The Annual Audit Letter
for The Royal Liverpool and Broadgreen University Hospitals NHS Trust

Year ended 31 March 2016
July 2016

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### Appendices

A Reports issued and fees
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 Royal Liverpool and Broadgreen University Hospitals 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 Audit and Assurance Committee as those charged with governance in our Audit Findings Report on 1 June 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 2 June 2016. We identified two errors that the Trust adjusted in the accounts which reduced the Trust’s retained surplus position by £2.1 million from £21.6 million to £19.5 million. This change was primarily due to changes to reduce impairments. We reported further errors amounting to £3.3 million which management did not adjust as they considered them to not be material. We also recommended a number of adjustments to improve the presentation of the financial statements.

We made recommendations for improvements in internal control including adhering to journal authorisation procedures and timely preparation of bank reconciliations.

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 except for strategic financial planning to support sustainable resource deployment and to maintain statutory functions. We therefore qualified our value for money conclusion in our report on the financial statements on 2 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 certified that we had completed the audit of the accounts of the Royal Liverpool and Broadgreen University Hospitals NHS 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 29 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 identified a number of areas which required additional audit work and have made recommendations where we can work together to make our audit more efficient
- Improved financial processes – we continue to work with you to streamline your processes including the effectiveness of the controls over journals, employee remuneration and inventory
- Understanding your operational health – through the value for money conclusion we provided you with areas for you to focus on which will help strengthen your arrangements in order to demonstrate to your preparedness for Foundation Trust status
- Providing assurance over data quality – we provided assurance over two key indicators and helped the Trust to meet the standards required for compliance with the Quality Accounts regulations
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports
- Providing training – we provided your teams with training on financial accounts and annual reporting

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 £7,648,000 which is 1.5% 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 also set a lower level of specific materiality for certain areas such as cash, senior manager salaries, auditor remuneration and related parties.

We set a lower threshold of £250,000, above which we reported errors to the Audit and Assurance 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.

<table>
<thead>
<tr>
<th>Risks identified in our audit plan</th>
<th>How we responded to the risk</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Healthcare income</strong></td>
<td>As part of our audit work we have completed:</td>
</tr>
<tr>
<td>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. For this Trust, we have concluded that the risk of material misstatement relates to the occurrence and existence of healthcare revenue and receivables and other revenue and receivables.</td>
<td>- Documenting our understanding of management’s controls over revenue recognition and the nature of the various revenue streams at the Trust</td>
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<td></td>
<td>- Review and testing of revenue recognition policies</td>
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<td>- Testing of material revenue streams</td>
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<td>- Testing accrued income</td>
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<td>- Review of the Agreement of Balances exercise</td>
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<td>- Review of deferred income</td>
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<td></td>
<td>- Testing of partially completed spells</td>
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<td>- Review of management’s approach to considering consolidation of charity monies</td>
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<td></td>
<td>- Accounting for capital to revenue transfer from the Department of Health</td>
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<tr>
<td><strong>Management override of controls</strong></td>
<td>Our audit work has not identified any material issues in respect of revenue recognition.</td>
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<td>Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.</td>
<td>As part of our audit work we have completed:</td>
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<td>- Documentation of journal control environment</td>
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<td>- Review of unusual significant transactions</td>
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<td></td>
<td>- Review of accounting estimates, judgments and decisions made by management</td>
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<tr>
<td></td>
<td>- Testing of journal entries</td>
</tr>
<tr>
<td></td>
<td>- Review of unusual significant transactions</td>
</tr>
</tbody>
</table>
| **Our audit work has not identified any evidence of management over-ride of controls.** | However, our review of the journal control environment and detailed substantive testing has identified a number of control issues.
### 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.

<table>
<thead>
<tr>
<th>Risks identified in our audit plan</th>
<th>How we responded to the risk</th>
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</thead>
<tbody>
<tr>
<td><strong>Partnering arrangements</strong></td>
<td>As part of our audit work we have completed:</td>
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<tr>
<td>The Trust works in partnership with a number of bodies on Merseyside. These include an arrangement with Aintree University Hospital NHS Foundation Trust for the provision of clinical laboratory services (Liverpool Clinical Laboratories (LCL)).</td>
<td>• A review of project progress and activities, and proposed accounting treatment</td>
</tr>
<tr>
<td>Additionally, the Trust has embarked on the construction of a biomedical research facility known as the Accelerator scheme (Life Sciences Accelerator), funded from a combination of internal and external sources.</td>
<td>• Audit of the transactions, balances and disclosures as part of the financial statements work.</td>
</tr>
<tr>
<td>Partnership working often brings additional complexity into a Trust's financial reporting arrangements. Both of the aforementioned schemes are material to the Trust and therefore require specific audit attention.</td>
<td>We were satisfied that the accounting treatment of partnership arrangements was appropriate but identified some non-trivial errors. We made recommendations to improve the clarity of the recording of transactions for LCL.</td>
</tr>
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</table>
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 in the main, provided working papers to support them.

Issues arising from the audit of the accounts
We reported the key issues from our audit to the Trusts Audit and Assurance Committee on 1 June 2016,
The key messages arising from our audit of the Trusts financial statements are:
• the errors we have found in the financial statements presented for audit, on the whole, understate liabilities and overstate revenue;
• we have expressed some reservations over the recoverability of receivables and the level of bad debt being provided for by the Trust;
• we have had to extend our audit procedures in a number of areas including employee remuneration, inventory, healthcare revenues, cash and bank, provisions; in order to obtain sufficient audit assurance;
• the Trust should improve its internal quality assurance arrangements for the financial statements to minimise the number of amendments required as a result of the audit,
• the Trust should be clear in its assessment of its accounting treatment with regard to significant judgements for example provisions or obsolescence and it should document its reasoning for its chosen course of action in line with accounting standards;
• the Trust have continued to improve audit trails and working papers but there is still work to do to adequately support the financial statements presented for audit in particular property, plant and equipment and final position on the ledger.

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.

Other statutory duties
We are also required to refer certain matters to the Secretary of State under section 30 of the Local Audit and Accountability Act 2014. We have no matters to report to you.
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.
The key risks we identified and the work we performed are set out in the table 2.

Overall VfM conclusion
We are satisfied that, in all significant respects, except for the matter we identified below, the Trust had proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016. Our review of the Trust's arrangements identified the following matters:
• The Trust’s outturn position for 2015-16 was a £24.5 million surplus which was achieved through an unplanned one-off non recurrent capital to revenue transfer of £25 million, approved by the Department of Health. Without the one off transfer, the Trust would have reported a small deficit of £0.5 million, which is a deterioration when compared to the Trust's original planned forecast of a £4.6m surplus; and
• The Trust delivered £15 million savings (QEPS) against its target of £21.6 million for the year ended 31 March 2016. To meet its forecast outturn of £15.9 million for the year ending 31 March 2017, the Trust would have to deliver £21 million of QEP savings in the year
## Value for Money conclusion

<table>
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<th>Risk identified</th>
<th>Work carried out</th>
<th>Findings and conclusions</th>
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<td><strong>Financial outturn and financial sustainability</strong></td>
<td>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.</td>
<td>The Trust has well established arrangements in place for budget setting, budget monitoring and reporting. The Trust's original plan was to deliver a £4.6m surplus. The Trust reported a draft surplus of £24.5m for the year ending March 2016 however, this large surplus was due to the one off £25m receipt from the Department of Health as part of an agreement to allow a capital to revenue transfer. Had this transfer not been in place the Trust would be reporting a normalised deficit of £0.5m.</td>
</tr>
<tr>
<td><strong>Failure to meet planned outturn</strong></td>
<td>We reviewed the Trust's arrangements for updating, agreeing and monitoring its 2016/17 financial plan, and for communicating key assumptions to the Board.</td>
<td>For a number of years Trusts have been required to make efficiency savings and this requirement is set to continue. The Trust did not meet its QEP target of £21.6m (£17.1m plus the rollover target from the previous year of £4.5m). The actual savings were £6.8m behind plan at the year end. Of the 2016/17 high value QEPs we reviewed at month 11, a number were categorised as at the idea stage and or red risk rated for delivery in year. This shortfall to deliver planned savings presents the Trust with a significant challenge going forward as resources are constrained further.</td>
</tr>
<tr>
<td><strong>Failure to meet future financial plans</strong></td>
<td>The financial plan submitted to the TDA as at March 2016 has an agreed control total of £15.9m for 16/17 and £21m QEP.</td>
<td>The reported cash position at the year ending March 2106 was £31.4m, which compares with £53.4m planned as per the long term financial model. Cashflow forecasts for 2016/17 report negative operating cashflows throughout the year and general deterioration in the cash position.</td>
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<td></td>
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<td>Although there are well established arrangements in place for planning and managing finances and QEPs and an appropriate level of challenge and scrutiny from the NEDs, the outcomes suggest that there are significant deficiencies in the effectiveness of those arrangements to address the significant challenges facing the Trust.</td>
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<td></td>
<td><strong>We concluded that there were weaknesses the Trust’s arrangements for setting budgets and delivering savings for 2015/16 and there are significant uncertainties in the arrangements to deliver the planned outcomes for 2016/17 without further reliance on one-off funding and support.</strong></td>
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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
• Percentage of reported patient safety incidents resulting in severe harm or death during the reporting period;
• Rate of Clostridium difficile infections per 100,000 bed days for patients aged two or more on the date the specimen was taken during the reporting period.

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.
Working with the Trust

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

An efficient and robust audit – despite having a number of significant issues to resolve we delivered the accounts before the deadline. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to give appropriate independent assurance to those charged with governance.

Improved financial processes – during the year we reviewed your financial systems and processes including employee remuneration, non-pay expenditure and property plant and equipment. We worked with you to streamline your processes including journals, fixed assets, and inventory and made recommendations to improve controls over journals, employee remuneration, cash and bank and inventory.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness. We highlighted the need for delivering your savings plans and improving liquidity.

Providing assurance over data quality – we provided assurance over two key indicators and highlighted the need to improve the arrangements for producing the Quality Accounts.

Sharing our insight – we provided regular audit committee updates covering best practice. Areas we covered included The Five year Forward View, TDA quarterly reports, Better Care Fund, Manual for Accounts, NAO Code of Practice, Lessons learned from Mid Staffordshire. We also shared our thought leadership reports on Finance and Governance and Audit Committee Effectiveness.

Providing training – we provided your teams with training on financial accounts and annual reporting. The courses were attended by your finance team.
Working with the Trust

Working with you in 2016/17

We will continue to work with you and support you over the next financial year.

Nationally we are planning the following events:

• Health and Social Care Integration – we are working with the Manchester authorities so that we are able to share insight into how best to integrate health and social care. We will share the outcome of our work early in 2017
• Thought leadership – we are preparing thought leadership reports on Future of Primary Care and on NHS commercial structures
• Audit updates - we will continue to provide regular audit committee updates covering best practice and emerging issues in the sector
• Providing training – we will continue to provide financial accounts and annual reporting training
• Improving your annual reporting – we will benchmark your annual report and highlight potential areas for improvement
• Providing insight – we will update our Health and Well Being analysis and share our information on key health conditions and lifestyle needs in your area

Locally we will have regular briefings with your finance team to work through the issues arising in this years audit to improve the quality of your accounts and working papers for 2016/17.
Grant Thornton in Health

We are proud of our position as the largest supplier of external audit services to the NHS and the contribution we make to the challenges it faces. Here are some of our credentials showing how we deliver on this responsibility.

Our client base and delivery
- We are the largest supplier of external audit services to the NHS
- We audit over 120 NHS organisations
- 99% of 2015/16 audit reports were issued by the national deadline
- Our clients scored us 8 out of 10 or higher

Our connections
- We meet regularly with and second people to the Department of Health, CQC, NHS Improvement and NHS England
- We work closely with local government and blue light services
- We work with the Think Tanks and legal firms to develop workshops and good practice
- We provide thought leadership, seminars and training to support our clients and to provide solutions.
- In 2016 we issued reports on Mental Health Collaboration, and NHS governance and finance.
- We will publish reviews on the Future of Primary Care and on NHS commercial structures later this year.

Our quality
- We fully meet the criteria for appointment as external auditors.
- Our audit approach complies with the NAO’s Code of Audit Practice, and International Standards on Auditing.
- We are fully compliant with ethical standards.
- We have passed all external quality inspections including QAD and AQRT.

Our support for the sector
- We are sponsors for HFMA and work with the provider faculty, mental health faculty and commissioning faculty. We regularly speak at HFMA events to share best practice and solutions.
- We provide auditor briefings into what is happening with department policy, sector regulation, and at other NHS organisations to help support our clients.
- We provide Key Issues Bulletins that summarise what is happening in the sector.
- We hold regular ‘free to access’ financial reporting and other training sessions for finance staff to ensure they have the latest technical guidance.

Our technical support
- We are members of all of the key NAO, ICAEW, and HFMA technical forums.
- We have specialists leads for Public Sector Audit quality and Public Sector technical.
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas.
- Local teams are supported on information technology by specialist IT auditors.
- We use specialist audit software to identify and assess audit risk.

Our people
- We have over 30 engagement leads accredited by ICAEW to issue NHS audit reports.
- We have over 300 public sector specialists.
- We invest heavily in our people including technical and personal development training.
- We invest in the future of the public sector and employ over 80 Public Sector trainee accountants.
Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and provision of non-audit

<table>
<thead>
<tr>
<th>Fees</th>
<th>Planned £</th>
<th>Actual fees £</th>
<th>2014/15 fees £</th>
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<tbody>
<tr>
<td>Statutory audit</td>
<td>53,438</td>
<td>53,438</td>
<td>71,250</td>
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<tr>
<td>Charitable fund *</td>
<td>5,400</td>
<td>To be confirmed</td>
<td>5,460</td>
</tr>
<tr>
<td><strong>Total fees</strong></td>
<td><strong>55,838</strong></td>
<td><strong>76,710</strong></td>
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<tr>
<th>Fees for other services</th>
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<tbody>
<tr>
<td><strong>Service</strong></td>
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<tr>
<td>Audit related services</td>
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<tr>
<td>Assurance on your quality report</td>
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<tr>
<td>Non-audit services*</td>
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<tr>
<td>Progress check on FT action plan</td>
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<thead>
<tr>
<th>Reports issued</th>
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<tbody>
<tr>
<td>Report</td>
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<tr>
<td>Audit Plan</td>
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<td>Audit Findings Report</td>
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<td>Annual Audit Letter</td>
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<td>Audit update reports</td>
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