Annual Audit Letter

Year ending 31 March 2018

North Bristol NHS Trust

June 2018

Contents

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Section	Page
1. Executive Summary	3
2. Audit of the Accounts	5
3. Value for Money conclusion	7
4. Quality Accounts	10

Appendices

A Reports issued and fees

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at North Bristol NHS Trust (the Trust) and its subsidiary Charity (the group) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the group and 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 Committee as those charged with governance in our Audit Findings Report on 24 May 2018.

Respective 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 and group'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 and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the group's accounts to be £8,219,000, which is 1.5% of the group's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the group's financial statements on 24 May 2018. We included a going concern material uncertainty paragraph in our report on the Trust's financial statements to draw attention to the note which explains the basis on which the Trust has determined that it is still a going concern. This does not affect our opinion that the statements give a true and fair view of the Trust's financial position and its income and expenditure for the year.
NHS Group consolidation template (WGA)	We also reported on the consistency of the accounts consolidation template provided to NHS Improvement 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.
Value for Money arrangements	We were satisfied that the Trust put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources except for weaknesses in proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. We therefore qualified our value for money conclusion in our audit report to the Audit Committee on 24 May 2018.
Quality Accounts	We completed a review of the Trust's Quality Account and issued our report on this on 14 June 2018. We concluded that the Quality Account and the indicators we reviewed were prepared in line with the Regulations and guidance.
Certificate	We certify that we have completed the audit of the accounts of North Bristol NHS Trust in accordance with the requirements of the Code of Audit Practice.

Working with the Trust

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

- An efficient audit – we delivered an efficient audit with you in May, delivering the accounts six days before the deadline, which included the Charitable Trust Fund accounts
- Improved financial processes – we have made recommendations in respect of your processes, including your use of the fixed asset register. Recommendations made in previous years, for example in relation to journals, mean that you have a more effective control environment
- Early engagement – we continued to proactively engage with you and the finance team in order to agree accounting treatments for one-off or unusual transactions prior to receipt of the draft financial statements, ensuring that they were 'right first time' and freeing up time to focus on other audit areas during the busy May period.
- Keeping the Audit Committee informed - we also continue to hold early discussions with the Audit Committee on key accounts and value for money issues, ensuring that everyone is sighted on our proposed conclusions and reporting outcomes, for example in relation to the Value for Money conclusion and going concern
- 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. We believe that we have built a solid working relationship with your team, but will continue to look for opportunities where we can build upon this and further improve the quality and timeliness of our external audit service to you.

Grant Thornton UK LLP
June 2018

Audit of the Accounts

Our audit approach

Materiality

In our audit of the group'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 the audit of the group and Trust accounts to be £8,219,000, which is 1.5% of the group's gross revenue expenditure. We used this benchmark as, in our view, users of the group and Trust's financial statements are most interested in where the group and Trust has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration of £10,000 due to public interest in the disclosures and the statutory requirement for them to be made.

We set a lower threshold of £300,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient 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 accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the 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 remainder of the Annual Report to check it is consistent with our understanding of the Trust and with the accounts included in the Annual Report on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that 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 group'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 opinion

We gave an unqualified opinion on the group's financial statements on 24 May 2018, in advance of the national deadline.

Preparation of the accounts

The group presented us with draft accounts in accordance with the national deadline. The finance team responded promptly and efficiently to our queries during the course of the audit. We raised a recommendation in respect of some of the working papers provided to us during the audit and have agreed to work with the trust to develop these in advance of future audits to ensure that the process is efficient.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the group's Audit Committee on 24 May 2018.

Annual Report, including the Annual Governance Statement

We are also required to review the Trust's Annual Report, including the Annual Governance Statement. It provided these on a timely basis with the draft accounts with supporting evidence and no significant issues were identified.

Certificate of closure of the audit

We also certified that we have completed the audit of the accounts North Bristol NHS Trust in accordance with the requirements of the Code of Audit Practice.

Audit of the Accounts

Work on Significant Audit Risks

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

Risks identified in our audit plan	Findings and conclusions
Improper revenue recognition Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. There is the risk that income recognised in the accounts for additional patient care services is not subsequently agreed to by the commissioners. The Trust also receives a significant amount of income from the provision of non-healthcare related goods and services. We identified the occurrence and accuracy of income as a risk requiring special audit consideration.	Our audit work did not identify any issues in respect of revenue recognition.
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Trust faces external pressures to meet agreed targets, and this could potentially place management under undue pressure in terms of how they report performance. Management over-ride of controls is a risk requiring special audit consideration.	Our audit work did not identify any issues in respect of management override.
Valuation of property, plant and equipment The Trust revalues its land and buildings on an annual basis to ensure that their carrying value is not materially different from current value. This represents a significant estimate by management in the accounts. We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.	Our testing of revaluation movements identified that the Trust undertakes manual calculations of the accounting entries outside of it's primary source of data, the fixed asset register. We raised a recommendation for the Trust to streamline this process. Our audit also identified a small number of non-material audit adjustments to the draft financial statements in respect of impairments, revaluations and reserves which were corrected in the final version of the statements.
Going Concern The adjusted 2018/19 financial plan agreed with NHS Improvement (NHSI) is an £18.4m deficit control total, with a savings target of £34.7m and assumed Provider Sustainability Fund (PSF) receipts of £16.2m. The 2018/19 financial plan is reliant on additional borrowing of £18.4m through the Trust's interim revenue support facility. In accordance with IAS 1 with the Department of Health and Social Care (DHSC) Group Accounting Manual (GAM), the Directors have assessed the group and Trust's ability to continue as a going concern.	We considered the Director's assessment of the group and Trust's ability to continue as a Going Concern. We were satisfied with the assessment that the financial statements should be prepared on a Going Concern basis. We assessed management's disclosures regarding the material uncertainty in respect of unapproved financing, as required by the GAM and we were satisfied with management's disclosures.

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 2017 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 overleaf.

Overall Value for Money conclusion

Based on the work we performed to address the significant risks, we are satisfied that except for the matter we identified in respect of weaknesses in proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions, the Trust had proper arrangements in all significant respects. We therefore gave a qualified 'except for' conclusion on the Trust's arrangements for securing economy, efficiency and effectiveness in the use of resources.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Trust's financial position and future financial plans

Review of outturn financial position against budget

The Trust's original 2017/18 financial plan set out to deliver a revenue budget deficit of £18.7m. This deficit position was after an assumed receipt of £13.6m Sustainability and Transformation Funding (STF) and was predicated on the delivery of £39.2m CIPs.

The Trust delivered an outturn deficit of £14.2m after bonus STF of £6.5m, favourable to the control total agreed with NHS Improvement. This represents a significant achievement by the Trust, though it should be noted that the outturn was only achieved through the use of a number of non-recurrent measures. The Trust's underlying deficit taken into 2018/19 was £48.6m.

Within the outturn financial position, income excluding donations was £4.3m favourable to plan and non-pay expenditure excluding finance costs was £0.7m favourable. Pay costs were £6.8m adverse to plan, largely due to the Trust operating above establishment due to operational pressures as well as supernumerary periods for new staff. Actual pay costs were £3.6m higher in 2017/18 when compared to 2016/17, though this masks a significant reduction in temporary staff expenditure between the two years. Throughout the year, the Board remained sighted on the work being undertaken to deliver the year end outturn.

The Trust remains reliant on loan support to finance the underlying revenue deficit, and in 2017/18 drew down an additional £28.7m in DHSC loans. This takes total loans to £162.6m, and the Trust forecasts an additional borrowing requirement of £12.4m in 2018/19 to finance the planned revenue deficit.

Capital outturn expenditure was £16.6m against an original plan of £21.8m, largely due to the slippage of IT projects to the next financial year and lower than planned internal funding. The Trust remained within its Capital Resource Limit.

CIPs delivery

The Trust's 2017/18 budget required CIP delivery of £39.2m, representing 8% of expenditure. This included recurrent shortfalls from 2016/17.

The 2017/18 CIP requirement was communicated to Directorates who produced plans for delivery to ensure that they are driving the process. The message was to focus on cost reduction rather than increased income assumptions. At the beginning of the financial year, the Trust had identified a total of £25.2m CIP schemes and a further £3.2m of pipeline schemes, leaving a shortfall of £14m. This meant that the Trust was continually attempting to catch up to the target, with in month delivery of CIPs continually below budgeted delivery.

Outturn CIP delivery was £35.5m (6.4% of 2017/18 gross expenditure), £3.9m adverse to the plan of £39.4m with a full year effect of £32.8m achieved. Of the £35.5m of savings delivered, £29.4m (83%) were recurrent and £6.1m (17%) were non-recurrent. The Trust's reference cost for 2016/17 was 100 which continues its downward trend, demonstrating that the Trust is becoming more efficient in its use of resources.

At April 2018, a significant proportion of the annual target of CIP has yet to be identified, and only 27% of CIPs included on the tracker are currently signed off. Currently there are 161 schemes (£16.6m) due to start in quarter one, of which £13m are currently rated as red or pipeline. There is a risk that the Trust will again under deliver savings if plans are not finalised and monitored quickly.

Review of the business planning process and future financial plans

For the 2018/19 business planning process, governance arrangements were scrutinised by relevant Board Committees, with an Associate Director of Strategy and Planning appointed in November 2017. Prior to this, the process was overseen by a Task & Finish group with a varied skill base, reflecting the number of different areas that are part of the planning process. Templates were developed and distributed to ensure consistency in the capture of information, and these were designed to allow for the aggregation of information to Trust level to support contract negotiations and development of the final business plan and budget.

The 2018-19 operational plan includes an assumed growth in inpatient elective activity of 3%, significantly higher than the activity delivered in the 2017/18 financial year. Delivery of this growth is dependent upon the success of patient flow work, and this activity is one of the key risks to the financial plan recognised by the Trust Board. The assessment of bed capacity demonstrates that without changes there will be ongoing excess bed requirements throughout the year. In order to achieve a maximum bed occupancy of 92% there is a need to implement changes that support a reduction in admissions, improve the flow of patients through the hospital and a reduce how long people spend in hospital beds

Value for Money

unnecessarily. Through benchmarking against other similar organisations and reviewing patient pathways in the hospital, the Trust has identified that there are opportunities to reduce bed capacity requirements significantly whilst continuing to provide safe care for patients.

Following the original financial plan submissions to NHSI, the 2018/19 control total was adjusted to an £18.4m deficit, with £16.2m of Provider Sustainability Funding (PSF) and £34.7m of CIPs. CIP delivery also represents a key challenge to the Trust following delivery of significant savings in 2017/18 and previous years.

Conclusion

Taking the above into account, we concluded that there are weaknesses in proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

Progress of the local Sustainability and Transformation Plan

The NHS Improvement STP progress dashboard baseline view released in July 2017 rated the Bristol, North Somerset and South Gloucestershire (BNSSG) STP in category 4 – needs most improvement. The underlying data suggested that leadership was less advanced than some other regions, though more significantly the financial performance of the footprint was particularly challenging, reflecting the forecast £92m deficit across the local health economy in 2017/18.

Subsequent to the review, the STP has been renamed ‘Healthier Together’. A number of appointments have been made from across the partners, including a programme director and an independent chair. With the three BNSSG CCG’s merging and the creation of a single management team, there are already signs that the Trust and it’s Commissioners are working much better together. The Trust have also appointed a new Chief Operating Officer, with the previous post holder moving to a newly created role of Director of Partnerships. This split of roles is designed to allow the Trust to focus more time and energy on partnership working.

A change in approach to Task and Finish groups across four key themes – Urgent Care, Length of Stay, Outpatients and Mental Health – requires much closer working between the health organisations in the STP area, challenging them to look at the main issues within ‘the system’ and how these can be addressed. An example of outputs is the move toward a creation of an STP-wide estates strategy.

An Urgent Care System Plan has also been developed between the Trust and partners in BNSSG. To facilitate this a joint review of data was undertaken by the CCG and NBT to determine the diagnosis of the issues contributing to the deterioration in performance in Urgent Care and to support the identification of interventions for improvement.

Local NHS budgets in the STP footprint were forecast to be overspent by £92.8m in 2017/18, and this deficit was estimated to grow to £324m by 2020/21 without improved in-year planning and the delivery of the transformation. All financial plans (including savings) were shared amongst the partners in year, and monthly financial results monitoring across the footprint is also being undertaken. Savings identification in 2017/18 was not fully joined up amongst the health economy, with the result that some savings targets were not realistic as they were reliant on other organisations for them to be successful. The shift of approach to sharing financial plans and importantly savings targets is a positive step to ensuring that this does not happen again in 2018/19.

System specific issues as well as the internal focus on improving the financial position at the trust have meant that the progress of the STP has fallen behind some other footprints who are further advanced in the creation of Accountable Care Organisations, for example. However, there has been progress locally and the signs are that partners are working more closely. There is sufficient evidence that providers and other partners are being engaged and that the wider system issues are being addressed. It is yet to be seen whether this approach will have an impact on performance and overall a reduction in the deficit. It is considered that sufficient arrangements are in place to ensure common goals and identified and that action is being adopted to deliver sustainable health services across the area.

Conclusion

Taking the above into account, we concluded that the risk was sufficiently mitigated and the Trust has proper arrangements for working with it’s partners.

Quality Accounts

The Quality Account

The Quality Account is an annual report to the public from an NHS Trust about the quality of services it delivers. 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 set DH criteria;
- the Quality Account is not consistent with other documents, as specified in the DH guidance; and
- the two indicators in the Quality Account where we have carried out testing are not compiled in line with DH regulations and do not meet expected dimensions of data quality.

Quality Account Indicator testing

We tested the following indicators:

- Percentage of patients risk-assessed for venous thromboembolism (VTE)
- Rate of clostridium difficile infections

For each indicator tested, we considered the processes used by the Trust to collect data for the indicator. We checked that the indicator presented in the Quality Account reconciled to underlying Trust data. We then tested a sample of cases included in the indicator to check the accuracy, completeness, timeliness, validity, relevance and reliability of the data, and whether the calculation of the indicator was in accordance with the defined indicator definition.

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 DH Guidance
- We confirmed that the commentary on indicators in the Quality Account was consistent with the reported outcomes
- 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 the Trust's Quality Account on 14 June 2018.

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

Reports issued

Report	Date issued
Audit Plan	January 2018
Audit Findings Report	May 2018
Annual Audit Letter	June 2018

Fees for non-audit services

Service	Fees £
Audit related services	
- Assurance on the Trust's Quality Account	£8,000
Non-Audit related services	
- None	Nil

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory audit	62,000	62,000	77,805
Charitable fund	4,000	4,000	3,038
Total fees	**66,000**	**66,000**	**80,843**

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the group's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the group's policy on the allotment of non-audit work to your auditor.

Grant Thornton

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