

Management Letter

Northumberland, Tyne and Wear NHS Foundation
Trust (and Group)

Year ended 31 March 2018





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Reports and letters prepared by the auditor and addressed to Northumberland, Tyne and Wear NHS Foundation Trust are prepared for the sole use of the Foundation Trust and we take no responsibility to any member or officer in their individual capacity or to any third party.

1. EXECUTIVE SUMMARY

Purpose of the Management Letter

Our Management Letter summarises the work we have undertaken as the auditor for Northumberland, Tyne and Wear NHS Foundation Trust (the Trust) and Northumberland, Tyne and Wear NHS Foundation Trust Group (the Group) for the year ended 31 March 2018. Although this letter is addressed to the Trust, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the NHS Act 2006 (the 2006 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

| Area of responsibility | Summary |
|-----------------------------------|---|
| Audit of the financial statements | <p>Our auditor's report issued on 23 May 2018 included our opinion that:</p> <ul style="list-style-type: none">the financial statements give a true and fair view of the Trust's and Group's financial position as at 31 March 2018 and of its financial performance for the year then ended. |
| Value for Money conclusion | <p>Our auditor's report stated that we had no matters to report in respect of the Trust's arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> |
| Reporting to the group auditor | <p>In line with group audit instructions issued by the NAO, on 23 May 2018 we reported that the Trust's and Group's consolidation schedules were consistent with the audited financial statements.</p> |
| Statutory reporting | <p>Our auditor's report confirmed that we did not use our powers under schedule 10 of the 2006 Act to issue a report in the public interest or make a referral to the regulator.</p> |
| Quality Report | <p>We are engaged separately by the Trust to undertake work on the Trust's Quality Report. This work is a limited assurance engagement, which is smaller in scope than a reasonable assurance engagement.</p> <p>Having completed our work, we issued a limited assurance opinion on the Quality Report on 23 May 2018 and concluded:</p> <ul style="list-style-type: none">the Quality Report was prepared in line with guidance from NHS Improvement;the Quality Report was not inconsistent with information specified by NHS Improvement; andthe two indicators in the Quality Report subject to our limited assurance work were reasonably stated. |

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2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

Unqualified

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Trust and Group and whether they give a true and fair view of the Trust's and Group's financial position as at 31 March 2018 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Trust's and Group's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2018:

| | | |
|---------------------------------|--|----------------------------|
| Financial statement materiality | Our financial statement materiality is based on approximately 1.5% of operating expenses of continuing operations. | £4.437m (Trust and Group) |
| Trivial threshold | Our trivial threshold is based on 3% of financial statement materiality. | £133,000 (Trust and Group) |
| Specific materiality | We have applied a lower level of materiality to the following areas of the accounts: - Directors' remuneration | 1 Band (Trust and Group) |



2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks and key audit matters

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Trust's and Group's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report.

Key audit matters are defined as those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

The table below outlines the identified significant risks and key audit matters, the work we carried out on these, and our conclusions.

| Identified significant risk | Key audit matter? | Our response | Our findings and conclusions |
|--|-------------------|---|--|
| <p>Management override of controls (Group and Trust) In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p> | No | <p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> • Accounting estimates impacting amounts included in the financial statements; • Consideration of identified significant transactions outside the normal course of business; and • Journals recorded in the general ledger and other adjustments made in preparation of the financial statements. | Our work provided the assurance we sought. |
| <p>Revenue recognition (Trust) There is a risk of fraud in the financial reporting relating to revenue recognition due to the potential to inappropriately record revenue in the wrong period.</p> | Yes | <p>We undertook a range of substantive procedures including:</p> <ul style="list-style-type: none"> • testing of income around the year-end to ensure transactions are recognised in the correct financial year; • testing year-end receivables to ensure transactions are recognised in the correct financial year; • reviewing intra-NHS reconciliations and data matches provided by the Department of Health and Social Care/NHSI; • review of management oversight of material accounting estimates, review of changes to accounting policies and challenge/testing of material accounting estimates; and • testing of adjustment journals, selected using specific risk characteristics. | Our work provided the assurance we sought. |

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2. AUDIT OF THE FINANCIAL STATEMENTS

| Identified significant risk | Key audit matter? | Our response | Our findings and conclusions |
|---|-------------------|---|--|
| <p>Property valuations (Trust) Land and buildings are the Trust's highest value assets. Management engage Cushman & Wakefield, as an expert, to assist in determining the fair value of property to be included in the financial statements. There is a high degree of estimation uncertainty and changes in the value of property may impact on the Statement of Comprehensive Income depending on the circumstances and the specific accounting requirements of the Department and Health and Social Care Group Accounting Manual.</p> | Yes | <p>We liaised with management to update our understanding on the approach taken by the Trust in its valuation of land and buildings.</p> <p>We reviewed and considered:</p> <ul style="list-style-type: none"> • the scope and terms of the engagement with Cushman & Wakefield; and • how management use the Cushman & Wakefield's report to value land and buildings in the financial statements. <p>We wrote to Cushman & Wakefield to obtain information on the methodology and their procedures to ensure objectivity and quality.</p> <p>We tested a sample of valuation movements to gain assurance that the accounting treatment is appropriate, and also considered evidence of regional valuation trends.</p> | Our work provided the assurance we sought. |

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. Our work did not identify any significant deficiencies to report.



3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion

Unqualified

Our approach to Value for Money

We are required to consider whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider. We are only required to report if we conclude that the Trust has not made proper arrangements..

The overall criterion is that, '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.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Our auditor's report, issued to the Trust on 23 May 2018, confirmed that we had no matters to report in respect of the Trust's arrangements to secure economy, efficiency and effectiveness in its use of resources.

| Sub-criteria | Commentary | Matters to report |
|---|--|-------------------|
| Informed decision making | <p>The Trust has a constituted and documented governance structure and strategy in place, which is kept under review by the Board.</p> <p>There is regular reporting to the Board of performance and financial information. Board members have a mix of experience and background.</p> <p>Arrangements to manage risk are in place, and reviewed and updated periodically.</p> | None |
| Sustainable resource deployment | <p>Medium Term Financial Plans are in place, with savings plan requirements clearly identified.</p> <p>Asset register and capital business case approval process in place.</p> <p>The Trust has a history of meeting financial targets, and achieved its surplus control total in 2017/18.</p> | None |
| Working with partners and other third parties | <p>The Trust works closely with its Local Authority partners and other health bodies. It is engaged in the local Sustainability and Transformation and Accountable Care Organisation processes.</p> | None |

Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Trust being inadequate. In our Audit Strategy Memorandum, we reported that we had not identified any significant Value for Money risks. We kept this under review throughout our audit and were satisfied that there were no significant risks apparent in respect of VFM.



4. OTHER REPORTING RESPONSIBILITIES

| | |
|---|----------------------|
| Exercise of statutory reporting powers | No matters to report |
| Governance Statement | No matters to report |
| Consistency of consolidation data with the audited financial statements | Consistent |
| Other information published alongside the audited financial statements | Consistent |

The NAO's Code of Audit Practice and the 2006 Act place wider reporting responsibilities on us, as the Trust's and Group's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters which we report by exception

The 2006 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- Issue a report in the public interest; and
- Make a referral to the Regulator where we believe that a decision has led to, or would lead to, unlawful expenditure, or an action has been, or would be unlawful and likely to cause a loss or deficiency.

We have not exercised any of these statutory reporting powers.

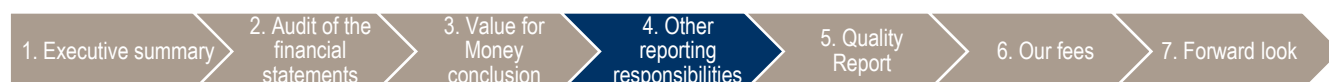
We are also required to report if, in our opinion, the governance statement does not comply with the guidance issued by the NHS Improvement or is inconsistent with our knowledge and understanding of the Trust. We did not identify any matters to report in this regard.

Reporting to the NAO in respect of consolidation data

The NAO, as group auditor, requires us to report to them whether consolidation data that the Trust has submitted is consistent with the audited financial statements. We have concluded and reported that the consolidation data is consistent with the audited financial statements.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Trust. In our opinion, the information in the Annual Report is consistent with the audited financial statements.



5. QUALITY REPORT

Limited assurance report on the Quality Report

Quality Report prepared in line with guidance from NHS Improvement and not inconsistent with the specified information.

Two mandated indicators were reasonably stated.

As a separate engagement agreed with the Trust, we undertake work on the Trust's Quality Report in accordance with guidance issued by NHS Improvement.

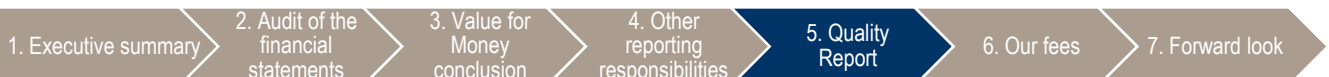
Our work included review of the Report against a list of documents and information, specified by NHS Improvement, to ensure that the report is consistent with those documents, and that the Report contains all of the information NHS Improvement states that it should. We also test a sample of the performance indicators in the report that report the Trust's performance in the year, to ensure that they are reasonably stated and not misleading.

The work is a limited assurance engagement which is smaller in scope than a reasonable assurance engagement.

We issued a limited assurance opinion on the content of the Quality Report and testing of the two mandated indicators on 23 May 2018. This concluded that:

- the Quality Report was prepared in line with guidance from NHS Improvement;
- the Quality Report was not inconsistent with the information specified by NHS Improvement; and
- the two mandated indicators were reasonably stated.

We reported our findings from our review and testing of the performance indicators to the Trust in our 'Report to Governors'.



6. OUR FEES

Fees for work as the Foundation Trust's and Group's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to Audit Committee in January 2018.

Having completed our work for the 2017/18 financial year, we can confirm that our final fees are as follows:

| Area of work | 2017/18 proposed fee | 2017/18 final fee |
|---|----------------------|-------------------|
| Delivery of audit work under the NAO Code of Audit Practice | £36,000 plus VAT | £36,000 plus VAT |

Fees for other work

We have also undertaken other work at the Trust/Group in the 2017/18 year:

| Area of work | 2017/18 proposed fee | 2017/18 final fee |
|---|--|---|
| Assurance service in relation the Foundation Trust's Quality Report | £6,000 plus VAT | £6,000 plus VAT |
| Support and facilitation in respect of mortality review processes | £10,000 plus VAT and expenses (total over 2016/17 and 2017/18 years) | £10,723 plus VAT (total over 2016/17 and 2017/18 years) |

Services provided to other entities within the Group

We were also appointed to undertake the external audit of NTW Solutions Limited, the Trust's subsidiary for which we charged £11,000 plus VAT, and we were appointed to undertake an independent examination of the Trusts Charitable Funds; Northumberland, Tyne and Wear NHS Foundation Trust Charity, for a fee of £400 plus VAT.

Our support to the Trust and Group

During the audit year we have continued to support the Trust including:

- liaising with AuditOne (the Trust's Internal Auditors) to minimise duplication of work;
- attendance at Audit Committees where we inform the Committee about progress on the audit, report our key findings and update it about developments in the NHS and the wider environment; and
- hosting events for staff, such as our NHS Accounts workshops, or more focused one to one sessions where appropriate.

The Trust has taken a positive and constructive approach to our audit and we wish to thank the Board, Audit Committee, and Trust staff for their support and co-operation during our audit in the past year.

We are committed to supporting the Trust as your external auditor. We currently audit foundation trusts, trusts and CCGs and advise many other NHS bodies across the country. We will meet with the Trust to identify any learning from the 2017/18 audit and will continue to share our insights from across the NHS and relevant knowledge from the wider public and private sector.



7. FORWARD LOOK

Financial and operational outlook

The Trust continued to perform well in 2017/18 despite the significant challenges of financial pressure across the NHS, and achieved its overall year end surplus target. This required careful management throughout the year.

Operationally, the Trust has had a successful year. A new Trust Chair has recently been appointed to the Board and the Trust has a rating by the Care Quality Commission of 'outstanding'. It remains one of only a small number of Trusts in the country to achieve such a high rating.

The financial challenge in the coming years continues to intensify and in order to achieve its aims the Trust will have to continue to deliver further cost efficiencies. It will also have to work collaboratively with its partners if the local NHS is to achieve the area's Sustainability and Transformation Plan. We will keep this under review as part of our audit for 2018/19.



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