

The Audit Findings for East Lancashire Hospitals NHS Trust

Year ended 31 March 2017

24 May 2017

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24 May 2017

Dear Members of the Audit Committee

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Audit Findings for East Lancashire Hospitals NHS Trust for the year ending 31 March 2017

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Karen Murray
Engagement Lead

Chartered Accountants

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Contents

Section	Page
1. Executive summary	4
2. Audit findings	8
3. Value for Money	20
4. Other statutory powers and duties	25
5. Fees, non-audit services and independence	27
6. Communication of audit matters	29

Appendices

- A Action plan
- B Audit opinion

Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Purpose of this report

This report highlights the key issues affecting the results of East Lancashire Hospitals NHS Trust ('the Trust') and the preparation of the Trust's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK and Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Trust's financial statements give a true and fair view of the financial position of the Trust and its income and expenditure. We are also required to give an opinion on some elements of the Remuneration and Staff report. We are required to consider other information published together with the audited financial statements, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Trust acquired in the course of performing our audit; or otherwise misleading and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Trust has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act so that if we are not satisfied then we are required to report by exception.

The Act also details the following additional powers and duties for Trust auditors, which we are required to report to you if applied:

- a referral to Secretary of State if we have reason to believe that the Trust, or an officer of the Trust, is about to make, or has made, a decision involving unlawful expenditure, or is about to take, or has taken, unlawful action likely to cause a loss or deficiency (section 30 of the Act);

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Trust or brought to the public's attention (section 24 of the Act); and
- written recommendations which should to be considered by the Trust and responded to publicly (section 24 of the Act).

In addition to our responsibilities under the Code we have also agreed to carry out a limited assurance engagement on the Trust's NHS Quality Accounts in accordance with the requirements of the 'NHS Quality Accounts Auditor guidance 2014-15', (which remains extant for 2016-17).

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated February 2017.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- clearance of outstanding queries in respect of one after date payment, employee remuneration and Agreement of Balances mismatches;
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- consistency check between the final version of the financial statements and TRU consolidation forms;
- review of the final version of the Annual Governance Statement and Annual Report; and
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the national deadline.

Key audit and financial reporting issues

Financial statements opinion

We have identified no adjustments affecting the Trust's retained surplus position. We have agreed a small number of adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of the Trusts financial statements are:

- The financial statements were prepared to a good standard, with good supporting working papers.
- Where we have requested additional information during the course of the audit, management has responded promptly to these requests in most instances.

Further details are set out in section two of this report.

Our anticipated audit opinion will be unqualified in respect of the financial statements (see Appendix B).

Going Concern

We have reviewed the Trust's two year financial plan and cash flow forecasts for the period 2017 to 2019. Delivering on your savings plans and maintaining a stable cash position 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 continues to give this its critical attention both in its formal Board meetings and through its wider programme of risk and financial management.

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to consider the consistency of other information published with the financial statements, including the Annual Report and Annual Governance Statement (AGS). We are also required to carry out work to satisfy ourselves that disclosures made in your AGS are in line with guidance issued and consistent with our knowledge of the Trust.

Subject to a small number of agreed amendments, based on our review of the Trust's Annual Report and AGS we are satisfied that they are consistent with the audited financial statements. We are satisfied that the AGS meets the requirements set out in the Department of Health Group Accounting Manual 2016/17 and associated guidance.

Controls

Roles and responsibilities

The Trust's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Trust.

Findings

Our work has not identified any significant control weaknesses which we wish to highlight for your attention.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Trust had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Further details of our work on other statutory powers and duties is set out in section four of this report.

Quality Accounts

Our work to complete our limited assurance procedures on the Trust's Quality Accounts based on the 'NHS Quality Accounts Auditor guidance' is nearing completion.

We have provided a separate draft report to management setting out our results and conclusions and planned limited assurance opinion. We anticipate that the Quality Accounts conclusion will be qualified due to continuing errors in the VTE risk assessment data.

The way forward

Matters arising from the financial statements audit and our review of the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Operational Director of Finance and her team.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Operational Director of Finance and the finance team.

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
May 2017

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £6,731k (being 1.5% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £250k. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation
Related Party Transactions	Due to public interest in these disclosure and the statutory requirement for them to be made. We will also consider materiality from the perspective of the related party.
Disclosures of senior manager salaries and allowances in the remuneration report	Due to public interest in these disclosures and the statutory requirement for them to be made.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>The revenue cycles include fraudulent transactions</p> <p>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 have concluded that the greatest risk of material misstatement relates to the occurrence of healthcare income including STF income and existence of associated receivables.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • documented our understanding of management's controls over revenue recognition • reviewed and tested revenue recognition policies • tested material revenue streams, including STF income 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management override of controls</p> <p>Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • undertaken a review of management arrangements for accounting estimates, judgments and decisions made by management • reviewed and tested of journal entry processes and controls • reviewed accounting estimates, judgments and decisions made by management in the 2016/17 accounts • reviewed any unusual significant transactions including recognition of STF income 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	<p><i>The Expenditure cycle includes fraudulent transactions</i> Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered, especially where the body is required to meet targets.</p> <p>We have concluded that the greatest risk of material misstatement relates to the completeness of operating expenses and creditor balances.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • tested journal entries • documented our understanding of management's controls over expenditure recognition • reviewed and tested expenditure recognition policies • sample tested material non pay expenditure streams • reviewed the creditors listing and tested a sample of after-date payments for unrecorded liabilities • reviewed the process for identifying year-end accruals to identify potential unrecorded liabilities 	<p>Subject to the clearance of outstanding queries, our audit work has not identified any significant issues in relation to expenditure recognition.</p> <p>Our testing identified one item of expenditure that did not relate to the Trust. Further detail is set out on page 12 under Operating Expenses.</p>
4.	<p><i>Going Concern</i> In light of the financial pressures facing the NHS, the Trust's deficit control total and significant savings requirements for 2016/17 and 2017/18, there are uncertainties about the appropriateness of the going concern assumption for the Trust's financial statements. There is a risk that the Trust does not adequately disclose uncertainties about the appropriateness of the going concern assumption in preparing its financial statements.</p>	<p>As part of our audit work we have::</p> <ul style="list-style-type: none"> • reviewed management's assessment of going concern assumptions and supporting information (2017/18 and 2018/19 financial plan and cash flow forecasts) • reviewed the completeness and accuracy of disclosures on material uncertainties with regard to going concern in the financial statements. 	<p>Our audit work has not identified any significant issues in relation to going concern assumption for the preparation of the accounts.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
5	<p>Employee Remuneration Employee remuneration accruals understated (Remuneration expenses not correct)</p>	<p>Our audit work has included:</p> <ul style="list-style-type: none"> documentation and walkthrough of key controls supporting employee remuneration. sample testing of employee remuneration expenses, including enhancements and employer pension and social security contributions. reconciliation of payroll to the ledger and the financial statements. undertaking a trend analysis to confirm there are no unusual fluctuations throughout the year. 	<p>We are currently finalising our testing of employee remuneration.</p>
6	<p>Operating Expenses Creditors understated or not recorded in the correct period (Operating expenses understated)</p>	<p>Our audit work has included:</p> <ul style="list-style-type: none"> documentation and walkthrough of key controls in place to make payments to suppliers for amounts due, or accruals for amounts outstanding at the year-end. testing of operating expenses and year-end creditor balances. analysis of year-end accruals to confirm that these reflect amounts outstanding at the year-end. 	<p>Our audit work has not identified any significant issues in relation to expenditure recognition.</p> <p>Our testing has identified one issue:</p> <ul style="list-style-type: none"> Testing of after date payments one payment of £839 where the Trust has paid for utility costs for a building it no longer owns or occupies. This issue was identified by management during the closedown process and the Trust is seeking to recover these costs from the current occupiers of the building.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks continued

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
7	<p>Property, Plant and Equipment The Trust revalues its land and buildings with sufficient regularity to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p>	<p>Our audit work has included:</p> <ul style="list-style-type: none"> • review of the competence, expertise and objectivity of the expert valuer and review of the instructions issued to the valuer. • review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding. • evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to fair value. • review of action taken by management to address weaknesses identified in 2015/16 relating to review and controls over the asset register. 	<p>Our audit work has not identified any significant issues in relation to the valuation of Property, Plant and Equipment.</p> <p>We are pleased to confirm that issues identified in the 2015/16 accounts have been fully investigated and corrected.</p> <p>During 2016/17, the Trust has maintained a 'shadow' spreadsheet version of the asset register due to ongoing concerns about the reliability of the asset register. We are satisfied this spreadsheet version of the asset register produces complete and accurate information for the preparation of the financial statements.</p> <p>We understand the Trust has served notice to East Lancashire Financial Services to discontinue use of the asset register from the end of June 2017. After this date the Trust intends to undertake asset related functions in house.</p>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included within the Trust's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<p>Revenue recognition</p>	<ul style="list-style-type: none"> Revenue in respect of services provided is recognised when, and to the extent that, performance occurs, and is measured at the fair value of the consideration receivable. The main source of revenue for the Trust is from commissioners for healthcare services. 	<p>We have considered the following:</p> <ul style="list-style-type: none"> Appropriateness of policy under the accounting framework Extent of judgement involved, including range of possible outcomes and potential financial statement impact of different accounting policy choices Adequacy of disclosure of accounting policy Benchmark against industry practice <p>On the basis of our review we have concluded that the revenue recognition policy is appropriate and sufficiently disclosed.</p>	
<p>Judgements and estimates</p>	<ul style="list-style-type: none"> Key estimates and judgements include: <ul style="list-style-type: none"> Revaluations and impairments Accruals of income and expenditure 	<p>We have considered the following:</p> <ul style="list-style-type: none"> Extent of judgement involved Potential financial statement impact of different assumptions Range of possible outcomes – where does the Trust sit within that range? Adequacy of disclosure of accounting policy Benchmark against peers/industry practice <p>On the basis of our review we have concluded that the Trust's accounting policies for revaluations & impairments and for accruals of income & expenditure are appropriate and sufficiently disclosed.</p>	

Assessment

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Going concern	The Directors have a reasonable expectation that the services provided by the Trust will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Directors' assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	
Other accounting policies	The Trust has adopted the standard accounting policies for the NHS as set out in the DH Group Accounting Manual.	We have reviewed the Trust's policies against the requirements of the Manual for Accounts. The Trust has appropriately tailored the standard accounting policies to its individual circumstances.	

Assessment

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period. No other issues have been identified during the course of our audit procedures.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations. We have not identified any incidences of non-compliance from our audit work.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Trust.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send a confirmation request to Royal Bank of Scotland. This permission was granted and the requests were sent. The request was returned with positive confirmation.
6.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements. A small number of amendments have been agreed to improve the overall presentation of the financial statements.

Other communication requirements continued

	Issue	Commentary
7.	Auditable elements of Remuneration and Staff Report	<ul style="list-style-type: none"> We are required to give an opinion on whether the part of the Remuneration and Staff Report subject to audit has been prepared properly in accordance with the requirements directed by the Secretary of State with the consent of the Treasury. We have audited the remuneration and staff report, and have agreed a small number of amendments with management.
8.	Matters on which we report by exception	<ul style="list-style-type: none"> We are required to report on a number of matters by exception in a number of areas: We have not identified any issues we would be required to report by exception in the following areas If the Annual Governance Statement does not meet the disclosure requirements set out in the DH Group Accounting Manual or is misleading or inconsistent with the information of which we are aware from our audit The information in the annual report is materially inconsistent with the information in the audited financial statements or apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Trust acquired in the course of performing our audit, or otherwise misleading. <p>We have no matters to bring to your attention</p>
9.	Review of accounts consolidation schedules and specified procedures on behalf of the DH group auditor	<ul style="list-style-type: none"> We are required to give a separate audit opinion on the Trust accounts consolidation schedules and to carry out specified procedures (on behalf of the NAO) on these schedules under the DH group audit instructions . In the group audit instructions the Trust was selected as a non-sampled component. The procedures will be carried out on the Trust's accounts consolidation schedules once final amended accounts and consolidation schedules are available. We are required to report to the NAO where we identify any inconsistencies between the statutory accounts and the Trust accounts consolidation schedules.

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	<p>Our testing of employee remuneration in 2015/16 identified one case where an employee had been paid twice for working a shift. The error appears to have occurred because one line on a staff attendance record was processed twice by different individuals.</p> <p>Based on the value and extent of the error within the sample tested, we are satisfied that there is no risk of material misstatement.</p>	<p>The Trust's processes have been revised to reduce the risk of manual error in processing additional shift payments. Our testing of employee remuneration during 2016/17 has not identified any similar errors.</p>
2.	✓	<p>Our testing of Property, Plant and Equipment in 2015/16 identified that the Asset Register had not been kept up to date. The Asset register should be maintained and subject to review and monitoring throughout the year.</p>	<p>During 2016/17, the Trust has maintained a 'shadow' spreadsheet version of the asset register due to ongoing concerns about the reliability of the asset register. We are satisfied that this spreadsheet version of the asset register produces complete and accurate information for the preparation of the financial statements.</p> <p>We understand the Trust has served notice to East Lancashire Financial Services to discontinue use of the asset register from the end of June 2017. After this date the Trust intends to undertake asset related functions in house.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

Adjusted misstatements, misclassifications and disclosure changes

A small number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All of the agreed adjustments are presentations and have no impact on the key statements and the reported surplus for the year.

Detail	Statement of Comprehensive Income £'000	Statement of Financial Position £'000	Impact on surplus/deficit for the year £000
1 Financial Instruments – Note 26 We have agreed an amendment to Note 26 as the figure for financial assets did not take account of the provision for doubtful debts.	-	-	-
2 Annual Report Following our review of the form and content of the Annual Report, including the AGS, we have agreed a small number of amendments to the Annual Report.	-	-	-
3 Financial Statements We have agreed a small number of presentational amendments to the Financial Statements	-	-	-
Overall impact	£0	£0	£0

Unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Statement of Comprehensive Income £'000	Statement of Financial Position £'000	Reason for not adjusting
<p>1 Annual Leave Accrual Prior to 2016/17, the Trust included an Annual Leave Accrual in the financial statements. This accrual reflected the value of annual leave earned by employees but not yet taken at the end of the financial year. In 2016/17, the Trust took the decision to change its accounting policy and no longer accrues for untaken annual leave on the grounds that it is not material. The Trust has not included an accrual for annual leave in its 2016/17 Accounts. As a result, expenditure and payables are both understated by an estimated £1,798k</p>	Other Operating Costs (£1,798)	Trade and Other Payables (£1,798)	The Trust does not consider the value of untaken leave to be material to the financial statements.
<p>Overall impact – Expenditure and Payables understated</p>	£1,798	£1,798	

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non-audit services and independence

06. Communication of audit matters

We anticipate giving a standard unqualified Value for Money Conclusion

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 (the Act) and the NAO Code of Audit Practice (the Code) to satisfy ourselves that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

The Act and the Code require us only to report by exception where we are not satisfied that NHS bodies have proper arrangements in place to secure value for money. However, we are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Trust.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 identifies one single 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.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in January 2017 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated this risk to you in our Audit Plan dated 28 February 2017.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Trust's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Trust's arrangements. In arriving at our conclusion, our main considerations were:

- Reporting and engagement with the Trust Board, and Finance and Performance Committee, during the 2017/18 financial planning process; and
- Operational and performance reporting to Trust Board during the year.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on page 23.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Trust had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

We only report by exception in our auditors' report where we give a qualified conclusion. The text of our report, which confirms this under the 'matters on which we report by exception' section, can be found at Appendix B.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendation for improvement as follows.

The Trust should ensure all identified savings are fully supported by clear plans for delivery. These plans should be formulated and agreed before, or soon after, the start of the financial year in order to maximise the chances of successful delivery.

Management's response to these can be found in the Action Plan at Appendix A.

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
<p>Financial sustainability The Trust is on track to deliver its agreed control total of a £3.7m deficit in 2016/17, including the delivery of a £14.0m safely releasing costs programme (SRCP). However, the savings delivered in 2016/17 include a significant proportion of non-recurrent savings.</p> <p>The Trust will need to deliver a further £14.0m of savings in 2017/18, and address the underlying deficit offset by non-recurrent savings in 2016/17. This will be challenging in the context of the operational pressures facing the Trust.</p>	<p>We reviewed the Trust's arrangements for putting together and agreeing its budget, including identification of savings plans, for 2017/18. We also reviewed the Trust's arrangements for updating, agreeing and monitoring its sustainability and operational plans, and for communicating key findings to the Trust Board and Finance Committee.</p>	<p>Whilst successful in delivering significant savings in 2016/17, The Trust faces a challenging financial plan for 2017/18 and 2018/19. With an underlying recurrent deficit of over £19m, significant savings are required over the next two years to deliver the agreed control totals.</p> <p>The Trust has engaged the Board and Finance and Performance Committee in the 2017-19 financial planning process. Reports have clearly identified the national and local pressures, key assumptions and risks to the financial plan. Contract values for the next two years have been agreed with commissioners, and the Trust is clear about the scale of savings required and risks to delivery.</p> <p>Through the PMO, work has continued on transformation schemes and SRCP savings, with regular reporting to the Finance & Performance Committee or Trust Board during the year. The SRCP tracker continues to be used to monitor progress and drive delivery, with key risks and issues clearly highlighted in reporting to Trust Board (part 2). The Trust has identified schemes that it expects to deliver the required savings in 2017/18, although detailed plans for delivery still need to be developed in some areas.</p> <p><i>The Trust should ensure that all identified savings are fully supported by clear plans for delivery. These plans should be formulated and agreed before, or soon after, the start of the financial year in order to maximise the chances of successful delivery.</i></p> <p>Integrated performance reporting has been refined during 2016/17, with reports now formatted to follow the NHS Improvement Single Oversight Framework. Performance reports to Trust Board are comprehensive but understandable, setting out performance against key indicators with explanatory narrative in a clear and understandable way. Each section of the performance report follows the same structure – current position, risks, forecast and actions - and reports are balanced with clear explanation of poor or weaker areas of performance, and actions in progress to address these.</p>

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 4: Other statutory powers and duties

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

We set out below details of other matters which we, as auditors, are required by the Act and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	Referral to the Secretary of State	<ul style="list-style-type: none">• We have not identified any issues which we need to refer to the Secretary of State.
2.	Public interest report	<ul style="list-style-type: none">• We have not identified any matters that would require a public interest report to be issued.
3.	Written recommendations	<ul style="list-style-type: none">• We have not made any written recommendations that the Trust is required to respond to publicly.

Section 5: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

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

Fees

	£
Trust audit	64,937
Charitable fund independent examination	2,693
Total audit fees (excluding VAT)	67,630

Independence and ethics:

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements
- We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards

Fees for other services

Service	£
Audit related services	
Assurance on your quality report	6,000

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

Section 6: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

ISA (UK and Ireland) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Trust's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Trust's key risks when reaching our conclusions under the Code.

It is the responsibility of the Trust to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Trust is fulfilling these responsibilities.

Appendices

A. Action Plan

B. Audit Opinion

A. Action plan

Priority

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1 (page 22)	The Trust should ensure all identified savings are fully supported by clear plans for delivery. These plans should be formulated and agreed before, or soon after, the start of the financial year in order to maximise the chances of successful delivery.	High	Saving schemes have been identified and will be monitored through the PMO governance framework which aligns schemes to a transformation programme and an Executive lead. Current schemes are at varying stages of development. The Trust is aiming to have more detail for the majority of schemes by the end of Q1 2017-18. The Trust has some non-recurrent resource to support the financial position while it works to developing and achieving its recurrent schemes.	Ongoing

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Appendix B: Audit opinion

We anticipate we will provide the Trust with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF EAST LANCASHIRE HOSPITALS NHS TRUST

We have audited the financial statements of East Lancashire Hospitals NHS Trust (the "Trust") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Taxpayers' Equity, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, as interpreted and adapted by the Department of Health Group Accounting Manual 2016/17 (the "2016/17 GAM") and the requirements of the National Health Service Act 2006.

This report is made solely to the Directors of East Lancashire Hospitals NHS Trust, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Trust's Directors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trust and the Trust's Directors, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors, the Accountable Officer and auditor

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

As explained in the statement of the Chief Executive's responsibilities, as the Accountable Officer of the Trust, the Accountable Officer is responsible for the arrangements to secure economy, efficiency and effectiveness in the use of the Trust's resources. We are required under Section 21(3)(c) and Schedule 13 paragraph 10(a) of the Act to be satisfied that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and to report by exception where we are not satisfied.

We are not required to consider, nor have we considered, whether all aspects of the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Trust's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Performance Report and the Accountability Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Trust had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Trust put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017, and to report by exception where we are not satisfied.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the financial position of East Lancashire Hospitals NHS Trust as at 31 March 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the Department of Health Group Accounting Manual 2016/17 and the requirements of the National Health Service Act 2006.

Opinion on other matters

In our opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the Department of Health Group Accounting Manual 2016/17 and the requirements of the National Health Service Act 2006; and
- the other information published together with the audited financial statements in the Performance Report and the Accountability Report for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance issued by NHS Improvement; or
- we have referred a matter to the Secretary of State under section 30 of the Act because we had reason to believe that the Trust, or an officer of the Trust, was about to make, or had made, a decision which involved or would involve the body incurring unlawful expenditure, or was about to take, or had begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Trust under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have not been able to satisfy ourselves that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We have nothing to report in respect of the above matters.

Certificate

We certify that we have completed the audit of the financial statements of East Lancashire Hospitals NHS Trust in accordance with the requirements of the Act and the Code of Audit Practice.

Karen Murray
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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XX May 2017



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