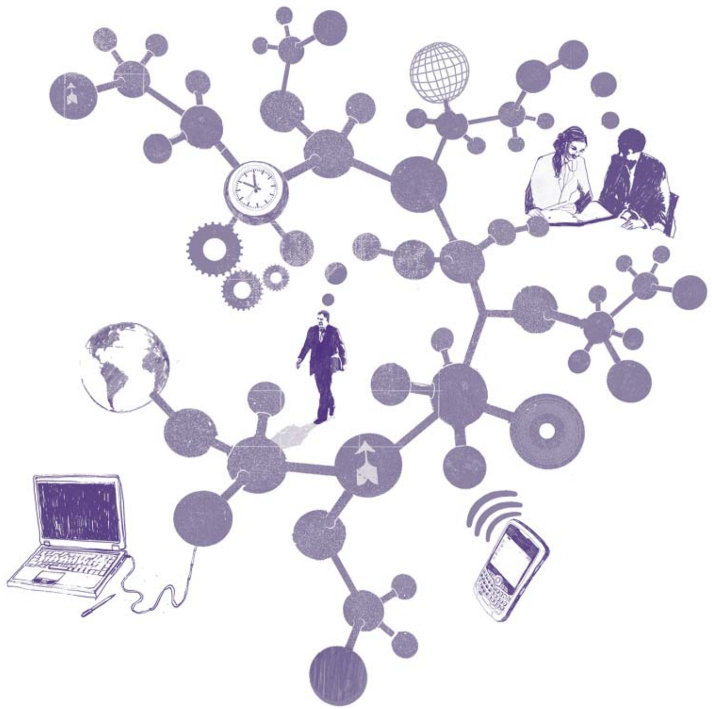
The Annual Audit Letter For Avon and Wiltshire Mental Health Partnership NHS Trust

Year ended 31 March 2017

June 2017



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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 Avon and Wiltshire Mental Health Partnership NHS Trust (the Trust) for the year ended 31 March 2017.

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 Risk Committee as those charged with governance in our Audit Findings Report on 26 May 2017.

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 26 May 2017.

We included an emphasis of matter 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.

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 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 report on the financial statements on 26 May 2017.

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 certify that we have completed the audit of the accounts of Avon and Wiltshire Mental Health Partnership 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 15 June 2017. We concluded that the Quality Account and the indicators we reviewed were prepared in line with the Regulations and guidance.

Other work completed
We have completed our independent examination of the Trust's charitable funds and issued our report on 26 May 2017.

Working with the Trust

- An efficient audit – we delivered an efficient audit with you through April and May 2017, delivering our opinion on the accounts four days before the deadline, releasing your finance team for other work.
- Identifying areas for improvement – you have taken great strides forward in your processes for producing the financial statements and ensuring that there is robust evidence to support the underlying transactions. Out audit has identified a small number of areas where further improvements could be made to ease the burden on your finance team and enable audit work to be completed more efficiently.
- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.
- Providing assurance over data quality – we provided assurance over two key indicators and compliance with requirements.
- 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 2017

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 £3,070,000, which is 1.4% of the Trust's gross operating costs. 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 senior manager salaries and allowances and auditor remuneration.

We set a lower threshold of £154,000, above which we reported errors to the Audit and Risk 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 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 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.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
The revenue cycles include fraudulent transactions Under ISA (UK and Ireland) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. For this Trust, we concluded that the greatest risk of material misstatement related to the occurrence of healthcare income and the existence of the associated receivables and existence of non-healthcare revenue and receivables.	As part of our audit work we; • Reviewed and tested of revenue recognition policies • Reviewed accounting estimates, judgments and decisions made by management • Tested material revenue streams	Our audit work did not identify any issues in respect of revenue recognition.
Employee remuneration Employee remuneration accruals understated (remuneration expenses not correct)	As part of our work we: • Documented accounting system processes • Identified and walked through activity level controls • Undertook a trend analysis of salaries and wages • Tested salaries and wages of the senior staff	Our audit work did not identify any significant issues in relation to the risk identified. However, we identified the following issues: • the pay multiple reported in the annual report was calculated incorrectly as, for those employees starting their employment in mid-month, the annualised pay calculation was incorrect. The impact of this error is not significant. • the cost of Board members was incorrectly disclosed in Note 5 as £798,000. The figure was amended to £1,187,000.

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.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Going Concern In light of the Trust's deficit for the year, its financial forecast and reliance on additional cash support there is a material uncertainty that casts significant doubt about the Trust's ability to continue as a going concern. There is a risk that the Trust does not adequately disclose this material uncertainty.	• We reviewed the Trust's cashflow forecasts for the 14 month period to May 2018. There are two forecasts, one based on delivery of the required savings of £20.5 million and the other based on savings identified to date (£11.6 million). Both forecasts included the need for additional support; £6.3 million if all savings are achieved and up to a further £8.9 million if no further savings are identified. • We discussed and agreed the need for an additional disclosure in the accounts about the Trust's financial position. The Trust added such a disclosure to Note 1.1 - Accounting Policies – Going Concern.	The Trust has considered the material uncertainties in respect of going concern, underpinned by sensitivity analysis, and made the appropriate disclosures required in the financial statements. We drew attention to these disclosures in our Auditor's Report as an Emphasis of Matter.
Operating expenses Creditors understated or not recorded in the correct period (operating expenses understated)	As part of our work we: • Documented accounting system processes • Identified and walked through activity level controls • Reviewed payments for unrecorded liabilities • Obtained an understanding of the accruals process • Reviewed accounting estimates, judgments and decisions made by management • Tested of accruals	Our audit work not identify any significant issues in relation to the risk identified. However, when testing for unidentified liabilities, we identified an invoice received after the draft accounts were prepared, which covered the 12 month period from 1 March 2017 and therefore one month of the charge should have been debited to 2016/17. Expenditure and payables were understated by £14,151. Having projected an error based on the whole population, we were satisfied that there was a very low risk of material error.

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.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Property, plant and equipment (PPE) Property, plant and equipment activity not valid	As part of our work we: • Documented and walked through management's controls over the capitalisation of expenditure on property, plant and equipment. • Substantively tested a sample of PPE additions • Substantively tested reclassifications.	Whilst our audit work did not identify any significant issues, we recognised that the Head of Financial Accounting and Treasury Management had undertaken a considerable amount of work this year to reconcile the fixed asset register with District Valuers report, the revaluation reserve and the accounts. Our discussions and audit work identified that the current way that the fixed asset register has been set up within the integrated financial ledger makes it very complex and time consuming to reconcile individual assets, and their constituent components, to the information provided by the District Valuer. Further work is required to better align the fixed asset register at the detailed level with the information included within the District Valuer's report. Our testing of the existence of IT assets identified that the asset described as "11/12 Finance System" related to the implementation of the Agresso system, but it was not clear if hardware IT assets had been capitalised or if it was project and other costs associated with the implementation, which should be accounted for as an intangible asset. Due to this uncertainty, we extended our testing to an additional 12 items. Whilst we obtained assurance over four of our extended sample, it was not possible to obtain assurance over the remainder, as the Trust's IT team had, in the light of the recent NHS cyber attack, focussed its attention on cyber security and integrity of the Trust's IT systems. As the asset life is not likely to be significantly different, whether a tangible (PPE) or intangible asset, the carrying value is not likely to differ significantly. We recommend that the Trust reviews all IT (PPE) assets in 2017/18 to ensure that they are correctly categorised.

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Trust's financial statements on 26 May 2017, in advance of the national deadline.

The Trust made the accounts available for audit in line with the national timetable for submission, 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 accounts

We reported the key issues from our audit to the Trust's Audit and Risk Committee on 26 May 2017. There were no unadjusted misstatements other than one classification issue.

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.

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 2016 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 below.

As part of our Audit Findings report agreed with the Trust in May 2017, we agreed recommendations to address our findings.

Delivering on its savings plans and achieving its cash targets will be a major challenge for the Trust over the coming year. It is imperative that the Board has a tight grip on the financial position, on the delivery of cash and savings targets on a monthly basis, and on the Trust's ability to continue as a going concern. We recommend that the Board gives this its critical attention both in its formal Board meetings and through its wider programme of risk and financial management.

Overall VfM conclusion

We are satisfied that, in all significant respects, except for the matter we identified on the next page, the Trust put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

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.

Significant risk	Work to address	Findings and conclusions
Financial outturn The Trust is forecasting that it will incur a deficit in 2016/17 of £9 million, compared to a budgeted surplus of £2.5 million.	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 2016/17, including the impact on service delivery.	The Trust set a budget for 2016/17 that planned a year end surplus of £2.48 million. However, shortly into the new year, following changes to the senior leadership team, it became apparent that this budget was not realistic and that a sizeable deficit was likely to be delivered. NHSI were contacted and they undertook a review of the accounting, governance and audit arrangements and summarised their findings in a brief report to the Trust. In the meantime, urgent action was taken by the new Director of Finance, who was appointed in September 2016, and other Board members to action to fully understand the 2016/17 position and address the weaknesses identified in the original budget setting process, which had not even been loaded onto the financial ledger following its approval by the Board. These actions mitigated some of the risks and stabilised the position for 2016/17 and put the Trust on a more sound platform for developing the 2017/18 budget. As a result, the potential level of overspend in 2016/17 was reduced to an extent, but a deficit of £8.9 million was incurred by the end of the financial year. The detailed review undertaken by the new Director of Finance identified a number of transactions that were undertaken as part of the closedown of the 2015/16 financial year that, once corrected, had a negative impact on 2016/17. Examples included invoices being raised at year end, which were then agreed as part of the national Agreement of Balances exercise used by auditors to gain independent assurance, for which credit notes were subsequently issued after the audit opinion has been issued. This matter has subsequently been referred to NHSI as a concern by ourselves as external auditors. For 2017/18 the Trust is aiming to deliver a planned control total surplus of £2.6 million. However, as at May 2017, a further £8m of savings still needed to be identified. This represented a significant risk to the Trust and, if these savings are not identified and delivered, or are delivered through non recurrent cash saving means, then the Trust may deliver an unplanned deficit in 2017/18 and produce significant challenges for its financial stability in future years. **We concluded that there were weaknesses in the Trust's arrangements for putting together and agreeing its budget for 2016/17. Whilst the processes for 2017/18 are more robust, a balanced budget with deliverable savings has yet to be developed.**

Key findings (continued)

Significant risk	Work to address	Findings and conclusions
Workforce planning Pay costs are currently forecast to exceed budget by around £5 million at year-end. This is as a result of higher than expected temporary staffing costs, which contributes to the forecast deficit noted above.	We reviewed the Trust's workforce planning arrangements with a particular emphasis on the management of agency costs, given that a reduction in temporary staff costs was a key element of the Trust's financial plan.	The Trust has struggled to contain agency costs and, as a result, pay expenditure exceeded budget by £6.2 million in 2016/17. To help to address this, the Trust has attempted to persuade long term agency staff to become full time Trust employees. However, the Trust has only had limited success in achieving this. Expenditure on agency staff is analysed in detail and shared with senior finance, operations and nursing staff. The Trust has stepped up its recruitment activities as well as speeded up the process for appointment of staff. However, this has not had a marked impact on increasing the number of permanent staff. Each LDU was required to produce a workforce plan, but we have been informed that these plans were not robust and therefore further work is required to get them into a satisfactory position. As a consequence, the Trust does not have a robust trust-wide workforce plan in place. The Trust plans to have such a plan in place by the end of May 2017. **We concluded that there were weaknesses in the Trust's arrangements for planning, organising and developing the workforce effectively.**

Key findings (continued)

Significant risk	Work to address	Findings and conclusions
CQC inspection An inspection by the Care Quality Commission in May 2016 (reported in September 2016) rated the Trust as requiring improvement overall.	We reviewed how the Trust is implementing and monitoring delivery of the action plan agreed to address the findings of the CQC inspection.	The CQC report included 76 'must do' and 'should do' actions, of which 24 were 'must do' actions. The Trust has implemented a tracker, which is updated weekly, and shows that most of the actions are green RAG rated or are marked as completed (blue). However, there are a number of actions (11 as at 8 May 2017) that are off track and require action to be taken. For some of these actions, narrative is provided to outline the current position and what needs to be done, but this is not the case for all off-track actions. We recommend that appropriate narrative should be provided for all actions that are off track. **We concluded that the Trust has made progress in addressing the improvement plan. However, until the CQC has completed its re-inspection, we are unable to conclude that the Trust has proper arrangements in place to demonstrate and apply the principles of good governance.**
Procurement The Trust entered into a contract with Meridian, who were to provide consultancy advice on improving resource deployment across the operational activities of the Trust and remunerated on a commission basis of the cash savings achieved, without following appropriate governance procedures. Whilst proper approvals have now been put in place, the initial procurement weaknesses could have committed the Trust to significant expenditure without proper authorisation, representing a significant governance risk.	We will review the arrangements in place for authorising significant contracts and how the Trust has responded to Internal Audit work in this area.	Meridian were initially appointed to undertake a review in the Wiltshire area, but the scope was then extended to cover other areas of the Trust. Following an internal review of large contracts, it was identified that this extension had not been properly approved. However, before Meridian started its work in other areas, the Trust's Executive team approved the contract extension and this decision was subsequently ratified by NHSI. The Trust's arrangements for tendering and contracting, including authorising significant contracts, are set out in the Trust's standing financial instructions and standing orders, including when and how any waivers are to be exercised. It is a requirement that any waiver must be approved by the Director of Finance, Chief Executive or Chair and then reported to the Audit and Risk Committee. This process was not followed in relation to the extension of the Meridian contract, indicating a failure in the governance arrangements. To help to ensure compliance, a procurement manual is being written, which is expected to be finalised by the summer of 2017. **We concluded that whilst there was a significant failure in relation to this contract, the issue has been identified and the risk has been sufficiently mitigated. The Trust is now taking action to ensure that it has proper arrangements for acting in the public interest through demonstrating and applying the principles of good governance.**

Key findings (continued)

Significant risk	Work to address	Findings and conclusions
Out of area placements Out of area placements is a significant expenditure area for the Trust. We understand that some placements have not resulted in income from CCGs, which therefore affects the Trust's bottom line.	We reviewed how the Trust determines when an out of area placement is required and how it is determined where the placement should be made and how such placements are approved, including approval by the relevant CCG.	At the beginning of each year, contracts are negotiated with all of the local CCGs. These contracts outline the risk share agreement and depending on what type of patient, and what type of bed they require, the risk is split between AWP and the CCGs. No placements require CCG approval before they are made. Agreements have been negotiated with two other hospitals (Priory and Cygnet Kewstoke) so as to maintain as many placements within the Trust's area. These contracts were set up in May 2015. There is one particular case where the Trust has not received income for a placement as no CCG would accept responsibility for the patient. This placement falls outside the arrangements outlined below as the Trust consider Salford CCG to be responsible for the patient. This is having a significant impact on the Trust's financial position as the total amount receivable to date is £560,000. **We concluded that the risk was sufficiently mitigated and the Trust has proper arrangements to work with other parties to deliver strategic priorities.**

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:

- 100% enhanced Care Programme Approach patients receiving follow-up contact within seven days of discharge from hospital
- admissions to inpatient services had access to crisis resolution home treatment teams.

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 final version of the Quality Account had been prepared in line with the requirements of the Regulations, but some of the requirements, such as disclosing income from CQUINs, were not reflected in the draft version.
- 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. However, the CPA 7 day indicator incorrectly reported breaches in relation to patients that had died shortly after discharge. This understated the Trust's performance, but not materially.
- 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 15 June 2017.

Appendix A: Reports issued and fees

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

Fees

	Planned £	Actual fees £	2015/16 fees £
Statutory audit	41,681	41,681	41,681
Independent examination of your Charitable fund	1,425	1,425	1,425
Total fees (excluding VAT)	**43,106**	**43,106**	**43,106**

Reports issued

Report	Date issued
Audit Plan	February 2017
Audit Findings Report	May 2017
Annual Audit Letter	June 2017

Fees for other services

Service	Fees £
Audit related services	
Assurance on your quality report	10,000

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Trust. 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 Trust's auditor and have ensured that appropriate safeguards are put in place.

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

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