

# The Annual Audit Letter for Avon and Wiltshire Mental Health Partnership NHS Trust

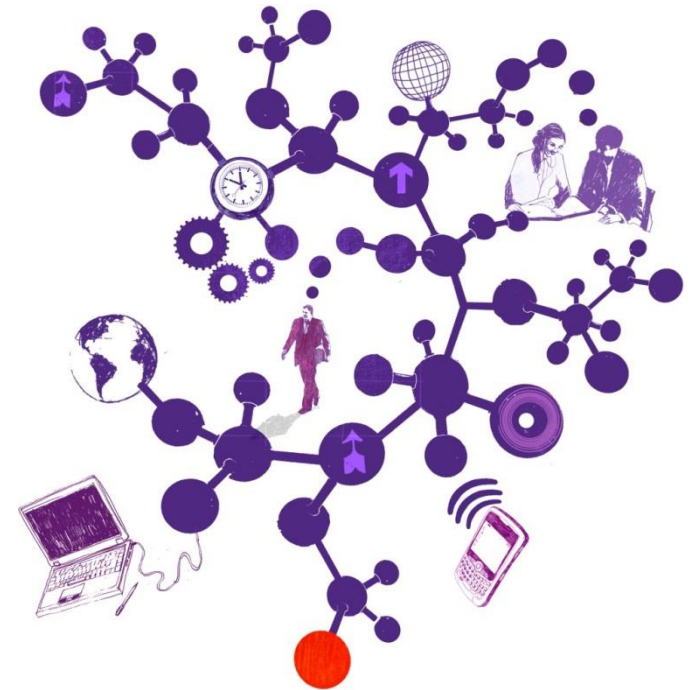
**Year ended 31 March 2015**

29 June 2015

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# Section 1: Executive summary

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# Executive summary

## **Purpose of this Letter**

Our Annual Audit Letter (Letter) summarises the key findings arising from the following work that we have carried out at Avon and Wiltshire Mental Health Partnership NHS Trust (the Trust) for the year ended 31 March 2015:

- auditing the accounts (Section two)
- assessing the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources (Section three)
- other audit and non-audit related services carried out for the Trust during the years reviewing the Trust's Quality Account (Sections four and five).

The Letter is intended to communicate key messages to the Trust and external stakeholders, including members of the public.

We reported the detailed findings from our audit work on the accounts and arrangements for securing economy, efficiency and effectiveness in its use of resources to those charged with governance in the Audit Findings Report on 22 May 2015 and reported the detailed findings from our work on the Trust's Quality Account in our separate Quality Account Report on 22 June 2015.

## **Responsibilities of the external auditors and the Trust**

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

The Trust is responsible for preparing and publishing its financial statements, accompanied by an Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money).

Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with our Audit Plan issued on 13 March 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice (the Code), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

## **Audit conclusions**

The audit conclusions which we have provided in relation to 2014/15 are as follows:

- an unqualified opinion on the accounts which give a true and fair view of the Trust's financial position as at 31 March 2015 and the Trust's income and expenditure for the year; and
- an unqualified conclusion in respect of the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources.

We also issued an unqualified limited assurance report in respect of the Trust's Quality Account in relation to this separate engagement.

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# Executive summary (continued)

## Key areas for Trust attention

There were two significant issues arising from the audit of the Trust's accounts. The first issue related to PFI lifecycle costs, which was a continuation of an issue that we first raised in 2013/14. The Trust had created a prepayment for lifecycle costs as it was continuing to pay the PFI operator (Semperian) for lifecycle costs, but Semperian did not provide evidence of actual lifecycle costs. Semperian has now provided this information and we are satisfied that the prepayment is materially correct. However, the Trust should continue to discuss lifecycle costs with Semperian as some of the costs appear to relate to revenue items, which therefore shouldn't be capitalised by the Trust.

The second issue related to the carrying value of land and buildings (including dwellings and assets under construction) as the value stated in the accounts did not agree with the estimate provided by the District Valuer. The DV confirmed that the actual values were likely to fall within a range of +/- 5% of the stated values which meant that the carrying values were reasonably stated. A full valuation exercise will be undertaken in 2015/16 by the DV which would identify more robust valuations following site inspections and will address any existing variances in the value of land and buildings currently in the accounts. However, we recommend that in the future the Trust should reflect the figures provided by the DV in the accounts.

The Trust needs to deliver £9.5 million in savings in 2015/16. This represents a significant challenge to the Trust and needs to be achieved with minimal reliance upon late, one-off cost cutting or savings initiatives. The latest finance report (May 2015) showed that the Trust was around £29,000 behind plan, but is still expected to deliver.

## Acknowledgements

This Letter has been agreed with the Director of Resources.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Trust's staff.

**Grant Thornton UK LLP**  
**June 2015**

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## Section 2: Audit of the accounts

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# Audit of the accounts

## Audit of the accounts

The key findings of our audit of the accounts are summarised below:

### Preparation of the accounts

The Trust presented us with draft accounts in accordance with the national deadline. Appropriate working papers were made available from the start of the audit fieldwork.

### Issues arising from the audit of the accounts

- There was only one material adjustment to the accounts. The Trust invoiced Bristol CCG £3.5 million, but the CCG asked for two separate invoices for £2 million and £1.5 million. The Trust raised these invoices, but in the meantime the CCG paid the original bill. The Trust therefore included £3.5 million in payables as it considered that the amount paid needed to be reimbursed and £3.5 million in receivables to reflect the two new invoices. However, these transactions were unnecessary as the original invoice had been paid.

The accounts were amended to remove the £3.5 million from both payables and receivables.

- The District Valuer (DV) provided a report to the Trust stating that the value of land, buildings, dwellings and assets under construction was £146.9 million. However, the Trust, in conversation with the DV, considered that this did not represent a material difference when compared to the carrying value reflected in the accounts of £143.7 million. We queried this with the Trust and, as a result, the Trust sought further assurance from the DV and the DV stated, in writing, that the actual values were likely to fall within a range of +/- 5% of the stated value i.e. £146.9 million. This therefore meant the figures included in the accounts were reasonably stated.

- In 2013/14 we raised some concerns about the value of the prepayment included in the accounts in relation to lifecycle costs. The main reason for the prepayment was the failure of the PFI operator (Semperian) to provide details of actual lifecycle costs as this meant that the Trust could not determine how the amount paid by the Trust to Semperian for lifecycle costs compared to the actual costs incurred. We suggested that the Trust should continue to apply pressure on Semperian to provide this information and, towards the end of 2014/15, the required information was provided. Based on this information, the current prepayment is considered to be materially correct.
- Although the prepayment is materially correct, we did note that a number of actual lifecycle costs and forecast costs for 2015/16 did not appear to be capital items e.g. repairs to equipment. The Trust capitalised all lifecycle costs. However, revenue items should be expensed. Whilst not material to the 2014/15 accounts we recommended that management should discuss the issue of PFI lifecycle costs with Semperian so that only items meeting the Trust's capitalisation criteria, as set out in the Trust's accounting policy, are capitalised.

### Annual Governance Statement and Annual Report

The annual governance statement and annual report were in line with Department of Health requirements and in line with our understanding of the Trust's arrangements.

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# Audit of the accounts

## **Conclusion**

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (defined as the Audit and Risk Committee at the Trust). We presented our report to the Audit Committee on 22 May 2015 and summarise only the key messages in this Letter.

We issued an unqualified opinion on the Trust's 2014/15 accounts on 27 May 2015, meeting the deadline set by the Department of Health (DH). Our opinion confirms that the accounts give a true and fair view of the Trust's financial affairs and of the income and expenditure recorded by the Trust.



## Financial performance 2014/15

The Trust's performance against its financial targets is set out in the table below:

	Target	Actual	Met?
Surplus/ (deficit)	Breakeven *	£750,000	Yes
Capital cost absorption rate	3.5%	3.5%	Yes
Capital resource limit	Not to exceed £6,031,000	£6,031,000	Yes
External finance limit	Not to exceed -£3,890,000	-£3,930,000	Yes

\* - Target of £750,000 agreed with the Trust Development Authority

## Looking forward

The Trust has a balanced financial plan, which required the identification of £9.5 million of savings. As at month 2, the Trust's performance is broadly in line with its plan to deliver a surplus, before impairments and IFRIC12 adjustments, of £2.031 million.

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## Section 3: Value for Money

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# Value for Money

## Value for Money conclusion

The Code describes the Trust's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VfM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code:

**The Trust has proper arrangements in place for securing financial resilience.** The Trust has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

**The Trust has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Trust is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings

### Securing financial resilience

We have undertaken a review which considered the Trust's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance
- Financial planning
- Financial control

Our work highlighted that the Trust delivered its planned surplus of £750,000 (£2.8 million before impairments and IFRIC12 adjustments) and also the planned cost improvement programme (CIP).

In 2014/15, the Trust's arrangements in setting the budget and savings plans were enhanced by the involvement of the programme management office (PMO), which was established part way through 2013/14. The PMO helped to ensure that a robust CIP was developed and, as noted above, delivered for 2014/15. This is due to the increased rigour with which the PMO monitors performance against plans.

### Challenging economy, efficiency and effectiveness

We have reviewed whether the Trust has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

Our work highlighted that the Trust is keen to use benchmarking to identify areas in which it can make savings, but despite this, the Trust's reference cost index (RCI) for 2013/14 was 127. Whilst this represents a reduction in costs, relative to other mental health trusts, the Trust's RCI is still significantly above average.

### Overall VfM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Trust put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

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## Section 4: Audit related services

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# Audit related services

## Quality Accounts

For 2014/15 the Trust is required to obtain external audit assurance on its Quality Account. In order to provide this assurance we have undertaken limited assurance procedures in accordance with guidance issued by the Audit Commission to assess whether:

- the Quality Account is prepared in all material respects in line with the criteria set out in the Regulations
- the Quality Account is consistent in all material respects with the sources specified in the *NHS Quality Accounts Auditor Guidance 2014/15* issued by the Audit Commission ('the Guidance')
- the indicators in the Quality Account identified as having been the subject of limited assurance, are reasonably stated in all material respects in accordance with the Regulations and the six dimensions of data quality set out in the Guidance.

## Key findings

We provided the Trust with a report setting out the detailed findings of our work on 22 June 2015. The key matters arising from our work are:

- the number of patients reported in the Quality Account in relation to both CPA 7 day follow up and crisis resolution gatekeeping were understated as only patients from commissioners within the Trust's boundary were counted. The impact on the reported indicators was not material;
- the Trust has defined a 'reporting period' to be a quarter and therefore the CPA 7 day follow up and crisis resolution gatekeeping indicators were only reported in the Quality Account for the quarters 3 and 4. It is our view that a 'reporting period' refers to a year and therefore the Trust should report the 2014/15 and 2015/16 performance (including the national average, highest and lowest performance) in next year's Quality Account.

## Conclusions

We provided an unqualified limited assurance opinion on the Trust's Quality Account, in accordance with requirements, on 18 June 2015.

# Appendices

# Appendix A: Reports issued and fees

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

## Fees for audit services

	Per Audit plan £	Actual fees £
Trust audit	55,575	55,575
Charitable fund audit	1,426	1,426
<b>Total audit fees</b>	<b>57,001</b>	<b>57,001</b>

## Fees for other services

Service	Fees £
<b>Audit related services</b>	
• Quality Accounts	10,000

## Reports issued

Report	Date issued
Audit Plan	March 2015
Audit Findings Report	May 2015
Quality Account Report	June 2015
Annual Audit Letter	June 2015



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