



# Annual Audit Letter 2019-20

**University Hospitals Coventry and Warwickshire  
NHS Trust**

June 2020

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This report is addressed to University Hospitals Coventry and Warwickshire NHS Trust (the Trust) and has been prepared for the sole use of the Trust. We take no responsibility to any member of staff acting in their individual capacities, or to third parties.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.



# Introduction

## Background

This Annual Audit Letter (the letter) summarises the key issues arising from our 2019-20 audit at University Hospitals Coventry and Warwickshire NHS Trust (the Trust). Although this letter is addressed to the Directors of the Trust, it is also intended to communicate these issues to external stakeholders, such as members of the public. It is the responsibility of the Trust to publish this letter on the Trust's website.

We have reported all the issues in this letter to the Trust during the year and we have provided a list of our reports in Appendix A.

## Scope of our audit

The statutory responsibilities and powers of appointed auditors are set out in the Local Audit and Accountability Act 2014. Our main responsibility is to carry out an audit that meets the requirements of the National Audit Office's Code of Audit Practice (the Code) which requires us to report on:

<b>Financial Statements including the regularity opinion and Governance Statement</b>	We provide an opinion on the Trust's accounts. That is whether we believe the accounts give a true and fair view of the financial affairs of the Trust and of the income and expenditure recorded during the year. We confirm that the Trust has complied with the Department of Health and Social Care (DoHSC) requirements in the preparation of its Annual Governance Statement. We also confirm that the balances you have prepared for consolidation into the Whole of Government Accounts (WGA) are not inconsistent with our other work.
<b>Value for Money arrangements</b>	We conclude on the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the Trust's use of resources.

## Fees

Our fee for 2019/20 was £101.7k (2018/19: £96.2k) excluding VAT. This fee was below the fee agreed at the start of the year with the Trust's Audit Committee.

The fee variations were due to some reductions in scope initiated by the Trust's regulator, NHS Improvement, as part of managing the response to the COVID-19 pandemic. This included the deferral of the introduction of changes to accounting standards (IFRS16) and not requiring an opinion on the Trust's Quality Account in 2019/20. In response to the COVID-19 there were some additional considerations made in respect of valuation and going concern.

## Acknowledgement

We would like to take this opportunity to thank the officers of the Trust for their continued support throughout the year, and particularly during the COVID-19 pandemic.

The Finance team were able to produce and submit a strong draft set of financial statements for audit to the planned deadline of 27 April 2020, despite NHS Improvement offering the option to delay until 11 May 2020.

# Headlines

This section summarises the key messages from our work during 2019-20.

<b>Financial Statements audit opinion</b>	<p>We issued an unqualified opinion on the Trust's accounts on 23 June 2020. This means that we believe the accounts give a true and fair view of the financial affairs of the Trust and of the income and expenditure recorded during the year.</p> <p>We identified one unadjusted audit difference. This was not material and reflects a provision that the Trust has made in respect of not being able to agree and invoice its final NHS Income balance for the year. As part of the Agreement of Balances exercise, providers are not expected to provide for NHS debt, but the Trust has been prudent and did not want to prejudice commercial sensitives in its negotiations to agree balances with commissioners.</p> <p>There were no significant matters which we were required to report to 'those charged with governance'.</p> <p>The Trust provided us draft accounts in accordance with NHS I deadlines. Working papers demonstrated significant improvement in quality from the prior year however there is still a lot of work to be done in regards to the Agreement of Balances working papers and process. This was raised as a recommendation. We found the draft accounts, annual report and remuneration report to be of a good quality, with minimal adjustments required.</p>
<b>Financial statements audit work undertaken</b>	<p>We are required to apply the concept of materiality in planning and performing our audit. We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. Our materiality for the audit was £12.25m (2018/19: £11.5m).</p> <p>We identified the following risks of material misstatement in the financial statements as part of our External Audit Plan 2019/20:</p> <ul style="list-style-type: none"> <li>— <b>Valuation of Land and Buildings</b> – the valuation of land and buildings was £284.5m at 31 March 2020. We performed work over the valuation, existence, ownership, completeness and accuracy of material property plant balances in the Trust's accounts. This included undertaking an assessment of the expertise of Avison Young, the Trust's external professional valuers who were commissioned to perform the desktop revaluation exercise. We considered the revaluation basis and assumptions to be appropriate, as well as understanding the floor areas used by the valuer. We did not identify any issues in relation to the valuation of land and buildings.</li> <li>— <b>Revenue Recognition</b> – we tested a sample of both NHS and non NHS income, as well as focusing on £21m accrued NHS Revenue. We reviewed all material contract variations. We found no issues with our cut off testing confirming that income was recorded in the correct period.</li> <li>— <b>Management Override of Controls</b> – Our testing, including testing of journal entries, identified no transactions outside the normal course of business which could be indicative of fraud. We found no issues with the declarations of interest or cut off testing over income or expenditure.</li> <li>— <b>Fraudulent Expenditure Recognition</b> – our work focused on areas of expenditure which are more susceptible to manipulation, and we performed testing to consider the completeness, existence and accuracy of balances recorded in the financial statements. This included specific work over expenditure cut-off and calculation and completeness of accruals.</li> </ul>
<b>Governance Statement</b>	<p>We confirmed that the Trust complied with the DHSC requirements in the preparation of the Trust's Annual Governance Statement</p>
<b>Whole of Government Accounts</b>	<p>We issued an unqualified Auditor Statement on the Consolidation Schedules prepared by the Trust for consolidation into the Whole of Government Accounts with no exceptions.</p>

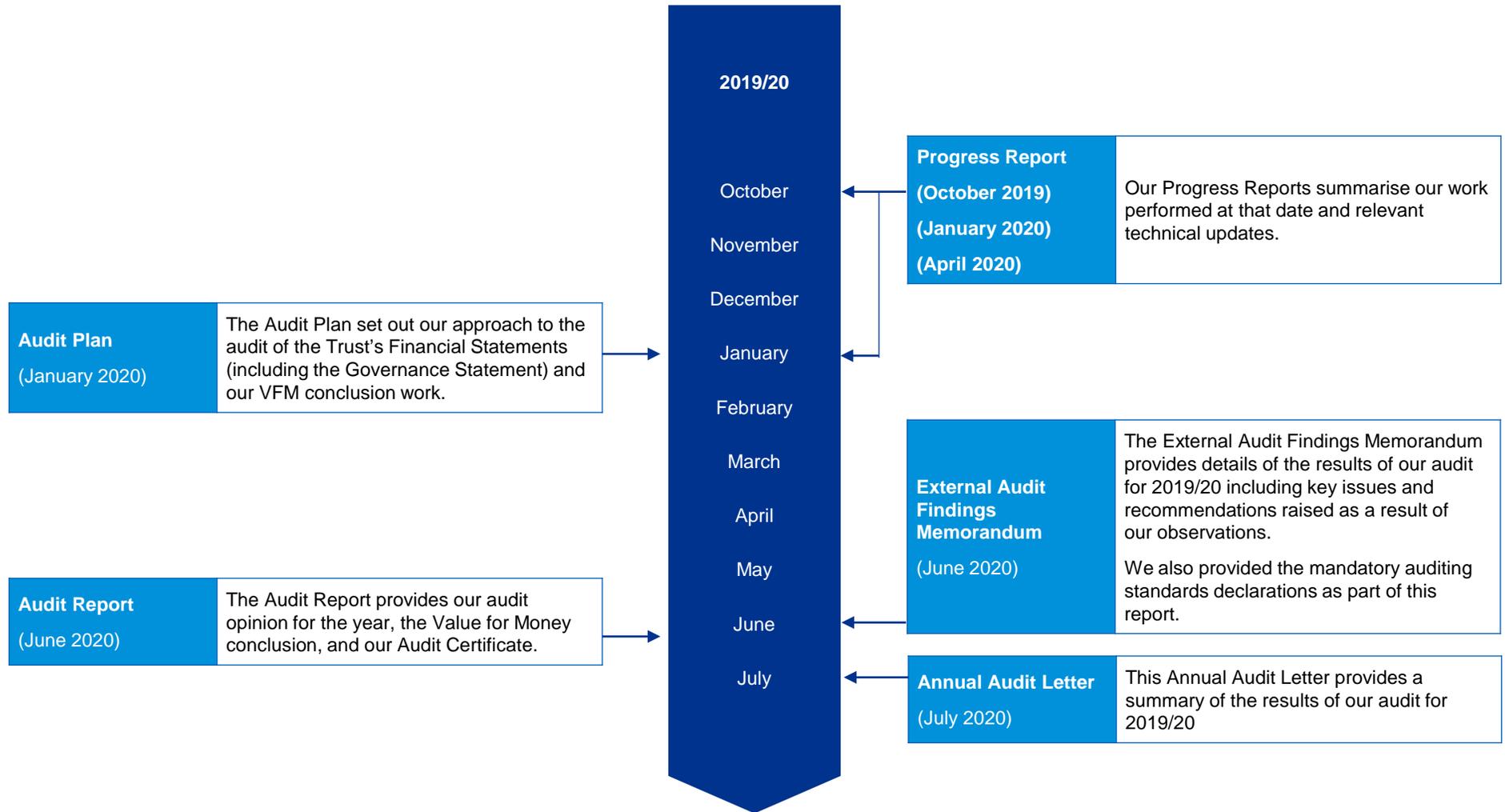
# Headlines (cont.)

<p><b>Value for Money (VFM) conclusion</b></p>	<p>We are required to report to you if we are not satisfied that the Trust has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. By exception, we have reported the following based on the findings of our work:</p> <ul style="list-style-type: none"> <li>— The Trust reported a surplus of £0.1m in 2019/20 against a plan to breakeven. However, this reflects a reported underlying deficit of £41.2m at 31 March 2020 as the Trust's reported performance is underpinned by a number of non-recurrent measures.</li> <li>— These non recurrent measures included £25.8m (71%) of non recurrent cost improvement programmes as part of the attainment of £36.0m in 2019/20 and the receipt of £25.6m of Provider Sustainability Funding (PSF), Financial Recovery Funding (FRF) and Marginal Rate Emergency Tariff (MRET) funding.</li> <li>— The Trust has not achieved core operational targets including achievement of 81.4% against the national 95% A&amp;E target, 79.9% against the national 92% referral to treatment target to treat patients within 18 weeks, 82.45% against the national 85% cancer 62 day standard.</li> <li>— The Trust remains in scope of undertakings issued by NHS Improvement in November 2018 in respect of its A&amp;E and 52 week wait performance. We note that the Trust reported no 52 week breaches in the period until March 2020.</li> </ul> <p>We concluded that these issues were evidence of weaknesses in the Trust's arrangements for planning finances effectively to support the sustainable delivery of its strategic priorities.</p>
<p><b>VFM conclusion risk areas</b></p>	<p>We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks. Our work identified the following significant risks:</p> <p><b>Sustainable Resource Deployment: Financial Sustainability:</b></p> <ul style="list-style-type: none"> <li>— The Trust delivered its financial plan and reported a year end surplus of £0.1m against a plan to breakeven. The financial plan was achieved following receipt of PSF of £10.852m, Financial Recovery Funding (FRF) of £13.710m and Marginal Rate Emergency Threshold Funding (MRET) of £0.835m. The Trust's underlying deficit is reported as £41.2m at 31 March 2020.</li> <li>— The Trust has reported delivery of cost improvement programmes, referred to internally as waste reduction, totalling £36m (4.7%) in line with plan. Whilst this follows delivery of CIPs of £30m in 2018/19 and £29.1m in 2017/18, only £10.3m (28.5%) were reported as recurrent, against a plan of £26m recurrent savings.</li> <li>— We note that the Trust, as a member of the Coventry and Warwickshire Sustainability and Transformation Partnership, has received Financial Improvement Trajectories and Indicative Financial Recovery Fund allocations from NHS Improvement. These trajectories include the objective of returning University Hospitals Coventry and Warwickshire NHS Trust to balance in 2023/24.</li> <li>— Against this financial backdrop, the Trust is not meeting constitutional operational performance standards, with the exception of diagnostic 6 week waits.</li> <li>— The Trust drew down a further £12.7m of revenue support in 2019/20, increasing revenue support borrowings from the Department of Health and Social Care to £92.6m. The Trust has subsequently received notice that these will not be repayable and will be converted to PDC. The Trust is transparent in its borrowing requirement and the extent to which loans are repayable in its going concern assessment incorporated in Note 1.2 of the financial statements.</li> </ul>

# Headlines (cont.)

<p><b>VFM conclusion risk areas (cont.)</b></p>	<p><b>Working with Regulators:</b></p> <ul style="list-style-type: none"> <li>— We have considered the following findings from regulators and inspectorates:</li> </ul> <p><i>CQC inspection (including Use of Resources inspection)</i></p> <ul style="list-style-type: none"> <li>— Both University Hospital Coventry and St Cross were rated “Good” in the Inspection reported in February 2020, with University Hospital Coventry improving its rating from “Requires Improvement”.</li> <li>— 13/14 services rated across the two sites are rated as “Good” and one remains rated as “Requires improvement”, (Neurosurgery) up from 11/14 in August 2018.</li> <li>— We confirmed that the Trust has an action plan in place to respond to the 4 Must Do and 26 Should Do actions raised by the CQC.</li> <li>— The Trust’s Use of Resources inspection concluded that the Trust was rated as “Requires Improvement” in respect of “Are resources being used productively?” This was published alongside its CQC inspection in February 2020 and included detailed commentary on the Trust’s underlying financial deficit and that for most of the constitutional operational performance standards UHCW is below the national benchmark with the exception of the 6 week diagnostic standard.</li> <li>— We did, however, note that the Use of Resources and Well Led inspections identified areas of good practice in respect of financial governance, including productivity improvements and in particular significant reductions in agency expenditure over the past three years.</li> </ul> <p><i>NHS Improvement</i></p> <ul style="list-style-type: none"> <li>— As part of the Trust’s undertakings to NHS Improvement, the Trust has reduced its long waiters and specifically those breaching 52 weeks since November 2018. It recorded no 52 week breaches until March 2020. A&amp;E performance has not meet national standards in 2019/20.</li> </ul>
<p><b>Recommendations</b></p>	<p>We are pleased to report that there are no high risk recommendations arising from our 2019/20 audit work. We have raised four medium risk and four low risk recommendations.</p> <p>The Trust has not fully implemented agreed audit recommendations from prior years. We have identified four prior year recommendations which have been partially implemented and will be followed up by the Audit Committee during 2020/21.</p>
<p><b>Public Interest Reporting</b></p>	<p>We have a responsibility to consider whether there is a need to issue a public interest report or whether there are any issues which require referral to the Secretary of State</p> <p>We have made a referral under section 30 of the Local Audit and Accountability Act 2014 to the Secretary of State for Health with regards to the Trust’s on-going deficit position. The Trust had a cumulative deficit of £36.3m at 31 March 2020 and has not therefore recovered its cumulative deficit within the five year breakeven period ending 31 March 2020.</p>

# Summary of our reports issued





The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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