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University Hospitals of Leicester NHS Trust

Annual Audit Letter 2012-13

July 2013

The contacts at KPMG in connection with this report are:

Andrew Bostock

Partner
KPMG LLP (UK)
Tel: 0121 335 2741

Andrew.Bostock@kpmg.co.uk

David Sharif

Senior Manager
KPMG LLP (UK)
Tel: 0121 232 3694

David.Sharif@kpmg.co.uk

Dan Hayward

Assistant Manager
KPMG LLP (UK)
Tel: 0121 232 3280

Daniel.Hayward@kpmg.co.uk

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This report is addressed to University Hospitals of Leicester 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. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

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.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrew Bostock who is the engagement lead to the Trust or Trevor Rees, the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. You can contact the Complaints Unit by phone (0844 798 3131), by email (complaints@audit-commission.gov.uk), through the audit commission website (www.audit-commission.gov.uk/aboutus/contactus), by textphone/ minicom (020 7630 0421), or via post to Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR.

Background

This Annual Audit Letter (the letter) summarises the key issues arising from our 2012-13 audit at University Hospitals of Leicester NHS Trust (the Trust). Although this letter is addressed to the 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 the letter on the Trust's website at www.leicestershospitals.nhs.uk

In the letter we highlight areas of good performance and also provide recommendations to help the Trust improve performance. 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 Audit Commission Act 1998. Our main responsibility is to carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code) which requires us to report on:

Use of Resources (UoR)	<ul style="list-style-type: none"> ■ We conclude on the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the Trust's use of resources.
Financial Statements including the Annual Governance Statement	<ul style="list-style-type: none"> ■ We provide an opinion on the Trust's accounts. That is whether 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. ■ We also confirm that the Trust has complied with the Department of Health (DoH) requirements in the preparation of its Annual Governance Statement. We provide a certification to the National Audit Office (NAO) to provide assurance on inputs to the DoH's Resource Accounts. We also confirm that the balances you have prepared for consolidation into the Whole of Government Accounts (WGA) are not inconsistent with our other work.

The Audit Commission also mandated its appointed auditors to carry out assurance work on the 2012-13 quality accounts, as part of their duties under section 5(1) of the Audit Commission Act 1998. We provide a limited assurance opinion on the Trust's report against the guidance, their consistency with other specified documentation and over detailed testing on two performance indicators. The 'limited' reference relates to the limited procedures we were required to complete rather than any limitations on the assurance opinion given.

Adding value from the External Audit service

We have added value to the Trust from our service throughout the year through our:

- Proactive and pragmatic approach to issues arising in the production of the financial statements to ensure that our opinion is delivered on time;
- Attendance at meetings with members of the Executive Team and Audit Committee to present our audit findings, broaden our knowledge of the Trust and to provide insight from sector developments and examples of best practice;
- Review of general IT controls in place at the Trust highlighting any control weaknesses and areas for improvement; and
- Building a strong and effective working relationship with Internal Audit to maximise assurance to the Audit Committee, avoid duplication and provide value for money.

Fees

Our fee for the audit in 2012-13 was £173,875 plus VAT. This fee was in line with that highlighted within our audit plan and was communicated during the year to the Audit Committee. We will conduct our audit of the Trust's Charity later in the year, the fee for which is £6,420 + VAT. These fees are also in line with those highlighted within our audit plan and communicated to the Audit Committee during the year.

We have completed the following pieces of non-audit work at the Trust during the year:

Review of preferred IM&T bidder	<ul style="list-style-type: none"> ■ This work included the provision of supporting advice and analysis of the data supplied by the Trust's provisionally selected Managed Business Partner. ■ The fee for this work was £20,000.
IM&T provider identification support	<ul style="list-style-type: none"> ■ This work included the provision of an independent assistant to support the Trust's IM&T Department to evaluate the bidders to a Managed Business Partner Project ITT. ■ The fee for this work was £90,000.
Refund of overpayments	<ul style="list-style-type: none"> ■ Follow-up work in relation to the provision of advice and to support compliance and the refund of PAYE, NIC and pension contribution payments made to employees after leaving their employment with the Trust. ■ The fee for this work was £10,000.

Our remuneration disclosed by the Trust during the year, also included £25,000 pertaining to work undertaken in 2011/12, relating to the provision of support for a salary sacrifice scheme. We disclosed this work in our *Audit Highlights Memorandum 2011/12*.

Overall financial results and other key messages

- The Trust's final year-end position was a surplus, after technical accounting adjustments, of £91,000 for the period. The Trust achieved Cost Improvement Plans (CIPs) of £26.8m (from a total of £32m or 83.8%), or 3.5% of its revenue. The Trust also received significant sums of non-recurrent income in part due to emergency activity pressures during the year. Whilst the Trust has secured some of this type of income in next year's contracts, the Trust cannot rely on significant sums of non-recurrent income to deliver its future plans and will need to deliver its CIP plans in full.
- The Care Quality Commission (CQC) took enforcement action against the Trust during 2012-13. It issued warning notices in April 2012 and June 2012, relating to Leicester Royal Infirmary. The Trust complied with both warning notices during the required time frame. The Trust was also subject to a special review by the CQC relating to the termination of pregnancies in May 2012. The Trust undertook immediate remedial action to address requirements reported and this resulted in a judgement of compliance by the CQC.
- The Trust did not meet the following performance targets:
 - **Cancer target** – The Trust narrowly missed the 62 day referral to treatment target, achieving a year-end position of 84.4% vs. the 85% threshold.
 - **Referral to treatment (RTT) delivery in all specialities** – The Trust continues to develop plans to reduce its backlog by carrying out additional work in 2013-14.
 - **Emergency Department four hour waiting time (95% threshold vs. 91.9% performance)** - The Trust met the 95% target in only three out of 12 months in year. The Trust continues to invest in and develop action plans to mitigate pressures in the Emergency Care system.

Whilst we identified appropriate actions taken and evidence of improvement, the Trust needs to embed the lessons learnt across the organisation from critical reviews and improving performance.

Use of Resources

- Auditors are required to give their statutory Value for Money (VfM) conclusion based on two criteria specified by the Audit Commission. These consider whether the Trust has proper arrangements in place for:
 - **Securing financial resilience:** looking at the Trust's financial governance, financial planning and financial control processes; and
 - **Challenging how it secures economy, efficiency and effectiveness:** looking at how the Trust is prioritising resources and improving efficiency and productivity.
- We followed a risk based approach to target audit effort on the areas of greatest audit risk. We considered the arrangements put in place by the Trust to mitigate these risks and planned our work accordingly. Our VfM opinion was informed by our:
 - structured risk based assessment of the Trust's general VfM arrangements; and
 - data quality and indicator testing, in respect of your Quality Account.
- We concluded that the Trust has adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

<p>Financial Statements including the Annual Governance Statement</p>	<ul style="list-style-type: none"> ■ We issued an unqualified opinion on the Trust’s accounts on 7 June 2013. 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. ■ We are pleased to report that there were no unadjusted audit differences other than those which we deem to be immaterial and no adjusted audit differences. We identified a number of minor presentational issues during our audit and these have all been amended by the Trust. There were no significant matters which we were required to report to ‘those charged with governance’. ■ We have also confirmed that the Trust had complied with the Department of Health requirements in the preparation of the Trust’s Annual Governance Statement. No significant adjustments were required to the Annual Governance Statement. ■ We received the majority of working papers in line with the agreed timetable, with the exception of the analytical reviews which we did not receive until 21 May 2013, and were initially of insufficient quality to enable us to place reliance on them as part of our audit evidence. ■ The draft accounts were to a good standard, and the accounting policies, accounting estimates and financial statement disclosures were in line with the requirements of the Department of Health.
<p>Recommendations</p>	<ul style="list-style-type: none"> ■ The Trust has made good progress in implementing our agreed audit recommendations from prior years. Of the six recommendations made in 2011-12, the Trust had fully implemented three of them. Of the remaining three, all of which were assessed as low risk, two were partially implemented with work on-going, and one was superseded by a new recommendation. ■ There were five new recommendations arising from our 2012-13 audit work, one of which we assessed as high risk. We have summarised these in Appendix A.
<p>Whole of Government Accounts</p>	<ul style="list-style-type: none"> ■ We issued an unqualified Group Audit Assurance Certificate to the National Audit Office on 7 June 2013 regarding the Whole of Government accounts submission. ■ We were required to report any inconsistencies we have identified greater than £250,000 between the signed audited accounts and the consolidation data. We were also required to report the details of any identified unadjusted errors or uncertainties in the data provided for intra-group and intra-government balances and transactions. In applying this approach we were not required to report any differences where mismatches appeared on the Department of Health’s report and where we had obtained sufficient, appropriate evidence to confirm that the Trust’s figure was correct. ■ We provided details of the nine exceptions identified in the report above the <i>de minimis</i> limit in our <i>Audit Highlights Memorandum 2012-13</i>. The Trust confirmed that it expected that changes to the next iteration of balance information would eliminate these inconsistencies greater than £250,000.

Quality Accounts

From our mandated work on the Trust's Quality Account:

- The Trust achieved a limited assurance opinion on compliance with the Quality Accounts Regulations.
- The Trust achieved a limited assurance opinion on consistency with other specified information.
- The Trust achieved a limited assurance opinion on the indicators in the quality account.

The 'limited' reference relates to the limited procedures we were required to complete rather than any limitations on the assurance opinion given. Achieving a limited assurance opinion is the highest possible level of assurance available.

Detailed testing was undertaken on two of the performance indicators included in the quality account. The two indicators tested were:

- Mandated indicator: Percentage of patient safety incidents resulting in severe harm or death.
- Local indicator: Number of Clostridium difficile infections ("CDIs"), for patients aged two or more on the date the specimen was taken.

We reported a completeness risk at every Trust relating to the data collected for patient safety incidents as it relies on every incident being reported (as the denominator). The nature of the indicator means it is not possible to obtain sufficient audit assurance that the data used to calculate the indicator is complete. We also noted that the indicator relies heavily on clinical judgements in the classification of an incident as "severe harm". Within the scope of this engagement we have not deployed clinical expertise to challenge and assess these judgements there is therefore an inherent uncertainty in the presentation of the indicator.

Public Interest Reporting

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 any public interest reports in the year.

No.	Risk	Issue, Impact and Recommendation
1	1	<p>Contracts</p> <p>The Trust has entered into a number of new contractual agreements during the year regarding a range of outsourced services, including those relating to IM&T and the facilities management outsourcing.</p> <p>We had planned to review these contracts and their associated accounting treatment as part our interim work. However, the Finance Services Team did not receive sufficient and appropriate information to enable them to assess such contracts against IFRS requirements until March 2013.</p> <p>The Trust should ensure that there is involvement from the Financial Services Team at an appropriately early stage of the contract discussions so that the relevant financial accounting implications of such agreements can be confirmed prior to agreements being signed.</p> <p>Additionally, the Trust should ensure that sufficient and appropriate documentation and contract information is provided to the Finance Team in a timely manner to enable a timely evaluation of accounting treatment to be undertaken in reference to provided evidence.</p> <p>This will ensure the timely provision of sufficient and appropriate audit evidence.</p> <p>Update</p> <p>The Trust has subsequently taken a number of actions to address this issue. Finance has strengthened its presence and oversight of contractual developments arising from the Trust's current reconfiguration projects, for example through attendance at the Commercial and Transformation Sub Board meetings. They aim to provide guidance on the potential accounting implications and consider any financial statement implications arising from new transactions.</p>

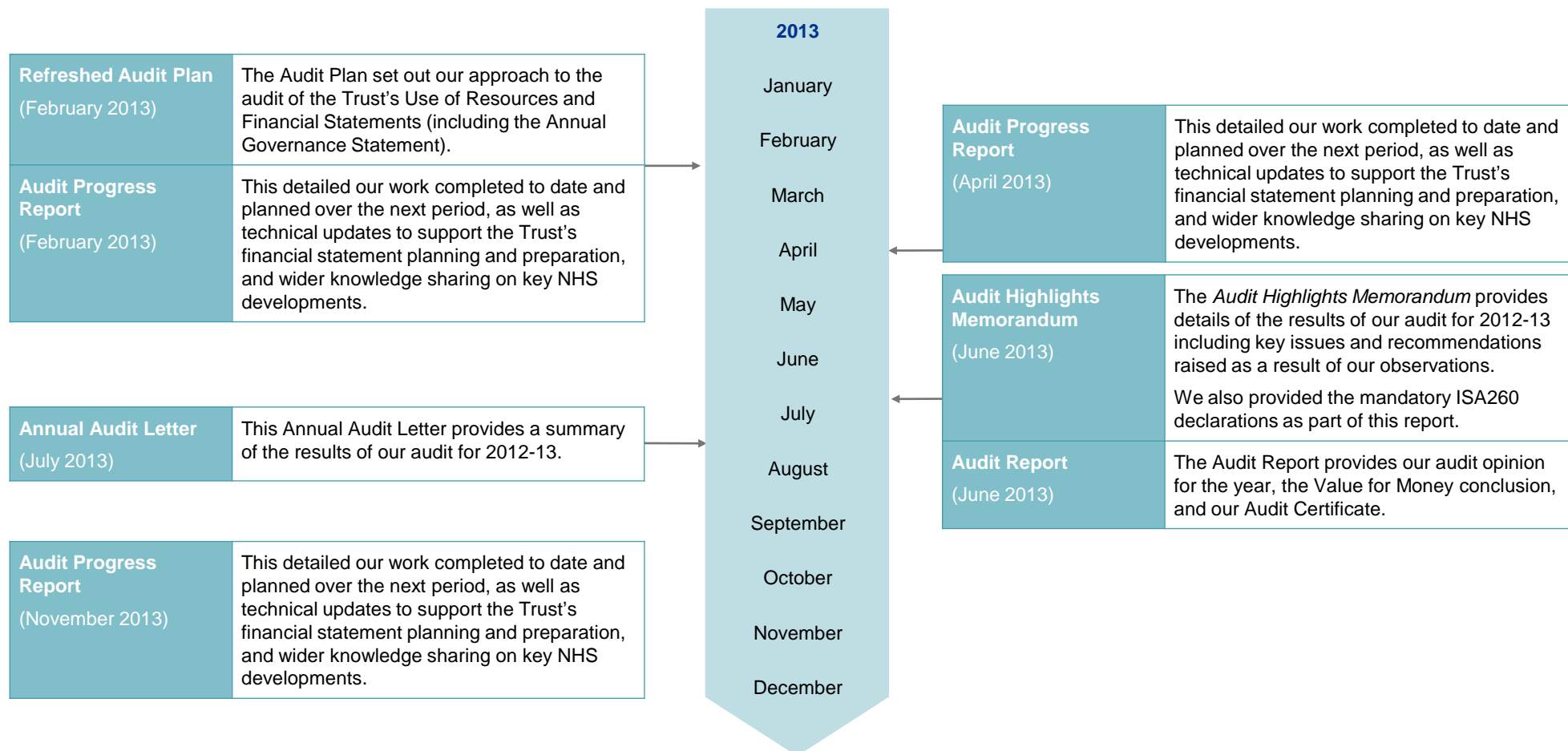
We also raised four medium recommendations in the year concerning:

Financial Resilience – to help strengthen the Trust's development of Service Line Management, embed more robust financial reporting on CIP schemes, as well as ensuring schemes are regularly risk assessed to understand the ongoing potential impact on clinical quality and outcomes.

Contracts – to ensure that the Trust evaluates new contracts and where services evolve. This will help ensure that if any sub-leases and capital spend clauses are activated, the Trust obtains relevant information and reviews this on a timely basis to ensure that the accounting treatment and disclosures remain appropriate.

Off-Payroll Arrangements – to ensure that the Trust maintains a central record of all individuals not paid through the payroll system.

Analytical Reviews – to ensure that all analytical review working papers to support the audit are available to a consistently high standard and quality by the start of the onsite work.





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