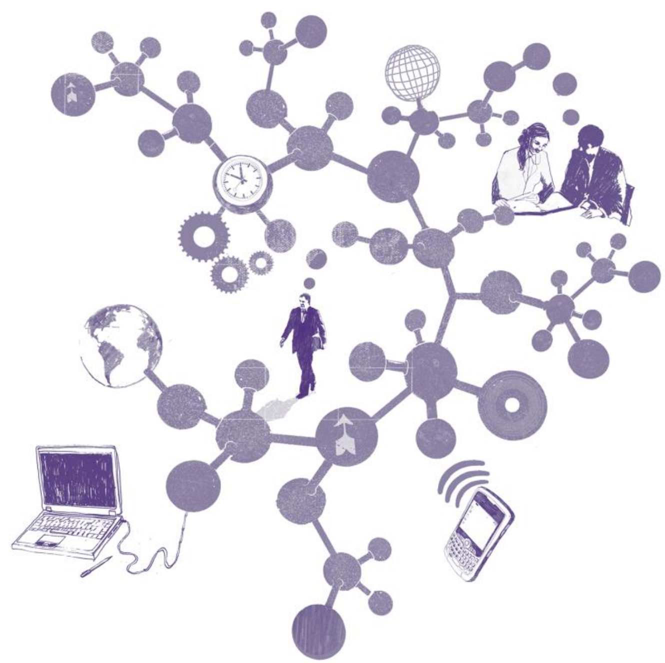
The Annual Audit Letter for Kent and Medway NHS and Social Care Partnership Trust

Year ended 31 March 2016

July 2016



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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Kent and Medway NHS and Social Care Partnership NHS Trust (the Trust) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Trust and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Trust's Integrated Audit and Risk Committee as those charged with governance in our Audit Findings Report on 25 May 2016 (and updated 31 May 2016).

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Trust's financial statements (section two)
- assess the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Trust's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Trust's financial statements on 1 June 2016.

Value for money conclusion

We were satisfied that the Trust put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our report on the financial statements on 1 June 2016.

Consolidation template
We also reported on the consistency of the consolidation schedules submitted to the Department of Health with the audited financial statements. We concluded that these were consistent.

Use of statutory powers
We did not identify any matters which required us to exercise our additional statutory powers.

Certificate
We certify that we have completed the audit of the accounts of Kent and Medway NHS and Social Care Partnership Trust in accordance with the requirements of the Code of Audit Practice.

Quality Accounts
We completed a review of the Trust's Quality Account and issued our report on this on 21 June 2016. We concluded that the Quality Account and the indicators we reviewed were prepared in line with the Regulations and guidance.

Working with the Trust

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient phase two audit over two weeks with you in late May
- Improved financial processes – we worked with you to streamline your processes including early substantive testing for journals, payroll costs, operating expenses and contractual income
- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.
- Improving your annual reporting – we benchmarked your annual report and provided the findings to you
- Providing assurance over data quality – we provided assurance over two key indicators
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports

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
July 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the Trust's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Trust's accounts to be £3,455,000, which is 2% of the Trust's gross revenue expenditure. We used this benchmark as in our view, users of the Trust's financial statements are most interested in where it has spent the income it made in the year.

We did not identify any specific areas of the financial statements that required us to set a lower level of specific materiality.

We set a lower threshold of £173,000, above which we reported errors to the Integrated Audit and Risk Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the Trust's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the annual report to check it is consistent with our understanding of the Trust and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Trust's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
The revenue cycles (healthcare and non-healthcare) include fraudulent transactions Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	As part of our audit work we: • documented our understanding of management's controls over revenue recognition • carried out a review and testing of revenue recognition policies • tested material revenue streams We did not identify any issues to report. However, as part of our review of the NHS agreement of balances variances and noted that £2,048k of receivables and £905k of revenue are currently under formal dispute with the CCGs.
Management override of controls Under ISA (UK&I) 240 there is a presumed risk that management will over-ride controls. This risk is present in all entities.	As part of our audit work we have: • reviewed entity controls • tested journals entries in the 2015/16 financial year • reviewed accounting estimates, judgements and decisions made by management • reviewed unusual significant transactions We did not identify any issues to report.
Occurrence of healthcare income The Trust receives majority of its income from NHS commissioners of healthcare services. The Trust invoices these commissioners throughout the year and accrues for activity in the final quarter of the year. Invoices for this activity are not agreed until after the accounts are produced for audit. There is therefore a risk that income from healthcare may be overstated.	As part of our audit work we have: • carried out a walkthrough the accounting for contract arrangements • agreed income to contracts with significant commissioning bodies • reviewed payments received to ensure they are in line with contractual amounts • reviewed significant contract arrangements to ensure they are accounted for correctly at year end and the significant contractual adjustments • reviewed the results of the Department of Health's agreement of balances exercise We did not identify any issues to report. However, as part of our review of the NHS agreement of balances variances and noted that £2,048k of receivables and £905k of revenue are currently under formal dispute with the CCGs.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
Employee remuneration The Trust's employee costs are the largest area of expenditure and there is a risk these are understated.	As part of our audit work we: • carried out a walkthrough of payroll arrangements • reviewed the ISAE 3402 report providing assurance over processes performed by SBS and ESR • carried out completeness testing of payroll records and trend analysis on the Trust's monthly payroll figures • sample tested of payroll transactions to supporting records • reviewed the reconciliation of the payroll system to general ledger We did not identify any issues to report.
Operating expenses There is a risk that the Trust would understate the creditors position at the year end.	As part of our audit work we have: • carried out a walkthrough of the expenditure system to gain assurance the controls are operating in accordance with our documented understanding • sample tested post year-end payments to confirm the completeness of creditors and accruals • reviewed control account reconciliation • tested the cut off arrangements to verify expenditure has been recorded in the correct period We did not identify any issues to report.

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Trust's financial statements on 1 June 2016, in advance of the national deadline.

The Trust made the accounts available for audit in line with the national timetable for submission, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Trusts Integrated Audit and Risk Committee on 25 May 2016.

The Trust produced a good quality set of financial statements and no adjustments were made to the primary statements. Our audit identified a small number of disclosure and presentational amendments.

We identified one internal control weakness during the audit and two from the prior year that had not yet been implemented. Management accepted these recommendations and is going to implement the recommendations in the coming year.

Annual Governance Statement and Annual Report

We are also required to review the Trust's Annual Governance Statement and Annual Report. It provided these on a timely basis with the draft accounts with supporting evidence. Both documents were a fair and balanced reflection of the Trust during the 2015/16 year.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2015 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work. We identified two risks for the 2015/16 value for money conclusion audit.

The key risks we identified and the work we performed are set out in the table 2 on the next page.

Overall VfM conclusion

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 2016.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
Financial outturn The Trust forecasted that it would incur a deficit in 2015/16 of £4.3 million, compared to a budgeted outturn of £1.5 million deficit. In fact it delivered a deficit of £4.2 million in its financial statements.	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 2015/16, including the impact on service delivery.	The Trust's original budget for 15/16 was for a deficit of £2.4m, however it set itself a stretch target of £1.5m but this required the delivery of substantial savings of £9.5m. The Trust closely monitor delivery of its budget and it became apparent during the year that performance against budget was progressively declining and the position was no longer recoverable. The Trust implemented action plans to reduce the significant deficit and identified all risks to delivery to reach a risk adjusted position of £4.3 million deficit. The outlook for the 2016/17 remains extremely challenging. The Trust have submitted plans for a £7.3m deficit including delivery of £4m in savings. The TDA (NHSI) have requested a control deficit of £2.4m in 2016/17, however plans at this stage have not been adjusted. The Trust will need to breakeven in 2017/18 in order to meet its statutory breakeven target. **We concluded that there were some weaknesses in the Trust's arrangements for managing delivery of its budget and savings plans for 2015/16 but that these were recognised and corrective actions put in place to recover the delivery to the risk adjusted position.**
CQC inspection An inspection report issued by the Care Quality Commission in July 2015 rated the Trust as requiring improvement overall, with particular areas of weakness being the serious concerns about the quality of care at Littlestone Lodge	We reviewed how the Trust is implementing and monitoring delivery of the action plan agreed to address the findings of the CQC inspection.	The Trust has established a CQC Quality Improvement plan which was agreed with the CQC and reports regularly on progress to the Quality Committee, which holds service managers to account for delivery of the action plan. Progress reports are also shared with the Trust Executive Management Team, the Trust Board, TDA and the CQC. The action plan is RAG rated and within this framework the Committee focuses on red and amber risks. A Task Finish Group has also been set up to review the transition from Assurance to Improvement and to consider the Trust's approach to future inspections. The Trust has been making progress in implementing the action plan during 2015/16. **We concluded that the Trust has made progress in addressing the required improvements set out in the quality improvement plan and that despite the CQC overall conclusion of requires improvement, the Trust has proper arrangements in place to demonstrate and apply the principles of good governance and to deploy workforce to deliver its priorities effectively.**

Quality Accounts

The Quality Account

The Quality Account is an annual report to the public from NHS Trusts about the quality of services they deliver. It allows Trust Boards and staff to show their commitment to continuous improvement of service quality, and to explain progress to the public.

Scope of work

We carry out an independent assurance engagement on the Trust's Quality Account, following Department of Health (DH) guidance. We give an opinion as to whether we have found anything from our work which leads us to believe that:

- the Quality Account is not prepared in line with the DH criteria;
- the Quality Account is not consistent with other documents specified in the DH guidance; and
- the two indicators in the Quality Account where we carry out detailed work are not compiled in line with the DH regulations and meet expected dimensions of data quality.

Key messages

- We confirmed that the Quality Account had been prepared in line with the requirements of the Regulations;
- We confirmed that the Quality Account was consistent with the sources specified in the Guidance
- We confirmed that the commentary on indicators in the Quality Account was consistent with the reported outcomes
- Our testing of two indicators included in the Quality Account found that these were materially reasonably stated in accordance with the Regulations and six dimensions of data quality.

Quality Account Indicator testing

We tested the following indicators from the subset of mandated indicators:

- Percentage of patients on Care Programme Approach (CPA) followed up within seven days of discharge
- Percentage of patient safety incidents resulting in severe harm or death

We reviewed the process used to collect data for the indicator. We checked that the indicator presented in the Quality Report reconciled to the underlying data. We then tested a sample of cases to check the accuracy, completeness, timeliness, validity, relevance and reliability of the data, and whether the calculation is in accordance with the definition.

Based on the results of our procedures, nothing came to our attention that caused us to believe that the indicators we tested were not reasonably stated in all material respects.

Conclusion

As a result of this we issued an unqualified conclusion on your Quality Account.

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and provision of audit related services.

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit	50,510	50,510	67,346
Total fees	**50,510**	**50,510**	**67,346**

Fees for other services

Service	Fees £
Audit related services Assurance on your quality report	10,000

Reports issued

Report	Date issued
Audit Plan	February 2016
Audit Findings Report	25 May 2016
Quality Report	June 2016
Annual Audit Letter	July 2016

Grant Thornton