arising from our work.

We concluded that the Trust’s summarisation schedules agreed to the audited financial statements except for a £1.6 million difference within the 2013/14 opening balances for financial instruments.

The difference arose because of a locked cell within the summarisation schedule preventing the required prior period amendment. The Trust notified the Trust Development Authority, who accepted the reason for the difference and its inclusion in our opinion.

This issue has no impact on the financial position of the Trust.

Agreement of balances between public sectors bodies

Mismatches of debtors, creditors, income and expenditure account balances between public sectors bodies continue to have a high profile nationally from the Department of Health. Following audit work, management undertook a further detailed review of its summarisation schedules which records these mismatches.

The Trust revised its schedules as a result, identifying one material mismatch with NHS England for income received. The exercise showed that the variance increased from £2.1 million as originally identified to £3.4 million.

We undertook work to agree the income received by the Trust from NHS England to contracts. In addition, as a result of further enquiries, NHS England wrote to the Trust to confirm that they had misclassified the income. The remaining differences with other audit bodies did not warrant further audit work.

The corrected revisions to the summarisation schedules have not impacted on the Trust’s reported position or main financial statements.

2.4 Annual Governance Statement

We are required to consider the completeness of disclosures in the Trust's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with relevant guidance.

We completed this work and identified a small number of areas where we asked for further disclosure to reflect the position at the Trust. The Trust amended the annual governance statement to include:

- As a significant risk to the achievement of the Trust's future objectives the future under-delivery of recurrent Cost Improvement Plans;
- As a significant risk the three key actions arising out of the Care Quality Commission's December 2014 report to the Trust;
- The Head of Internal Audit's opinion as set out in the final Internal Audit 2014/15 report on the Trust.

3. Control themes and observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We report matters limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported.

We have not identified any significant deficiencies in the design or operation of an internal control in 2014/15 that might result in a material error in your financial statements.

4. Fees

Our Audit Plan issued on 28 November 2014 recorded a planned audit fee of £58,402 in line with the Audit Commission's scale fee for the audit. At present, our actual fee is in line with the agreed fee.

	Final fee 2014-15	**Planned fee 2014-15**	**Scale fee 2014-15**	**Final fee 2013-14**
Total Audit Fee – Code work	***To be confirmed**	£58,402	£58,402	£60,142
Non-audit work: Sure Start Expenditure	**To be confirmed	£9,000 – £11,000	Not Applicable	£9,000

* We indicated in our June 2015 audit results report that we undertook unplanned work in completing our audit which may result in an extra audit fee. Should a variation to the audit fee be agreed with the Director of Finance and the Public Sector Audit Appointments Ltd., we will inform the Audit Committee at a later date.

** So far, we have not undertaken any non-audit work for the Trust during 2014/15. However, in 2012-13 and 2013-14, the Trust engaged Ernst and Young LLP to report on sure start expenditure and whether it reflected sure start activities in line with the Trust's contract with Norfolk County Council. We undertake the work under a separate engagement in line with agreed upon procedures. The estimated fee for this work is between £9,000 and £11,000.

Should non-audit work be carried out for 2014/15 sure start expenditure, we envisage a similar fee range.

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