



The Annual Audit Letter for Kent Community Health NHS Foundation Trust

Year ended 31 March 2019

24 June 2019



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Kent Community Health NHS Foundation Trust (the Trust) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Trust and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Trust's Audit and Risk Committee as those charged with governance in our Audit Findings Report on 15 May 2019.

Our work

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the National Health Service Act 2006 (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) (ISAs) and other guidance issued by the NAO.

Materiality	We determined materiality for the audit of the Trust's financial statements to be £4,296,000, which is 2% of the Trust's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Trust's financial statements on 24 May 2019.
NHS Group consolidation template (WGA)	We also reported on the consistency of the financial statements consolidation template provided to NHS England with the audited financial statements. We concluded that these were consistent.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the Trust put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Directors of the Trust on 24 May 2019.
Quality Report	We completed a review of the Trust's Quality Report and issued our report on this on 24 May 2019. We concluded that the Quality Report and the indicators we reviewed were prepared in line with the NHS foundation trust annual reporting manual and supporting guidance.
Certificate	We certified that we have completed the audit of the financial statements of Kent Community Health NHS Foundation Trust in accordance with the requirements of the Code of Audit Practice on 24 May 2019.

Working with the Trust

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in May. We completed the vast majority of our testing prior to the Audit and Risk Committee on 15 May to ensure that officers and NEDs were clearly sighted on our proposed audit opinion.
- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.
- Sharing our insight – we provided regular Audit and Risk committee updates covering best practice. We also shared our thought leadership reports for consideration.
- Providing training – we provided your teams with training on financial statements and annual reporting, including quality reports.
- We worked with the Trust on issues identified as part of work on the Quality Reports to ensure this work was completed by the deadline and without qualification.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Trust's staff.

Grant Thornton UK LLP
June 2019

Audit of the Financial Statements

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 the audit of the Trust's financial statements to be £4,296,000 which is 2% of the Trust's gross revenue expenditure. We used this benchmark as, in our view, users of the Trust's financial statements are most interested in where the Trust/group has spent its revenue in the year.

We set a lower threshold of £215,000, 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 sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Annual Report to check it is consistent with our understanding of the Trust and with the financial statements included in the Annual Report on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the 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 Financial Statements

Key Audit Matters

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
<p>Improper revenue recognition</p> <p>Trusts face significant external pressure to restrain budget overspends and meet externally set financial targets, coupled with increasing patient demand and cost pressures. In this environment, we have considered the rebuttable presumed risk under ISA (UK) 240 that revenue may be misstated due to the improper recognition of revenue.</p> <p>We rebutted this presumed risk for the revenue streams of the Trust that are principally derived from contracts that are agreed in advance at a fixed price. We determined these to be income from:</p> <ul style="list-style-type: none"> - Block contract income element of patient care revenues; - Education & training income. <p>We deemed it not appropriate to rebut this presumed risk for all other material streams of patient care income and other operating revenue.</p> <p>We therefore identified the occurrence and accuracy of these income streams of the Trust and the existence of associated receivable balances as a significant risk.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • evaluated your accounting policy for the recognition of income from patient care activities for appropriateness; • gained an understanding of your system for accounting for income from patient care activities and evaluating the design of the associated controls; • used the analysis provided by the Department of Health to identify any significant differences in income balances with contracting NHS bodies, and investigating the validity of these differences; and • agreed, on a sample basis, amounts recognised in income in the financial statements to signed contracts and invoices. 	<p>Our audit work did not identified any issues in respect of revenue recognition.</p>

Audit of the Financial Statements

Key Audit Matters - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings</p> <p>The Trust revalues its land and buildings on a five yearly cycle to ensure that the carrying value is not materially different from the current value at the financial statements date. This valuation represents a significant estimate by management in the financial statements.</p> <p>Management have engaged the services of a valuer to estimate the current value as at 31 March 2019.</p> <p>The valuation of land and buildings is a key accounting estimate which is sensitive to changes in assumptions and market conditions.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate, including review of instructions issued to the valuation expert and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • evaluated the basis on which the valuations were carried out; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. 	<p>Our audit work did not identified any issues in respect of the valuation of property, plant and equipment.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Trust's financial statements on 24 May 2019.

Preparation of the financial statements

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

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Trust's Audit and Risk Committee on 15 May 2019. There were no significant issues identified through the course of the audit.

Annual Report, including the Annual Governance Statement

We are also required to review the Trust's Annual Report, including the Annual Governance Statement. Whilst our review of these documents identified no significant issues, the timeliness of which these were presented for audit could be improved going forward.

Whole of Government Accounts (WGA)

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

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Kent Community Health NHS Foundation Trust in accordance with the requirements of the Code of Audit Practice on 24 May 2019.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

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

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

Overall Value for Money conclusion

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

Our work throughout 2018/19 did not identify any significant risks. In arriving at our conclusion, our main considerations were:

- The Trust has made a surplus in every year since inception and now operates in a long-term collaborative local health economy framework. The Trust delivered a surplus of £8.9 million including Provider Sustainability Funding in 2018/19 (£6.5million 2017/18). This exceeded the agreed financial control total. Our work found that the arrangements in place for reporting and monitoring financial performance throughout the year are strong.
- The Trust has submitted its financial plan for 2019/20 and have set a control total of £2.35million. Achievement of this is reliant upon the delivery of £5.4million of CIP. Whilst work is still ongoing in fully developing plans for delivering these, the Trust has a strong history of delivering financial targets and its CIPs.
- The Trust has continued to work well with partners throughout the year and has demonstrated a clear commitment to system transformation. This commitment has been clearly demonstrated through the collaborative approach to the agreement of 2019/20 and beyond contracts and active participation in Kent and Medway STP BREXIT contingency planning process.
- The Trust's framework of governance arrangements continues to operate effectively. The Board Assurance Framework is updated regularly and there are clear links to operational planning.

Quality Report

The Quality Report

The Quality Report is an annual report to the public from an NHS Foundation Trust about the quality of services it delivers. It allows Foundation 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 Report, following NHS Improvement (NHSI) guidance issued in February 2019. We give an opinion as to whether we have found anything from our work which leads us to believe that:

- the Quality Report is not prepared in line with the criteria specified in the NHS foundation trust annual reporting manual and supporting guidance;
- the Quality Report is not consistent with other information, as specified in the NHSI guidance; and
- the indicators in the Quality Report where we have carried out testing are not compiled in line with the NHS foundation trust annual reporting manual and supporting guidance and do not meet expected dimensions of data quality.

Quality Report Indicator testing

We tested the following indicators:

- Percentage of incomplete pathways within 18 weeks for patients on incomplete pathways at the end of the reporting period: selected from the subset of mandated indicators as this was the only indicator mandated for Community Trusts which was applicable to the Trust.
- 100% of all relevant RCA for serious incidents undertaken in 2018-19 will involve patients, families and carers from the beginning of the investigation: selected from the subset of quality indicators following discussion with the client and taking into account the Trust's 2018/19 quality priorities.

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 Report reconciled to underlying Trust data. We then tested a sample of cases included in the indicator to check the accuracy, completeness, timeliness, validity, relevance and reliability of the data, and whether the calculation of the indicator was in accordance with the defined indicator definition.

Key messages

- We confirmed that the Quality Report had been prepared in line with the requirements of the NHS foundation trust annual reporting manual and supporting guidance.
- We confirmed that the Quality Report was consistent with the sources specified in the NHSI Guidance.
- We confirmed that the commentary on indicators in the Quality Report was consistent with the reported outcomes.
- 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 Report on 24 May 2019.

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	20 February 2019
Audit Findings Report	15 May 2019
Annual Audit Letter	24 June 2019

Fees

	Planned £	Actual fees £	2017/18 fees £
Statutory audit	45,650	45,650	43,100
Quality Report	6,000	8,000	5,000
Charitable fund	1,500	TBC	1,800
Total fees	53,150	TBC	49,900

The additional fee of £2,000 against the Quality Report relates to further testing requested by the Trust following errors identified in our initial sample testing. This additional fee has been agreed with the Trust's management.

Fees for non-audit services

Service	Fees £
Audit related services	
- Assurance of your Quality Report	6,000
- Additional fee on your Quality Report	2,000

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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