MID ESSEX HOSPITAL SERVICES NHS TRUST

ANNUAL AUDIT LETTER | Audit for the year ended 31 March 2016
7 July 2016

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EXECUTIVE SUMMARY

Purpose of the letter
This Annual Audit Letter summarises the key issues arising from the work that we have carried out in respect of the year ended 31 March 2016. It is addressed to the Trust but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public. It will be published on the website of Public Sector Audit Appointments Limited.

Responsibilities of auditors and the Trust
It is the responsibility of the Trust to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

Our responsibility is to plan and carry out an audit that meets the requirements of the NAO’s Code of Audit Practice (the Code), and to review and report on:

- the Trust’s financial statements
- whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are also required to review and report on the governance statement, annual report, remuneration report and the accounts summarisation schedules.

We also undertake a review of the Trust’s Quality Account, to confirm that it has been prepared in line with requirements, and to test two performance indicators.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the audit.

Audit conclusions

<table>
<thead>
<tr>
<th>FINANCIAL STATEMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>We issued an unqualified true and fair opinion on the financial statements on 1 June 2016.</td>
</tr>
<tr>
<td>We reported our detailed findings to the Audit Committee on 1 June.</td>
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<tr>
<td>We reported on uncorrected misstatements which management and the Audit Committee concluded were immaterial.</td>
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<table>
<thead>
<tr>
<th>USE OF RESOURCES</th>
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<tr>
<td>We issued a qualified conclusion on the Trust’s arrangements for securing economy, efficiency and effectiveness in its use of resources on 1 June 2016. The key issues in this respect are:</td>
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<tr>
<td>- the Trust delivered a deficit of £39.9 million in 2015/16</td>
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<tr>
<td>- it is forecasting a deficit of £39.2m for 2016/17</td>
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<td>- the Trust has not prepared a medium term financial strategy.</td>
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<table>
<thead>
<tr>
<th>QUALITY ACCOUNT</th>
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<tbody>
<tr>
<td>We issued a qualified limited assurance report on the Quality Account on 30 June 2016 as we were unable to satisfy ourselves that the two performance indicators subject to testing were fairly stated in all material respects.</td>
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<tr>
<td>We reported our detailed findings in a separate report on 7 July 2016.</td>
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BDO LLP
7 July 2016
FINANCIAL STATEMENTS

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

This includes an assessment of whether the accounting policies are appropriate to the Trust’s circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates, and the overall presentation of the financial statements.

We issued an unqualified true and fair opinion on the financial statements on 1 June 2016.

Our assessment of risks of material misstatement
Our audit was scoped by obtaining an understanding of the Trust and its environment, including the system of internal control, and assessing the risks of material misstatement in the financial statements.

We set out below the risks that had the greatest effect on our audit strategy, allocation of resources in the audit, and directing of the efforts of the audit team.

<table>
<thead>
<tr>
<th>MANAGEMENT OVERRIDE OF CONTROLS</th>
<th>RESPONSE</th>
<th>FINDINGS</th>
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<tbody>
<tr>
<td>Auditing standards presume that a risk of management override of controls is present in all entities. By its nature, there are no controls in place to mitigate the risk of management override.</td>
<td>We responded to this risk by undertaking an analysis of journals processed during the year, focussing on those which are deemed unusual based on our understanding of the Trust’s operations. We reviewed accounting estimates to satisfy ourselves that the assumptions underpinning the estimate and judgements made by management are appropriate.</td>
<td>We were satisfied that the journals selected for testing were appropriate. We did not identify any issues. Our review of the assumptions underpinning accounting estimates did not identify any evidence of bias.</td>
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<table>
<thead>
<tr>
<th>REVENUE RECOGNITION</th>
<th>RESPONSE</th>
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<tr>
<td>Auditing standards presume there is a risk of fraud in relation to revenue recognition. The majority of the Trust’s income is from NHS commissioners for the provision of healthcare. For trusts, the risk can be identified as affecting the completeness, accuracy and existence of income.</td>
<td>We reviewed the outcome of the agreement of balances exercise between NHS bodies and investigated any significant mismatches. Other material streams of income were substantively tested (using increased sample sizes) for completeness, accuracy and existence.</td>
<td>Our audit testing did not identify any issues in relation to revenue recognition.</td>
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Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements.

We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonably knowledgeable users that are taken on the basis of the financial statements.

Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

The materiality for the financial statements as a whole was set at £5.730 million. This was determined with reference to a benchmark of gross expenditure (of which it represents 1.75 per cent) which we consider to be one of the principal considerations for the Trust in assessing the financial performance.

We agreed with the Audit Committee that we would report all individual audit differences in excess of £250,000.

Audit differences

Our audit found one audit difference not corrected in the final financial statements that impacted on the reported deficit. This was £467,000 relating to the understatement of the bad debt provision.

Correcting for this misstatement would result in the Trust reporting a £467,000 higher deficit for the year.

We consider that this misstatement did not have a material impact on our opinion on the financial statements.

Our audit did not identify any adjustments which had an impact on the reported deficit for the year.

Summarisation schedules return

We are required to provide an opinion to the Trust to confirm that the financial information included in its accounts summarisation schedules return (and used in the preparation of the Group consolidation) is consistent with the audited financial statements.

We reported that the summarisation schedule was consistent with the financial statements.
FINANCIAL STATEMENTS
Continued

Governance statement
The governance statement was not inconsistent or misleading with other information we were aware of from our audit of the financial statements, the evidence provided in the Trust’s review of effectiveness and our knowledge of the Trust.

Annual report
The annual report was not inconsistent or misleading with the financial statements or with our knowledge acquired in the course of our audit.

Remuneration report
The auditable parts of the remuneration report were found to have been properly prepared in accordance with the requirements directed by the Secretary of State.

Internal controls
We did not find any significant deficiencies in internal controls during the course of our audit. A number of other areas for improvement were identified which we have discussed with management.
CONCLUSION

We issued a qualified conclusion on the Trust’s arrangements for securing economy, efficiency and effectiveness in its use of resources on 1 June 2016.

Scope of the audit of use of resources

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources based on the following reporting criterion:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

As part of reaching our overall conclusion we consider the following sub criteria in our work: informed decision making, sustainable resource deployment, and working with partners and other third parties.

Our assessment of significant risks

Our audit was scoped by our cumulative knowledge brought forward from previous audits, relevant findings from work undertaken in support of the opinion on financial statements, reports from the Trust including internal audit, information disclosed or available to support the governance statement and annual report, and information available from the risk registers and supporting arrangements.

We set out below the risks that had the greatest effect on our audit strategy, allocation of resources in the audit, and directing of the efforts of the audit team.

<table>
<thead>
<tr>
<th>FINANCIAL SUSTAINABILITY</th>
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<td>RESPONSE</td>
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<td>FINDINGS</td>
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We identified a significant risk in relation to the sustainable financial position of the Trust given its forecast deficit position for 2015/16 and the absence of a medium term financial strategy.

- We reviewed the Trust’s financial outturn, Cost Improvement Plan (CIP) achievement, cash flow management and budget projections.
- We considered the progress and impact of the Financial Recovery Programme Board and the Success Regime.
- We met with key members of staff to discuss the Trust’s financial position in both the short and medium term.

In 2015/16, the Trust achieved an outturn deficit of £39.9m against an original plan of £38.4m and stretch target of £35.9m. This was achieved through a number of measures, including the non-recurrent transfer of £3.8m of capital monies to revenue. The cost improvement outturn was £15.4m against the target of £15.3m.

- The 2016/17 budget reviewed as part of our work forecast a deficit of £39.2m and identified a requirement for cash support of £48.9m.
- The cost improvement target for 2016/17 is £10.7m and the Trust will need to ensure it has robust processes and project management arrangements that are embedded across all departments to deliver this challenging target.
- The Trust established an Investment Group that included key officers and provided the leadership in developing the 2016/17 budget and proposals.
- Plans to produce a medium term financial strategy and bring the Trust into a sustainable financial position were delayed to focus on the 2015/16 outturn position and the Success Regime.
### USE OF RESOURCES

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<thead>
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<th>FINANCIAL SUSTAINABILITY</th>
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<td></td>
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<td>The Trust is a key member of the Essex Success regime and has been proactive in the process to date, which is now starting to move at pace. The Chief Executive of Basildon and Thurrock University Hospital NHS Trust has recently been appointed to a joint post at the Trust. A block contract (rather than activity based contract) for 2016/17 has been negotiated with local Clinical Commissioning Groups, that bears risks and rewards to the Trust but will provide some financial certainty over income levels to be generated in the forthcoming year. The objective of the Success Regime is to bring the mid and south Essex health economy as a whole into financial balance by 2018/19 through a range of measures such as shared back office functions, greater levels of service being provided in a community setting, development of a flexible workforce and changes in the way care is provided. This represents a significant challenge to the acute, primary care and clinical commissioning bodies in mid Essex and will require sufficient capacity from all participants to deliver the objective effectively. Given the Trust’s outturn position for 2015/16, its forecast deficit for 2016/17 and absence of a medium term financial strategy, we issued an ‘except for’ conclusion on the use of resources to secure economy, efficiency and effectiveness.</td>
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<tr>
<th>QUALITY OF SERVICES</th>
<th>RESPONSE</th>
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<td>We identified a significant risk in relation to the quality of services provided by the Trust given the Care Quality Commission’s (CQC) “Requires improvement” rating given to the Broomfield hospital site in 2014/15.</td>
<td>Following the CQC report, the Trust developed a Quality Improvement Plan to address the matters raised. Progress against actions is monitored and reported at Board level so that those with overall responsibility for the Trust’s performance have oversight of the delivery against actions and can provide the requisite challenge and scrutiny. The Quality Improvement Plan is an all-encompassing document that brings together the findings, not just from the CQC, but also from internal and other external reviews. Actions are blue, red, amber and green rated to easily identify those where no progress has been made. The Improvement Plan as at 17 March 2016 had 437 actions with 79.5% of those rated as either complete or on track to complete by the required timescales. We note that the Trust is due for CQC re-inspection in June 2016. Performance targets such as 4 hour Accident and Emergency standard, 18 week referral to treatment and cancer wait targets continued to challenge the Trust. Performance was reported at Board level as well as the actions taken to date to improve performance. We recognised that the Trust has made progress during 2015/16 and was on a journey of improvement, combined with a difficult financial position. With a new joint Chief Executive in post to drive further improvement, and the Success Regime joint working, the Trust will need to ensure that it retains focus on the Quality Improvement Plan to continue to deliver improvement. The findings of the work performed in relation to this risk did not result in any reporting matters.</td>
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CONCLUSION
We issued a qualified limited assurance report on the Quality Account on 30 June 2016.

Scope of the review of the Quality Account
Our responsibility is to form a conclusion, based on limited assurance procedures, on whether anything has come to our attention that causes us to believe that:

• the Quality Account is not prepared in line with the criteria set out in the Regulations
• the Quality Account is not consistent with the sources specified in the NHS Quality Accounts Auditor Guidance
• the two performance indicators subject to limited assurance review are not reasonably stated in all material respects in accordance with the Regulations and the six dimensions of data quality set out in the Guidance.

Specified indicators for testing
The core set of indicators to be included in the 2015/16 Quality Account is set out in Regulations and the letter from NHS England dated 3 February 2016. The Auditor Guidance has not been updated since 2014/15, and requires that we selected two indicators for testing from the following list:

• Percentage of patients risk-assessed for venous thromboembolism (VTE)
• Rate of clostridium difficile infections
• Percentage of patient safety incidents resulting in severe harm or death
• Friends and Family Test patient element score.

REQUIREMENTS | RESPONSE | FINDINGS
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Review the content of the report and consistency with specified documents. | We reviewed the contents of the Quality Account and compared this to the guidance and Regulations issued by the Department of Health.
We read the information included in the Quality Account and considered whether it was materially inconsistent with:
• Board minutes and papers relating to quality reported to the Board
• feedback from Commissioners, Local Healthwatch and Overview and Scrutiny Committee
• the Trust’s complaints report
• latest national patient survey and staff survey
• Head of Internal Audit’s annual opinion over the Trust’s control environment
• the annual governance statement
• Care Quality Commission’s latest Intelligence Monitoring reports. | The Quality Account has been prepared in line with the Regulations.
The Quality Account is not materially inconsistent with our review of the information we are required to consider.
### QUALITY ACCOUNT

Continued

<table>
<thead>
<tr>
<th>REQUIREMENTS</th>
<th>RESPONSE</th>
<th>FINDINGS</th>
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</table>
| Testing of percentage of patients risk assessed for venous thromboembolism (VTE). | We undertook testing to:  
  - confirm the definition and guidance used by the Trust to calculate the indicator  
  - document and walk through the Trust’s systems used to produce the indicator  
  - undertake substantive testing on the underlying data against six specified data quality dimensions.  
  
We tested a sample of 25 cases included in the reported performance. | We identified one case in our sample that had been treated incorrectly.  
Extrapolation of the error identified in our initial sample across the population of cases included in the indicator population suggests that the indicator is overstated by 3.2 per cent. This reduces the Trust’s reported performance below the national 95 per cent target.  
As a result of the above findings, we were unable to conclude that the indicator is fairly stated in all material respects. |
| Testing of percentage of patient safety incidents resulting in severe harm or death. | We undertook testing to:  
  - confirm the definition and guidance used by the Trust to calculate the indicator  
  - document and walk through the Trust’s systems used to produce the indicator  
  - undertake substantive testing on the underlying data against six specified data quality dimensions.  
  
| The Trust reported performance of 0.47 per cent in respect of the this indicator in the Quality Account. | The Trust records data relating to patient safety incidents on an internal IT system. This data is uploaded to the National Reporting and Learning Service (NRLS). It is the performance reported per the NRLS which the Trust are required to include in their Quality Account.  
Cases may be reassessed and re-graded following upload to NRLS. The system used by the Trust to record this data does not retain a record of the changes made when cases are reassessed, meaning that it was not possible to obtain an audit trail to support the data held by NRLS and reported in the Trust’s Quality Account.  
As a result of the above findings, we were unable to conclude that the indicator is fairly stated in all material respects. |
Reports issues
We issued the following reports in respect of the 2015/16 financial year.

<table>
<thead>
<tr>
<th>REPORT</th>
<th>DATE</th>
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<tbody>
<tr>
<td>Planning letter</td>
<td>February 2015</td>
</tr>
<tr>
<td>Audit Plan</td>
<td>13 January 2016</td>
</tr>
<tr>
<td>Final audit report</td>
<td>1 June 2016</td>
</tr>
<tr>
<td>Quality Account report</td>
<td>7 July 2016</td>
</tr>
<tr>
<td>Annual Audit Letter</td>
<td>7 July 2016</td>
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</tbody>
</table>

Fees
We reported our original fee proposals in our Audit Plan. We have not had to amend our planned fees.

<table>
<thead>
<tr>
<th>AUDIT AREA</th>
<th>PLANNED FEES</th>
<th>FINAL FEES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Code audit</td>
<td>89,483</td>
<td>89,483</td>
</tr>
<tr>
<td>Non audit service fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Quality Account review</td>
<td>10,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Total</td>
<td>99,483</td>
<td>99,483</td>
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The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

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