

# Independent auditor's report to the Council of Governors of East London NHS Foundation Trust

## Report on the Audit of the Financial Statements

### Opinion

#### Our opinion on the financial statements is unmodified

We have audited the financial statements of East London NHS Foundation Trust (the 'Trust') for the year ended 31 March 2019 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. 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, and as interpreted and adapted by the Accounts Directions issued under the National Service Act 2006, the NHS foundation trust annual reporting manual 2018/19 and the Department of Health and Social Care group accounting manual 2018-19.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Trust as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, as interpreted and adapted by the Department of Health and Social Care group accounting manual 2018-19; and
- have been prepared in accordance with the requirements of the National Health Service Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Trust in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Accounting Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Accounting Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Trust's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Overview of our audit approach

##### Financial statements audit

- Overall materiality: £8,150,000, which represents 2% of the Trust's gross operating expenses;
- Key audit matters were identified as:
  - Valuation of land and buildings
  - Occurrence and accuracy of non-block contract patient care income and other operating income and existence of associated receivable balances



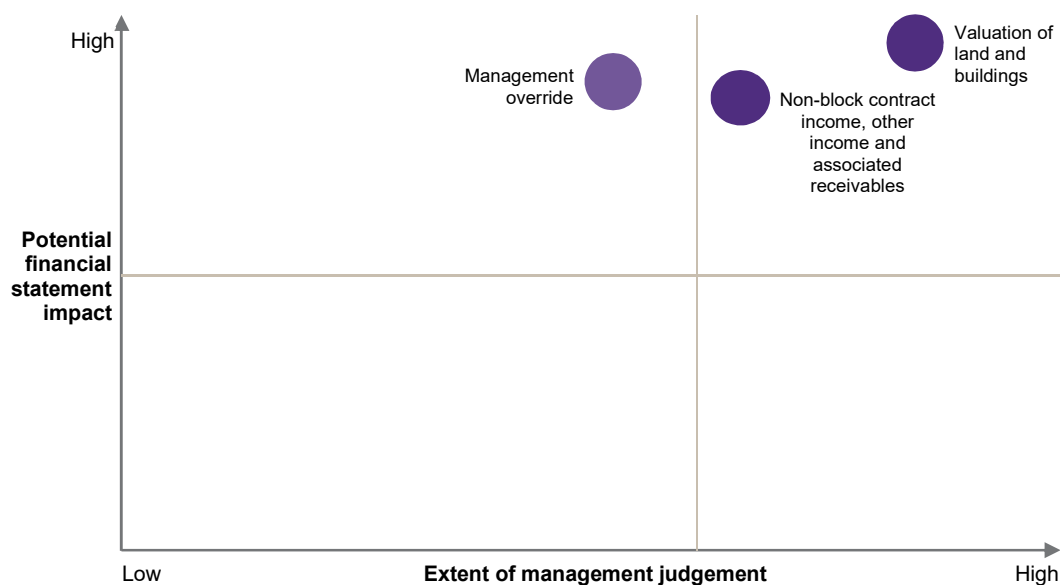
We have tested the Trust's material income and expenditure streams and assets and liabilities covering 99.5% of the Trust's income, 99.8% of the Trust's expenditure, 99.7% of the Trust's assets and 92.2% of the Trust's liabilities.

### Conclusion on the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources

- We identified one significant risk in respect of the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources regarding the Trust's financial sustainability (see Report on other legal and regulatory requirements section).

### Key audit matters

The graph below depicts the audit risks identified and their relative significance based on the extent of the financial statement impact and the extent of management judgement.



Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### Key Audit Matter

##### Risk 1 – Valuation of land and buildings

You revalue your land and buildings on an annual basis 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.

Management has engaged the services of a valuer to estimate the current value as at 31 March 2019.

The valuation of land and buildings is a key accounting estimate which is sensitive to changes in assumptions and market conditions.

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

#### How the matter was addressed in the audit

Our audit work included, but was not restricted to:

- Evaluating management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work;
- Evaluating the competence, capabilities and objectivity of the valuation expert;
- Obtaining an understanding from the valuer of the basis on which the valuations were carried out;
- Challenging the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
- Testing, on a sample basis, revaluations made during the year to ensure they have been recorded accurately in the Trust's asset register;
- Evaluating 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 in existing use.

The Trust's accounting policy on valuation of property, plant and equipment, including land and buildings, is shown in note 1.6 to the financial statements and related disclosures are included in note 14.

### Risk 2 – Occurrence and accuracy of non-block contract patient care income and other operating income and existence of associated receivable balances

The Trust's significant income streams are operating income from patient care activities and other operating income.

The Trust recognises income from patient care activities during the year based on the completion of these activities. This includes the block contract, which is agreed in advance at a fixed price, and non-block contract income.

Patient care activities provided that are additional to those incorporated in the block contracts with NHS commissioners are subject to verification and agreement of the completed activity by commissioners. As such, there is a risk that income is recognised in the financial statements for these additional services that is not subsequently agreed to by the commissioners. Due to the nature of block contracts we have not identified a significant risk of material misstatement in relation to block contracts.

The Trust also receives other operating income which is predominantly in respect of Provider Sustainability Funding (PSF). The risk in respect of other operating income is related to the improper recognition of revenue. We have not identified a significant risk of material misstatement in respect of the education and training income element of other operating income as it is principally derived from contracts agreed in advance at a fixed price.

We therefore identified occurrence and accuracy of non-block contract patient care income and other operating income and the existence of associated receivable balances as a significant risk, which was one of the most significant assessed risks of material misstatement.

### Key observations

The Trust incorrectly processed the revaluation movements on some of its non-freehold assets in its asset register, and as a result overstated the revaluation gains in the draft financial statements by £8.4 million. This error was corrected on audit, resulting in a net downward revaluation to land and buildings of £1.1 million for the year, as opposed to the net upward gain which was disclosed in the draft financial statements.

Subject to the amendment highlighted above, we obtained sufficient audit assurance to conclude that the basis of the valuation of land and buildings was appropriate, and the assumptions and processes used by management in determining the estimate were reasonable, and the revised valuation of land and buildings disclosed in the audited financial statements is reasonable.

Our audit work included, but was not restricted to:

- Evaluating the Trust's accounting policies for recognition of income for appropriateness and compliance with the Department of Health and Social Care (DHSC) group accounting manual 2018-19;
- Obtaining an understanding of the Trust's system for accounting for income and evaluating the design of the associated controls.

In respect of patient care income:

- Obtaining an exception report from the DHSC that details differences in reported income and expenditure and receivables and payables between NHS bodies, agreeing the figures in the exception report to the Trust's financial records; and obtaining supporting information for all differences over £300,000, to corroborate the amount recorded in the financial statements by the Trust;
- Agreeing, on a sample basis, amounts for under and over-performance of contracted patient care activities with the Trust's main NHS Commissioners to invoices or alternative evidence;
- Agreeing, on a sample basis, non-contract receivables at year end to invoices and subsequent cash receipts or, for cases in our sample where cash was yet to be received, to alternative evidence.

In respect of other operating income:

- Agreeing, on a sample basis, income to invoices or alternative evidence.
- For PSF, agreeing income recognised for quarters 1, 2 and 3 to NHS Improvement (NHSI) notifications. For quarter 4, we obtained supporting evidence to confirm that the Trust met NHSI's requirements for recognition of the income.

The Trust's accounting policy on income recognition is shown in note 1.3 to the financial statements and related disclosures are included in note 3.

### Key observations

We obtained sufficient audit evidence to conclude that the Trust's accounting policy for recognition of patient care income and other operating income complies with the DHSC group accounting manual 2018-19 and has been properly applied, and income from non-block patient care income and other operating income, and the associated receivable balances, are not materially misstated.

### Our application of materiality

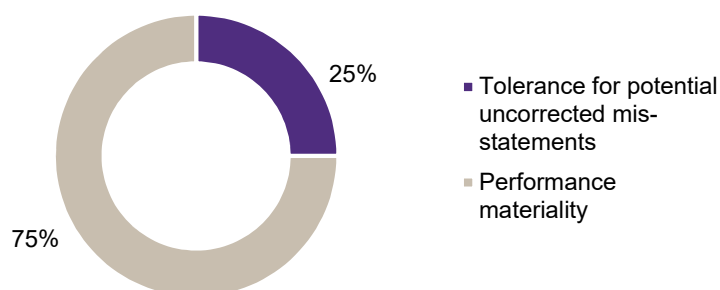
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

Materiality Measure	Trust
Financial statements as a whole	£8,150,000 which is 2% of the Trust's gross operating expenses. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how the Trust has expended its revenue and other funding. Materiality for the current year is at the same percentage level of gross operating expenses as we determined for the year ended 31 March 2018 as we did not identify any significant changes in the Trust or the environment in which it operates.
Performance materiality used to drive the extent of our testing	75% of financial statement materiality
Communication of misstatements to the Audit Committee	£300,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

#### Overall materiality – Trust



#### An overview of the scope of our audit

Our audit approach was based on a thorough understanding of the Trust's business, was risk based and included an evaluation of the Trust's internal controls environment including relevant IT systems and controls over key financial systems.

The scope of our audit included:

- obtaining supporting evidence, on a sample basis, for all of the Trust's material income streams covering 99.5% of the Trust's revenues;
- obtaining supporting evidence, on a sample basis, for 99.8% of the Trust's operating expenses;
- obtaining supporting evidence, on a sample basis, for property plant and equipment and the Trust's other material assets and liabilities.

There were no changes in the scope of the current year audit from the scope of the prior year.

#### Other information

The Accounting Officer is responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable, set out on Page 57, in accordance with provision C.1.1 of the NHS Foundation Trust Code of Governance – the statement given by the directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for patients, regulators and other stakeholders to assess the Trust's performance, business model and strategy, is materially inconsistent with our knowledge of the Trust obtained in the audit; or

Audit Committee reporting set out on Page 71, in accordance with provision C.3.9 of the NHS Foundation Trust Code of Governance – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee/

### **Other information we are required to report on by exception under the Code of Audit Practice**

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not meet the disclosure requirements set out in the NHS foundation trust annual reporting manual 2018/19 or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

#### **Our opinion on other matters required by the Code of Audit Practice is unmodified**

In our opinion:

- the parts of the Remuneration Report and the Staff Report to be audited have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the NHS foundation trust annual reporting manual 2018/19 and the requirements of the National Health Service Act 2006; and
- based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Trust gained through our work in relation to the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under Schedule 10 (3) of the National Health Service Act 2006 in the course of, or at the conclusion of the audit; or
- we refer a matter to the regulator under Schedule 10 (6) of the National Health Service Act 2006 because we have reason to believe that the Trust, or a director or officer of the Trust, is about to make, or has made, a decision which involves or would involve the incurring of expenditure that was unlawful, or is about to take, or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency.

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

### **Responsibilities of the Accounting Officer and Those Charged with Governance for the financial statements**

As explained more fully in the Statement of the Chief Executive's responsibilities as the accounting officer, set out on page(s) 120 to 121, the Chief Executive, as Accounting Officer, is responsible for the preparation of the financial statements in the form and on the basis set out in the Accounts Directions included in the NHS foundation trust annual reporting manual 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Accounting Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Accounting Officer is responsible for assessing the Trust's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Accounting Officer has been informed by the relevant national body of the intention to dissolve the Trust without the transfer of the Trust's services to another public sector entity.

The Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Trust's financial reporting process.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

# Report on other legal and regulatory requirements – Conclusion on the Trust’s arrangements for securing economy, efficiency and effectiveness in its use of resources

## Matter on which we are required to report by exception - Trust’s arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion 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 2019.

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

## Significant risks

Under the Code of Audit Practice, we are required to report on how our work addressed the significant risks we identified in forming our conclusion on the adequacy of the Trust’s arrangements for securing economy, efficiency and effectiveness in its use of resources. Significant risks are those risks that in our view had the potential to cause us to reach an inappropriate conclusion on the audited body’s arrangements. The table below sets out the significant risks we have identified. These significant risks were addressed in the context of our conclusion on the Trust’s arrangements as a whole, and in forming our conclusion thereon, and we do not provide a separate opinion on these risks.

Significant risk	How the matter was addressed in the audit
<p><b>The Trust’s Financial Position</b></p> <p>The Trust’s financial target for 2018/19 was to deliver a surplus of £2.5 million after receipt of £7.3 million from the Provider Sustainability Fund (PSF). This was based on the identification and delivery of £12.3 million of planned cash releasing efficiency savings (CRES).</p> <p>By September 2018 the Trust was forecasting that it would only make a surplus of £0.15 million for the year and it still needed to identify £2 million of its planned CRES.</p> <p>The risk is whether the Trust has adequate arrangements in place to ensure it meets its financial targets and therefore retains its entitlement to PSF income.</p>	<p>Our audit work included, but was not restricted to:</p> <ul style="list-style-type: none"><li>Monitoring the Trust’s performance against its financial target for 2018/19;</li><li>Evaluating the Trust’s forecast position throughout the year and its final outturn against budget;</li><li>Assessing the Trust’s overall arrangements for achievement of its financial target, including the identification and delivery of CRES; and</li></ul> <p>Considering any improvements made to the Trust’s financial management arrangements during 2018/19.;</p> <p><b>Key findings</b></p> <ul style="list-style-type: none"><li>The Trust delivered a retained surplus position of £21.0 million, which is an increase of £5.2 million over the position in the previous year. This unlocked the full Provider Sustainability Funding available to the Trust, which totalled £7.3 million;</li><li>The Trust delivered £9.1 million of CRES, which was 74% of its aspirational £12.3 million target.</li><li>For 2019-20 the Trust has set a budget surplus of £2.3 million, which excludes any Provider Sustainability Funding. To achieve this budget the Trust has a £9.5 million CRES target for 019-20.</li></ul>

## Responsibilities of the Accounting Officer

The Accounting Officer is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in the use of the Trust’s resources.

## Auditor’s responsibilities for the review of the Trust’s arrangements for securing economy, efficiency and effectiveness in its Use of Resources

We are required under paragraph 1 of Schedule 10 of the National Health Service Act 2006 to be satisfied that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and to report where we have not been able to satisfy ourselves that it has done so. 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.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects, 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 this criterion 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 2019, 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 to be satisfied that the Trust has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

### **Report on other legal and regulatory requirements - Certificate**

We certify that we have completed the audit of the financial statements of East London NHS Foundation Trust in accordance with the requirements of Chapter 5 of Part 2 of the National Health Service Act 2006 and the Code of Audit Practice.

#### **Use of our report**

This report is made solely to the Council of Governors of the Trust, as a body, in accordance with Schedule 10 of the National Health Service Act 2006. Our audit work has been undertaken so that we might state to the Trust's Council of Governors 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 Council of Governors, as a body, for our audit work, for this report, or for the opinions we have formed.

**Ciaran McLaughlin**

#### **Key Audit Partner**

for and on behalf of Grant Thornton UK LLP, Local Auditor

**London**

**28 May 2019**