



# The Annual Audit Letter for North Bristol NHS Trust

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**Year ended 31 March 2019**

**28 June 2019**



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# 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 2019.

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 23 May 2019.

## Our work

## 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.

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<b>Materiality</b>	We determined materiality for the audit of the group's financial statements to be £10,300,000, which is approximately 1.75% of the group's gross revenue expenditure.
<b>Financial Statements opinion</b>	<p>We gave an unqualified opinion on the group's financial statements on 29 May 2019.</p> <p>We included a going concern material uncertainty paragraph in our report on the Trust and group'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.</p>
<b>NHS Group consolidation template (WGA)</b>	We also reported on the consistency of the financial statements consolidation template provided to NHS England with the audited financial statements. We concluded that these were consistent.
<b>Use of statutory powers</b>	We referred a matter to the Secretary of State, as required by section 30 of the Act, on 17 April 2019 because the Trust has taken a course of action that has led to a breach of the rolling breakeven duty for the years ended 31 March 2019 and 31 March 2020.

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# Executive Summary

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<b>Value for Money arrangements</b>	We were satisfied that the Trust put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources except for for in relation to 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 Board of Directors on 29 May 2019.
<b>Quality Account</b>	We completed a review of the Trust's Quality Account and issued our report on this on 27 June 2019. We concluded that the Quality Account and the indicators we reviewed were prepared in line with the Regulations and guidance.
<b>Certificate</b>	We certified that we have completed the audit of the financial statements of North Bristol NHS Trust in accordance with the requirements of the Code of Audit Practice on 29 May 2019.

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## 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 financial statements in accordance with the national deadline.
- 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.

**Grant Thornton UK LLP**  
**June 2019**

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# Audit of the Financial Statements

## 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 financial statements to be £10,300,000, which is approximately 1.75% of the group's gross revenue expenditure. We determined materiality for the audit of the Trust's financial statements to be £10,275,000, which is approximately 1.75% of the Trust'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 disclosures in the remuneration report at £20k.

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 financial statements 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.

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# Audit of the Financial Statements

## 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.

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### Risks identified in our Audit Plan

#### Improper Revenue Recognition (ISA 240 presumed risk)

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. We rebutted this presumed risk for the following revenue streams of the group and Trust:

- Block contract income element of patient care revenues
- Education & training income
- Provider Sustainability Funding (PSF)
- Other patient care revenues.

We did not deem it appropriate to rebut this presumed risk for all other material streams of revenue, including patient care contract variations. We identified the occurrence and accuracy of these income streams as a significant risk.

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#### Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override 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.

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#### Valuation of land and buildings

The Trust revalues its land and buildings on a five-yearly basis. In 2018/19, the Trust has engaged a valuation expert to complete a full valuation of its land and buildings. This valuation represents a significant estimate by management in the financial statements and we therefore identified valuation of land and buildings as a significant risk.

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### Commentary

Using the Department of Health and Social Care Agreement of Balances mismatch report, we identified that there was a mismatch between the Trust and Bristol, North Somerset and South Gloucestershire CCG, with North Bristol NHS Trust showing a balance receivable that was £2.4m more than the corresponding payable balance recognised by the CCG. The corresponding income and expenditure mismatch between the two organisations was £4.6m.

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Our audit work identified disclosure changes to the financial statements to ensure that key judgements and areas of estimation uncertainty were clear to the reader of the accounts. Our testing of journal entries did not identify any issues in respect of management override of controls.

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Our testing identified an issue that resulted in an overstatement of both the revaluations and impairments recognised in the financial statements, which were both over stated by £2.87m due to the way that asset revaluations had been processed. The net impact of this on the Trust's financial statements was £nil.

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# Audit of the Financial Statements

## 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.

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### Risks identified in our Audit Plan

#### Going Concern

Management submitted their 2019-20 financial plans to NHS Improvement which indicate that the Trust has accepted a £5.4m revenue deficit control total for the year, after delivery of £25m of efficiency benefits and receipt of £24.4m of Provider Sustainability Funding (PSF) and Financial Recovery Funding (FRF).

The 2019/20 financial plan is reliant on additional borrowing of £5.2m through the Trust's interim revenue support facility.

In accordance with IAS 1 with the DHSC Group Accounting Manual (GAM), the Directors have assessed the group and Trust's ability to continue as a going concern as there is no indication that the services provided by the Trust will cease to be provided. The Directors have disclosed a material uncertainty that may cast significant doubt about the group and Trust's ability to continue as a going concern, as the Trust is reliant on funding that has yet to be approved.

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### Commentary

We considered the Director's assessment of the group and Trust's ability to continue as a Going Concern and 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.

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# Audit of the Financial Statements

## **Audit opinion**

We gave an unqualified opinion on the group's financial statements on 29 May 2019.

## **Preparation of the financial statements**

The group presented us with draft financial statements in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

## **Issues arising from the audit of the financial statements**

We reported the key issues from our audit to the group's Audit Committee on 23 May 2019.

## **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 financial statements with supporting evidence.

## **Whole of Government Accounts (WGA)**

We issued a group return to the National Audit Office in respect of Whole of Government Accounts, which did not identify any issues for the group auditor to consider.

## **Other statutory powers**

We referred a matter to the Secretary of State, as required by section 30 of the Act, on 17 April 2019 because the Trust has taken a course of action that has led to a breach of the rolling breakeven duty for the years ended 31 March 2019 and 31 March 2020.

## **Certificate of closure of the audit**

We certified that we have completed the audit of the financial statements of North Bristol NHS Trust in accordance with the requirements of the Code of Audit Practice on 29 May 2019.



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# 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 risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Trust in May 2019, we agreed recommendations to address our findings.

## Overall Value for Money conclusion

We are satisfied that, in all significant respects, except for the matter we identified below, the Trust put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

We concluded that there are weaknesses in proper arrangements for planning finances in the medium term effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. In arriving at our conclusion, our main considerations were:

- The Trust delivered a draft revenue outturn deficit of £11.2m which is favourable to the revised deficit of £18.4m agreed with NHS Improvement. The Trust received £24.2m of Provider Sustainability Funding (PSF), including £10.1m of incentive PSF, and relied on this and a number of other non-recurrent measures to deliver the control total.
- As a result of the non-recurrent measures, the underlying deficit taken into 2019/20 was £48.8m compared to an underlying deficit of £48.6m at April 2018. The Trust continues to require significant cash support to finance the on-going revenue deficit.
- Efficiency savings of £34.7m were included within the 2018/19 operating plan. The Trust delivered £26.3m (75.7%) of these in-year, with £11m of this (41.8%) relating to one-off benefits.
- The Trust's 2019/20 control total is a revenue deficit of £5.4m which represents a significant challenge and there are a number of key risks to the delivery of this plan.

# Value for Money conclusion

## 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 financial planning

### Review of outturn financial position against budget

The Trust's adjusted 2018/19 control total was an £18.4m deficit, with receipt of £16.2m of PSF and delivery of £34.7m of Cost Improvement Programmes (CIPs). The Trust's revenue outturn was a deficit of £11.2m after PSF, £7.4m favourable to the control total. Within the outturn position was an allocation of £23.2m of PSF for the year, including £10.1m of incentive PSF notified by NHS Improvement in April 2019, which the Trust was eligible to receive as they were favourable to the pre-PSF control total by £0.2m. Of the CIPs target of £34.7m, the Trust delivered £26.3m (75.7%) in-year, with £11m of this (41.8%) relating to schemes of a non-recurrent nature.

The Trust started the 2019/20 financial year with an annual deficit run rate of circa £49m, and whilst this has reduced from a circa £55m deficit when the Trust exited Financial Special Measures in July 2017, there has not been significant improvement over the last 2 years, with a similar deficit run rate at the beginning of the financial year. This has been due to the non-recurrent measures used to deliver control totals, as well as benefits from delivered CIPs being used to fund commitments rather than reducing the ongoing deficit. This continued deficit requires significant cash support in the form of loans.

Following significant deterioration in financial performance against plan in July and August 2018, a forecast outturn report was produced in September 2018 which set out different scenarios for the 2018-19 outturn and identified several one-off measures designed to bring the outturn closer to budget. The reporting was therefore accurate and timely, and allowed the Trust Board to understand the financial reality and take corrective action to address the issues in year.

### 2019-20 financial planning

The Trust's plan was the culmination of the five clinical divisional plans and corporate directorate plans, and the Trust also worked with system partners to co-create a single system plan. Activity plans were developed taking into account expected demand based on demographic growth and historic trends, future performance projections and bed capacity and the activity plan was shared with the CCG as part of contract negotiations. Contract negotiations began with a significant gap between the expectations of the Trust and of the CCG in terms of activity growth expectations. There is also a risk in respect of the blended tariff approach that Commissioners required for non-elective activity, which sees any increase in demand over and above growth built into contract reimbursed at only 20%.

The Trust's 2019/20 revenue control total is a deficit of £5.4m. The Trust's Long Term Financial Model is still being drafted, and it is not expected that a submission will be made to NHS Improvement until the second half of 2019. The CIPs target included in the final operating plan is £25m, and in April 2019 the Trust had identified £23.4m of schemes, with £4.8m of these being pipeline schemes.

**We concluded that there are weaknesses in proper arrangements for planning finances in the medium term effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.**

### **Working with partners and the STP to develop integrated plans to deliver sustainable healthcare**

The Bristol, North Somerset and South Gloucestershire (BNSSG) STP is known as 'Healthier Together'. The area is working towards becoming a Wave Three Integrated Care System in 2020, and joined the Aspirant Integrated Care System Programme in September 2018 to accelerate this. The focus is on six areas of change to achieve this ambition and the Trust is actively involved in each of these aspects with other members of the region.

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## Value for Money conclusion

There has been greater dialogue and collaboration between partners than there has been in previous planning rounds and as a system, three priorities were identified early on in the process that the system-wide plan set out to address; financial sustainability, urgent care and workforce. These priorities are linked and referenced within the Trust's own operating plan.

In 2018 STP plans were refreshed with the second phase of priority transformation programmes launched in June 2018. These include themes such as Mental Health, Acute Care Collaboration, Urgent Care, Healthy Weston, Digital and Maternity. Although some 2019/20 benefits are expected, the full impact is not expected until future years. North Bristol NHS Trust are involved in a number of these programmes along with their system partners.

System-wide capacity planning has also started, although again this is in its early stages with an initial iteration drafted. There is agreement in principle to deliver a single system bed model for the winter of 2019/20, and this will be a key step in moving toward a system-wide delivery model.

The system is sharing financial plans and has a better understanding of the underlying position for the system footprint as a whole, however there remains a significant challenge in respect of the financial sustainability of the Healthier Together area. The NHS organisations in the area forecast to improve the pre-Commissioner Sustainability Fund/Provider Sustainability Fund deficit position from £92.8m in 2016/17 to £60.3m in 2018/19, though this is largely due to non-recurrent measures and the underlying position is assessed as a deficit of £111.9m.

The system plan is heavily focussed on the NHS organisations within Healthier Together with little mention of other partners such as the Local Authorities in the area. Working closely with the relevant Councils will also be key to meeting some of the challenges faced by the local health economy, recognising that they continue to review the services that they are able to provide within the financial resources made available to them.

Whilst challenges are still present, the system has continued to progress STP plans, though in some cases more slowly than the system would have hoped.

**Taking the above information into account, we concluded that the risk was sufficiently mitigated and the Trust has proper arrangements working with its partners.**

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# Quality Account

## 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); and
- Percentage of patient safety incidents resulting in severe harm or death.

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; and
- 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 27 June 2019.

# 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	Date issued
Audit Plan	December 2018
Audit Findings Report	May 2019
Annual Audit Letter	June 2019

Fees	Proposed fee	Final fee	2017/18 fee
Trust Audit	£62,000	£62,000	£62,000
Charitable Fund	£4,000	£4,000	£4,000
<b>Total audit fees (excluding VAT)</b>	<b>£66,000</b>	<b>£66,000</b>	<b>£66,000</b>

Fees for other services	Proposed fee	Final fee	2017/18 fee
<b>Audit related assurance services:</b>			
Assurance on your quality account	£8,000	£8,000	£8,000

## 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 UK LLP completed a jointly commissioned review of non-elective short stay admissions data for North Bristol NHS Trust and Bristol, North Somerset and South Gloucestershire CCG. This work was completed in year and the cost was fully funded by the CCG.



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