

Norfolk Community Health and Care NHS Trust

Year ending 31 March 2014

Annual Audit Letter

31 July 2014

Ernst & Young LLP



EY

Building a better
working world

The Board of Directors
Norfolk Community Health and Care NHS Trust
Elliott House
130 Ber Street
Norwich
Norfolk
NR1 3FR

31 July 2014

Dear Board members,

Annual Audit Letter 2013/14

The purpose of this Annual Audit Letter is to communicate to the Directors of Norfolk Community Health and Care NHS Trust (the Trust) and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work to those charged with governance of the Trust in the following report:

2013/14 Audit Results Report for Norfolk Community Health and Care NHS Trust	Issued 2 June 2014
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The matters reported here are the most significant for the Trust.

I would like to take this opportunity to thank the employees of the Trust for their assistance during the course of our work.

Yours faithfully



Neil A Harris
For and on behalf of Ernst & Young LLP
Luton
Enc

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In April 2014 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the accountable officer of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Executive summary

Responsibilities

Our 2013/14 audit work has been undertaken in accordance with the Audit Plan issued on 24 February 2014 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Trust is responsible for preparing and publishing its statement of accounts, annual report and annual governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- ▶ forming an opinion on your financial statements;
- ▶ forming a conclusion on the arrangements that the Trust has in place to secure economy, efficiency and effectiveness in its use of resources;
- ▶ reviewing, and reporting on, as appropriate, other information published with the financial statements, including the annual governance statement, the annual report and the remuneration report; and
- ▶ undertaking any other work specified by the Code of Audit Practice.

Summarised below are all elements of our work:

Audit the financial statements of the Trust for the financial year ended 31 March 2014 in accordance with International Standards on Auditing (UK & Ireland)	On 6 June 2014 we issued an unqualified audit opinion in respect of the Trust.
Report to the Trust's on its summarisation schedules Report to the National Audit Office on the accuracy of summarisation schedules	On 6 June 2014 we issued an unqualified report on the Trust's summarisation schedules We reported our findings to the National Audit Office on 6 June 2014. We had no matters to report.
Form a conclusion on the arrangements the Trust has made for securing economy, efficiency and effectiveness in its use of resources.	On 6 June 2014 we issued an unqualified value for money conclusion.
Issue a report to those charged with governance of the Trust (the Audit Committee) communicating significant findings resulting from our audit.	On 2 June 2014 we issued our report in respect of the Trust, which we discussed with the Audit Committee on 6 June 2014.

<p>Consider the information published with the financial statements, including the Trust's annual governance statement and annual report. We identify any inconsistencies with other information of which we are aware from our work and consider whether it complies with guidance published by the Department for Health.</p>	<p>On 6 June 2014 we issued our report. We had no matters to report.</p>
<p>Consider whether, in the public interest, we should make a report on any matter coming to our attention in the course of the audit.</p>	<p>No issues to report.</p>
<p>Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act, including whether a referral to the Secretary of State should be made.</p>	<p>No issues to report.</p>
<p>Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.</p>	<p>On 6 June 2014 we issued our audit completion certificate</p>

2. Key findings

2.1 Financial statement audit

We audited the Trust's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and issued an unqualified audit report on 6 June 2014.

In our view, the underlying quality of the process for producing the accounts, including the supporting working papers, was very good.

<p>▶ Significant risk 1: Consolidation of NHS Charitable Funds</p> <p>▶ Management determined that the Trust's Charitable Fund required consolidation into the Trust's accounts under International Accounting Standard (IAS) 27. Management provided a third balance sheet for the period 1 April 2012 in line with the Manual for Accounts. The Trust has also eliminated inter-group balances.</p> <p>▶ Following our audit, management has:</p> <ul style="list-style-type: none"> ▶ Amended Disclosure Note 27 Financial Instruments to recognise the pre-consolidation and group position separately for the material sum for Charity Investments; ▶ These corrected adjustments to the disclosure notes to the financial statements do not impact on the Trust's reported position or main financial statements.
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<p>▶ Significant risk 2: Transfer of Norfolk PCT Estate</p> <p>▶ Premises, previously owned by Norfolk PCT but used by the Trust, transferred to the Trust on 1 April 2013 with a net book value of £53.8m. Management has reviewed these assets to ensure it has accounted for and disclosed these assets appropriately in the financial statements</p> <p>▶ Following our audit, management has:</p> <ul style="list-style-type: none"> ▶ Amended Note 14.1 Tangible Non-Current Assets in line with the Manual for Accounts to show upward revaluations and downward revaluations (impairments) at separate gross values rather than as a net value, and written back accumulated depreciation on upward revaluations ▶ These corrected adjustments to the disclosure notes to the financial statements do not impact on the Trust's reported position or main financial statements. <p>Our audit found weaknesses in the Trust's non-current asset register in the presentation of information and the ease of agreement with the underlying records and we are recommending improvements for 2014/15.</p>

<p>▶ Significant risk 3: Risk of Fraud in Revenue Recognition and Management Override</p> <p>▶ The Trust faces continuing financial pressures due to reduced external funding and is also seeking to achieve foundation trust status. This increases the pressure on management to achieve financial targets and presents a risk of fraud in revenue recognition.</p> <p>We have completed testing as set out in our Audit Plan. We have no significant issues to report from the work undertaken.</p>

2.2 Value for money conclusion

We are required to carry out sufficient and relevant work in order to conclude whether the Trust has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

In accordance with guidance issued by the Audit Commission, in 2013/14 our conclusion was based on two criteria:

- ▶ The organisation has proper arrangements in place for securing financial resilience; and

- ▶ The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion. We would like to bring the following matters to your attention.

Key finding 1: Sustaining Financial Performance

- ▶ The Trust recorded a £3.1million surplus in 2013/14 against its target of £2.8 million (revised from £1.8 million) representing an increase on the £2.7 million surplus recorded in 2012/13 and £0.5 million for 2011/12.
- ▶ In October 2013, the Trust revised its target surplus from £1.8 million to £2.8 million, reporting at 31 March 2014 an achieved surplus of £3.1 million. This arose from net favourable unplanned variances of £1.3 million against budget.
- ▶ The delivery of the Cost Improvement Plans (CIPs) was key to achieving the Trust's initial target of £1.8 million surplus in 2013/14. However, in achieving £7.9 million CIPs against its £7.7 million recurrent target only £4.6 million were recurrent savings. The Trust met the remaining savings of £3.3 million by using non-recurrent savings.
- ▶ For 2014/15, management is forecasting a £1.8 million surplus. Achieving this surplus again depends on delivery of the Trust's CIPs. The Trust forecasts it needs to achieve £30.3 million CIPs from 2014/15 to 2019/20 to meet its surplus targets. At April 2014, forecast outturn shows the Trust delivering £3.9m CIPs against a 2014/15 target of £5.5 million. The Trust needs to bridge this £1.6m gap and in particular the £1.4 million unidentified CIPs to date.
- ▶ The Trust is developing its use of benchmarking and unit costing information, During 2013/14, the Trust has continued to lead a national benchmarking group, has undertaken exercises to compare 2012-13 reference costs and is involved with developing a national community tariff. In addition, management has used a workforce benchmarking exercise to inform recurrent CIP planning for 2014/15 and beyond. This represents good progress. However, the Trust can take further steps to demonstrate more clearly how benchmarking exercises particularly in clinical activity are influencing financial planning and strategy.
- ▶ In sustaining its financial performance over the medium-term, the Trust should take action to:
 - ▶ Reduce its dependence on non-recurrent cost improvement plan savings (CIPs) to meet its targets;
 - ▶ Close the £1.6 million savings gap in its 2014/15 recurrent CIPs plans in the short term; and
 - ▶ Demonstrate more clearly in clinical activity how the outcomes of its benchmarking exercises in clinical activity are influencing financial planning and strategy.

2.3 Department of Health group instructions

We reported to the National Audit office (NAO) on 6 June 2014 the outcomes of our review of your summarisation schedules conducted under the departmental account group instructions issued by the NAO in December 2013. We did not identify any areas of concern.

2.4 Annual governance statement

We are required to consider the completeness of disclosures in the Trust's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with Department of Health guidance. We completed this work and the Trust updated the Statement as a result of our audit. We have no significant issues to report.

3. Audit fees

Our Audit Plan issued in March 2014 recorded a planned audit fee of £58,402 in line with the Audit Commission's scale fee for the audit.

	Present final fee 2013/14	Planned fee 2013/14	Scale fee 2013/14 £'000
Total Audit Fee – Code Work	60,142	58,402	58,402
Non- audit work – Sure Start	*To be confirmed	*To be confirmed	Not Applicable

We indicated in the June 2014 Audit Results Report that we undertook unplanned work in completing our audit which may result in an extra audit fee.

The Director of Finance has agreed a variation to the scale fee of £1,740 for 2013/14. The increase is subject to review by the Audit Commission. Should the Audit Commission agree the revision to the 2013/14 scale fee for the audit, I will inform the Audit Committee at a later date.

So far, we have not undertaken any non-audit work for the Trust during 2013/14. However, in 2012/13, Norfolk Community Health and Care NHS Trust engaged Ernst and Young LLP to report whether sums expended by the Trust on the Sure Start contract lots have been spent on Sure Start activities for the Sure Start children centres as specified in the Trust's contract with Norfolk County Council.

This work is undertaken under a separate engagement and within agreed upon procedures. The estimated fee for this work is between £9,000 and £11,000.

Should the work be carried out in 2013/14, we envisage a similar fee range.

4. Control themes and observations

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal of internal control we communicated to those charged with governance at the Trust, as required, significant deficiencies in internal control.

The matters reported are shown below and are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported to the Board.

We have not identified any significant deficiencies in internal control that might result in a material error in your financial statements.

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