



# Annual Audit Letter 2018-19

**Whittington Health NHS Trust**

July 2019

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This report is addressed to Whittington Health 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.

# Introduction

## Background

This Annual Audit Letter (the letter) summarises the key issues arising from our 2018-19 audit at Whittington Health NHS Trust (the Trust). Although this letter is addressed to the Board of 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 this letter on the Trust's website. In this letter we highlight areas of good performance and also provide recommendations to help the Trust improve performance where appropriate. 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:

<b>Financial Statements including the Annual Governance Statement</b>	We provide an opinion on the Trust's financial statements. That is whether we believe the financial statements give a true and fair view of the financial affairs of the Trust and of the income and expenditure recorded during the year. We are also required to: <ul style="list-style-type: none"><li>— report by exception if the Trust has not complied with the requirements of Department of Health and Social Care (DHSC) in the preparation of its Annual Governance Statement; and</li><li>— examine and report on the consistency of the schedules or returns prepared by the Trust for consolidation into the Whole of Government Accounts (WGA) with our other work.</li></ul>
<b>Value for Money arrangements</b>	We conclude on the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the Trust's use of resources.

## Fees

Our fee for 2018-19 was £56,075 (2017-18: £51,075) excluding VAT. This fee was within the fee envelope approved by Audit Committee at the start of the audit cycle. Our fee for audit related assurance services was £10,000 (2017-18: £10,000) excluding VAT, was for the audit of the Trust's Quality accounts and was in line with the fee agreed at the start of the year with the Trust's Audit Committee.

## Acknowledgement

We thank the officers of the Trust for their continued support throughout the year.

# Headlines

This section summarises the key messages from our work during 2018-19.

<b>Financial Statements audit opinion</b>	<p>We issued an unqualified opinion on the Trust's accounts on 28 May 2019. 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.</p> <p>We reported three unadjusted audit differences that were identified as part of the audit, these relate to a transfer between intangible and tangible assets that could not be supported (£1,504k), an overstatement of an accrual relating to tangible assets (£369k) and an accrual that could not be supported (£403k). There were four adjusted audit differences, all of which related to valuation aspects of tangible assets.</p> <p>There were no significant matters which we were required to report to 'Those Charged With Governance. We provided management with detailed feedback on the quality of its annual report.</p>
<b>Financial statements audit work undertaken</b>	<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 £6.5 million (2017-18: £6.0 million).</p> <p>We identified the following significant risks of material misstatement in the financial statements as part of our External Audit Plan 2018-19:</p> <ul style="list-style-type: none"><li>— Valuation of land and buildings – The valuation of land and buildings is large, complex and judgemental. The Trust engaged a professional valuer to provide a valuation of the Trust's land and buildings which we found to be appropriate. We performed testing on the data used by the valuer and the movements in the Trust's assets and found these to be appropriate.</li><li>— Revenue recognition – Professional standards require us to make a rebuttal presumption that there is a fraud risk from recognition of revenue, we recognise this in relation to patient care income. We tested the processes and controls and the agreement of balances exercise between NHS bodies and found no exceptions.</li><li>— Management override of control – Professional standards communicate the fraud risk from management override of controls as significant. We reviewed controls and the underlying data and assumptions used in significant estimates used in the valuation of plant property and equipment and found no exceptions. We also performed testing of controls and substantive testing of journals posted and found no exceptions.</li><li>— Expenditure recognition – In the public sector, auditors also consider the risk that material misstatements may arise from the manipulation of expenditure recognition. We tested year end prepayments and accruals and found these to be appropriate.</li></ul>

# Headlines (cont.)

<b>Annual Governance Statement</b>	We confirmed that the Trust complied with DHSC requirements in the preparation of the Trust's Annual Governance Statement.
<b>Whole of Government Accounts</b>	We issued an unqualified Auditor Statement on the Consolidation Schedules prepared by the Trust for consolidation into the Whole of Government Accounts with no exceptions.
<b>Value for Money (VFM) conclusion</b>	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. We concluded that the Trust has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
<b>VFM conclusion risk areas</b>	<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 to mitigate these risks. Our work identified financial resilience as an area of audit focus.</p> <p>The Trust achieved its control total and in the financial statements recorded a surplus of £28.9 million in 2018/19. This surplus included a gain on disposal of land and buildings of £6.2 million and total PSF monies of £27.6m which included £6.2 million year end incentive bonus and £12.1 million in year incentive bonus for the Trust increasing its control total. As a result, the Trust is now recording a cumulative surplus, clearing the cumulative deficit that had existed for a number of years.</p> <p>For 2019/20, a budget has been set to deliver a control total of breakeven which includes delivering £12.3 million of Cost Improvement Programme (CIP) savings, which are all planned to be recurrent. This will be a challenging budget and the Trust will need to monitor the delivery of the CIP closely, and take appropriate action, if any slippage starts to occur.</p>
<b>Recommendations</b>	We made three recommendations including a high priority recommendation which relates to the fixed asset register and controls around it. There were also three prior year recommendations that were not implemented and require further action by management. The high priority recommendation is shown in appendix 1.
<b>Public Interest Reporting</b>	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. We did not issue a report in the public interest or refer any matters to the Secretary of State in 2018-19.

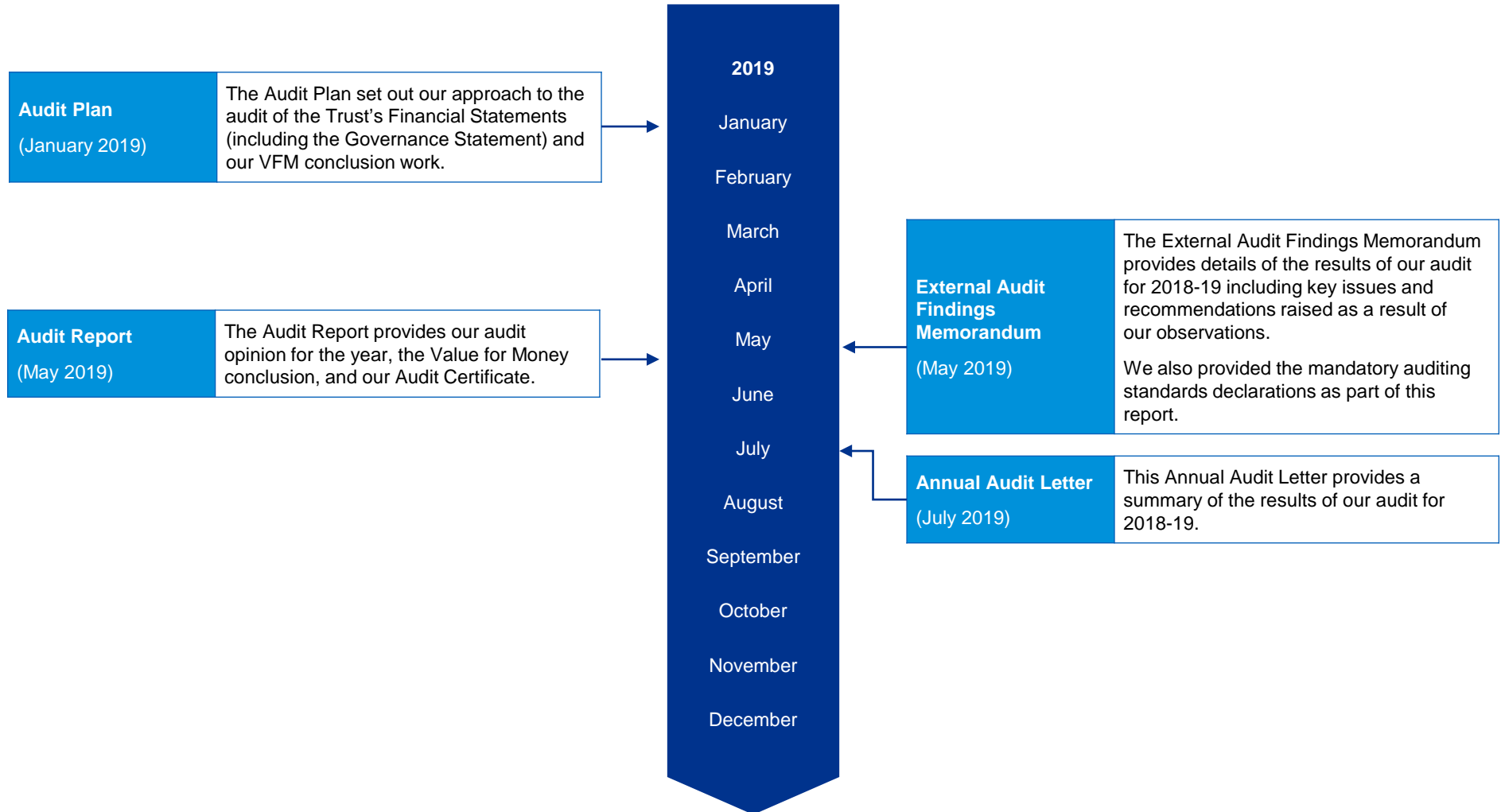
# Key recommendations

This appendix summarises high risk recommendation raised in the year

No.	Risk	Issue, impact and recommendation	Management response / responsible officer / due date
1	<p>●</p> <p>High</p>	<p><b>Fixed asset register</b></p> <p>The Trust had difficulties in reconciling its Fixed Asset Register with the General Ledger due to differences from previous years not being resolved, additions not being added to the register and adjustments to VAT not being reflected. In addition the Fixed Asset Register nor General Ledger reconciled to the valuers report for Land and Buildings.</p> <p>As previously reported there are now over £30m of fully depreciated assets, some of which may not still be in use, but which may indicate that asset lives need revisiting if assets are still in use. We were informed that a year end exercise to contact asset owners was to be undertaken to confirm assets existed but this didn't happen.</p> <p><b>Recommendation</b></p> <p>We recommend that a full in year review of the fixed asset register is undertaken to ensure it contains an accurate position on the assets owned by the Trust, assets no longer in use are removed and that robust arrangements are put in place to ensure the valuers report is accurately reflected in 2019/20 financial statements.</p> <p>A review of asset lives should also be completed to determine whether they remain appropriate.</p>	<p><b>Agreed</b></p> <p>The Trust is aware that a full exercise needs to be undertaken to reconcile the FAR.</p> <p>Head of Financial Services</p> <p>30 September 2019</p>

## Appendix B

# Summary of our reports issued





The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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