The Annual Audit Letter
for West Hertfordshire Hospitals NHS Trust

Year ended 31 March 2016
30 June 2016

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# Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Executive summary</td>
<td>3</td>
</tr>
<tr>
<td>2. Audit of the accounts</td>
<td>5</td>
</tr>
<tr>
<td>3. Value for Money conclusion</td>
<td>8</td>
</tr>
<tr>
<td>4. Quality Accounts</td>
<td>12</td>
</tr>
<tr>
<td>5. Working with the Trust</td>
<td>13</td>
</tr>
<tr>
<td>6. Grant Thornton in Health</td>
<td>15</td>
</tr>
</tbody>
</table>

**Appendices**

A Reports issued and fees
Executive summary

Purpose of this letter
Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at West Hertfordshire Hospitals NHS Trust (the Trust) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Trust and its 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 Committee as those charged with governance in our Audit Findings Report on 31 May 2016.

Our responsibilities
We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (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 and Ireland) (ISAs) and other guidance issued by the NAO.

Our work
Financial statements opinion
We gave an unqualified opinion on the Trust's financial statements on 1 June 2016. The financial statements were prepared to a high standard and supported by good quality working papers. Officers were helpful and co-operative in responding to our queries and the overall accounts audit was a smooth one.

Value for money conclusion
We issued an adverse value for money conclusion in our report on the financial statements on 1 June 2016. The financial climate continues to be an exceptionally challenging one for the Trust, with an underlying financial deficit in excess of £34.4m per annum. Management and the Board are to be commended for the quality of reporting, the realism of planning and the willingness to make difficult decisions, including around the Sustainability and Transformation Fund. Despite all this, in common with many Trusts, there is a lot of work to do before the Trust can return to a breakeven position. Delivering an improved financial performance will need to remain as a key priority for the Board over the coming year. The Trust has responded proactively in seeking to address the issues raised by the CQC Quality Improvement Plan. There remains work to do in advance of the follow up inspection by the Care Quality Commission in September 2016, and this will also continue to be a key priority for the Board over the coming months.
Consolidation template
We also reported on the consistency of the consolidation schedules submitted to
the Department of Health with the audited financial statements. We concluded
that these were consistent.

Use of statutory powers
We referred a matter to the Secretary of State, as required by section 30 of the Act,
on 11 January 2016 after taking into account the NHS Finance Manual "Guidance
on Breakeven Duty and Provisions" in respect of the Trust’s anticipated breach of
the break-even duty for the three year period ending 31 March 2016.

Certificate
We certify that we have completed the audit of the accounts of West
Hertfordshire Hospitals NHS Trust in accordance with the requirements of the
Code of Audit Practice.

Quality Account
We completed a review of the Trust's Quality Account and we expect to issue our
report on this by 30 June 2016 following the Board or delegated committee
approval of the report. We concluded that the Quality Account and the indicators
we reviewed were prepared in line with the Regulations and guidance.

Other work completed
We provided final accounts training attended by members of the Finance Team
and Annual Report training attended by the Trust secretary.

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 2016
Audit of the accounts

**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 our audit of the Trust's accounts to be £5,771,000, which is 1.75% 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 it has spent the income it made in the year.

We set a lower threshold of £250,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

**The scope of our audit**

Our audit involves obtaining enough 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 Trust's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- 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 annual report to check it is consistent with our understanding of the Trust and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe 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 accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

<table>
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<tr>
<th>Risks identified in our audit plan</th>
<th>How we responded to the risk</th>
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| **Financial support and going concern**  
The Trust received financial support from the Department of Health because of the large deficit it incurred in 2015/16.  
As part of our audit work we:  
• Reviewed the Trust’s own assessment of whether it was appropriate to account on a going concern basis  
• Reviewed the Trust’s disclosure in the accounts to ensure they gave sufficient information  
• Reviewed the Trust’s cash flow forecasts and correspondence with Monitor about the financial support it received.  
**We did not identify any issues to report.** |
| **Occurrence of healthcare income**  
The Trust receives 91% of its income from NHS commissioners of healthcare services. The Trust invoices these commissioners throughout the year and accrues for activity in the final quarter of the year. Invoices for this activity are not agreed until after the accounts are produced for audit. There is therefore a risk that income from healthcare may be overstated.  
As part of our audit work we have:  
• Evaluated the Trust’s policy for accounting for income for appropriateness and consistency with last year  
• Gained an understanding of the Trust’s system for accounting for healthcare income and the controls in place  
• Tested a sample of income to supporting documents and receipt of cash  
• Checked the consistency of income recorded by the Trust against expenditure recorded by the commissioners.  
**We did not identify any issues to report.** |
| **Employee remuneration**  
Total employee benefits accounts for more than 64% of the Trust’s Operating expenses. Risk that employee remuneration accruals are understated.  
As part of our audit work we have:  
• Reviewed the reconciliation of payroll expenditure recorded in the general ledger to the subsidiary systems  
• Evaluated trend analysis and risk identification for monthly payroll costs.  
• Tested payroll payments to individual’s contract of employment.  
**We did not identify any issues to report.** |
| **Operating expenses**  
Risk that creditors understated or not recorded in the correct period  
As part of our audit work we have:  
• Reviewed the reconciliation of operating expenditure recorded in the general ledger to the subsidiary systems  
• Tested operating expenditure payments to evidence and ensured they were allocated to the correct accounting period  
• Tested a sample of year end payable creditors  
**We did not identify any issues to report.** |
Audit of the accounts

Audit opinion
We gave an unqualified opinion on the Trust's financial statements on 1 June 2016, in advance of the national deadline.

The Trust made the accounts available for audit in line with the national timetable for submission, 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.

Outcomes from the audit of the accounts
We reported the key messages from our audit to the Trust's Audit Committee on 31 May 2016. They were:

• the accounts and working papers were submitted by the agreed date and to a good standard
• the finance team responded promptly and comprehensively to audit requests and queries
• a small number of amendments were made to disclosures within the financial statements, to enhance the transparency of the disclosures
• we identified minor weaknesses in capital accounting, notably the asset register not being kept up to date, and some capital expenditure not being accrued for.

Whilst this did not impact on our opinion, we recommended and agreed with management action to strengthen controls around capital accounting.

Annual Governance Statement and Annual Report
We are also required to review the Trust's Annual Governance Statement and Annual Report. It provided these on a timely basis with the draft accounts with supporting evidence.

We reported the Trust's Annual Report, which includes the Annual Governance Statement (AGS), met the requirements of the DH Group Manual for Accounts and was consistent with the audited financial statements. In line with our recommendations, agreed amendments were made to both reports to improve disclosures but overall we concluded the reports had been presented to a good standard.

Other statutory duties
We are also required to refer certain matters to the Secretary of State under section 30 of the Local Audit and Accountability Act 2014. On 11 January 2016, we reported to the Secretary of State that the Trust would breach its statutory breakeven duty, that is the requirement for it to achieve a balanced financial position over a three year period.
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 2015 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 key risks where we concentrated our work. The key risks we identified and the work we performed are set out in the table 2.

As part of our Audit Findings report agreed with the Trust in May 2016, we agreed recommendations to address our findings.

**Overall VfM conclusion**
Our review of the Trust's arrangements to secure economy, efficiency and effectiveness reported the following issues which gave rise to an adverse VFM conclusion.

**Financial sustainability**
The Trust outturn position for 2015/16 was a deficit of £41.2 million, which compared with the Trust's original budget forecast deficit of £32.8 million. The Trust's financial plan for 2016/17 showed a projected deficit of £36.9 million, which was dependent on achieving savings of £14 million of which £10.5 million had fully developed implementation plans in place at the end of May 2016.
The priority for the Trust is to identify sustainable ways of transforming the delivery of services in the medium and long term, in line with the Trust's strategic priorities and managing delivery of its savings plans.

**Care Quality Commission**
The Care Quality Commission (CQC) inspected the Trust's three sites Watford Hospital, St Albans Hospital and Hemel Hempstead Hospital in April and May 2015 and in September 2015, issued the Trust an overall rating 'Inadequate'. The report highlighted concerns in quality safety and staffing levels. The Trust was placed in 'special measures' and it is working through the actions identified within the improvement plan. The Trust will be subject to a further inspection by CQC in September 2016.

The priority for the Trust is to strengthen its arrangements for planning and deploying workforce to deliver the Trust's priorities effectively.
Value for Money

Table 2: Value for money risks

<table>
<thead>
<tr>
<th>Risk identified</th>
<th>Work carried out</th>
<th>Findings and conclusions</th>
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<tbody>
<tr>
<td><strong>Financial performance</strong></td>
<td>We reviewed financial performance arrangements at the Trust as follows</td>
<td><strong>2015/16</strong></td>
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<td>• reviewed the outturn position for 2015/16, including the delivery of savings targets</td>
<td>The Trust began 2015/16 with a planned deficit forecast of £32.8 million. The Trust's final outturn deficit for the year was £41.2 million which represented an £8.4 million overspend on the budgeted outturn for the year.</td>
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<td>• reviewed plans to achieve the agreed 2016/17 control total</td>
<td>Pay expenditure had been a major pressure, at up to £1 million a month for the whole of 2015/16. The Trust had sought to manage pay overspends in a number of ways including initiatives to recruit more nursing staff at home and abroad and reducing staff turnover which had exceeded the national average. The Trust's recruitment campaign successfully increased the number of nurses and reduce staff turnover. The benefits of the recruitment and agency fee cap should begin to impact fully in 2016/17.</td>
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<td>• assessed the response to recommendations made in our previous audit reports</td>
<td>Other pressures we reported included contractual penalties with Herts Valley CCG of £6.4 million and £2.7 million of budgeted funding for winter pressures that was not forthcoming.</td>
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<td>• met with key officers to discuss and review arrangements to ensure medium term financial stability.</td>
<td>The Trust had performed well on its cost improvement plan (CIP) target. The Trust had set an ambitious plan of £12.3 million at the start of the year which was later revised to a stretch target of £15 million. The Trust achieved the original planned CIP savings of £12 million, a good achievement.</td>
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<td>Whilst the financial position was extremely difficult through the whole of 2015/16, we commended the Trust for the high quality reporting to Board and having a realistic appraisal of the difficulties of the financial challenges it faces.</td>
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2016/17

The Trust had begun its financial planning for 2016/17 in January 2016. The Trust Development Agency (TDA) offered the Trust conditional access to revenue from the national S&T Fund. The Trust was notified that, if it could develop a deficit plan no greater than £29.3 million, it could access fund of £12 million to reduce the deficit plan to £17.3 million. The timing between the offer being made and the deadline for acceptance was a matter of a few weeks that did not allow the Trust sufficient time for a detailed analysis of health needs within the locality. The Trust took a number of high level assumptions and signed up to the agreement in February 2016.

Subsequently, the Trust embarked on a detailed review of its financial plans. A revised plan was presented to the April 2016 Board for a deficit budget of £36.9 million. This is dependent on delivering a CIP plan of £14 million. Achieving the revised plan is predicated a number of assumptions including 100% payment for emergency admissions (£4.2 million), tariff uplift of £4.6 million and recruitment plans to reduce reliance on agency staff yielding efficiency savings of up to £4.5 million. The Board recognises that any one or a combination of these could significantly impact on its budget outturn. Additionally, the revised deficit budget meant the loss of the £12 million S&T Fund. The plans are currently subject to NHS Improvement approval.

To help identify and develop its CIP plans, the Trust will continue to make use of external consultants whilst training its own project managers to take on the identification and management of savings schemes. To date, £10.5 million which represents 75% of schemes had been identified and delivery is back loaded towards the end of the year, giving less time to mitigate slippage if it occurs. With two months of the year already elapsed, it is critical the Trust identifies the remaining 25% of efficiencies schemes with adequate headroom to mitigate against slippage or new cost pressures.

We note the Trust has continued to have further discussions with NHS Improvement to agree the plan for 2016/17 since we reported to the Audit Committee in May. In the last few days, the Trust agreed a control total deficit plan no greater than £22.553 million with access to S&T Fund of £12 million. This plan is dependent on the Trust achieving improved savings target of £18.3 million (5% of costs) and yet undefined NHS Improvement operational performance, financial and workforce control risks.

We concluded the financial climate continues to be an exceptionally challenging one for the Trust. We commended management and the Board for the quality of reporting, the realism of planning and the willingness to make difficult decisions, including around the S&T Fund. Despite all this, in common with many Trusts, there is a lot of work to do before the Trust can return to a breakeven position. Delivering an improved financial performance will clearly need to remain as a key priority for the Board over the coming year.
Value for Money

Table 2: Value for money risks continued

<table>
<thead>
<tr>
<th>Risk identified</th>
<th>Work carried out</th>
<th>Findings and conclusions</th>
</tr>
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<tbody>
<tr>
<td><strong>CQC inspection</strong>&lt;br&gt;In September 2015, the Care Quality Commission (CQC) placed the Trust in Special Measures following an inspection during April and May 2015. The Trust's overall rating was 'inadequate'.&lt;br&gt;&lt;br&gt;The Trust was assessed as inadequate in 'well-led and safe domains' and requires improvement 'responsive, caring and effectiveness' domains.</td>
<td>We reviewed how the Trust is implementing and monitoring delivery of the action plan agreed to address the findings of the CQC inspection.</td>
<td>Following the receipt of the CQC report in September 2015, the Trust has responded rapidly proactively. Key measures taken include the development of a Quality Improvement Plan (QIP) overseen by the Director of Strategy &amp; Corporate Governance, and introducing a regular report on progress made across 200+ actions including workforce, quality and governance taken from the CQC action plan. The Trust has further expanded the scope of the QIP actions so that they are now forward looking, anticipating the forthcoming re-inspection. Other key measures include developing a partnership with the Royal Free Hospital through a 'buddying' arrangement. The partnership is in its early stages with plans to focus on risk and governance, developing clinical leadership, end of life care and reviewing options for the future of pathology services. Our review of Trust Board minutes shows that progress on the QIP has been discussed at each meeting. The Trust also reports progress to the Oversight Group which is chaired by the NHS Improvement with representatives from all parties including management, Non Executive Directors and sector representatives. Progress is also subject to a rigorous review at the Integrated Risk and Governance Committee (IRGC). The format of IRGC reporting to the Board varies. For January 2016, the Board received a written report. The March and May 2016 reports were given as verbal updates. As re-inspection approaches, the Trust may wish to introduce more formal and regular reporting. Delivery of the QIP is a key corporate priority for the Trust. The Directors believe the Trust has made good progress in addressing the issues identified by the CQC report, but recognise that further improvement is still required. Key areas identified as posing significant risks to the QIP include:&lt;br&gt;• emergency pathways,&lt;br&gt;• delivery of the required improvements to estates against significant levels of backlog maintenance required&lt;br&gt;• limited capital funds available to invest in modern medical technology and infrastructure, and&lt;br&gt;• embedding changes to clinical processes.&lt;br&gt;&lt;br&gt;The date of the CQC re-inspection has been set for early September 2016. As part of its preparation, the Trust has asked its Internal Auditors to review the QIP to assess the adequacy of the supporting evidence for actions signed off as complete. This is good practice and should provide both management and the Board with assurance that the direction of travel continues to be positive. Finally, the Trust should be commended for improvements in key performance indicators including reduction in hospital standardised mortality ratio. The Trust's performance is ranked in the top quartile nationally and it was recognised as the winner of the patient safety award by the Health Service Journal. &lt;br&gt;&lt;br&gt;We concluded the Trust had responded proactively in seeking to address the issues raised by the CQC Quality Improvement Plan. There remained work to do in advance of the follow up inspection by the Care Quality Commission, and this will continue to remain a key priority for the Board.</td>
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Quality Account

The Quality Account

The Quality Account is an annual report to the public from NHS Trusts about the quality of services they deliver. It allows 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 Account, following Department of Health (DH) guidance. We give an opinion as to whether we have found anything from our work which leads us to believe that:

- the Quality Account is not prepared in line with the DH criteria;
- the Quality Account is not consistent with other documents specified in the DH guidance; and
- the two indicators in the Quality Account where we carry out detailed work are not compiled in line with the DH regulations and meet expected dimensions of data quality.

Key messages

- We confirmed that the Quality Account had been prepared in line with the requirements of the Regulations.
- We confirmed that the Quality Account was consistent with the sources specified in the Guidance.
- We confirmed that the commentary on indicators in the Quality Account was consistent with the reported outcomes.
- Our testing of two indicators included in the Quality Account found that these were materially reasonably stated in accordance with the Regulations and six dimensions of data quality.

Quality Account Indicator testing

We tested the following indicators percentage of patients risk-assessed for venous thromboembolism (VTE) and Percentage of patient safety incidents resulting in severe harm or death. We reviewed the process used to collect data for the indicator. We checked that the indicator presented in the Quality Report reconciled to the underlying data. We then tested a sample of cases to check the accuracy, completeness, timeliness, validity, relevance and reliability of the data, and whether the calculation is in accordance with the definition. 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 plan to issue an unqualified conclusion on your Quality Account by 30 June 2016 following the approval of the report by the Board.
Working with the Trust

Our work with you in 2015/16
We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

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

• An efficient accounts audit – we completed our audit of your financial statements over a two week period in May 2016, releasing your finance team for other key work.

• Early testing – we agreed a programme of early substantive testing with you which included testing of journals, fixed assets verification, operating expenses, revenue and employee remuneration

• Understanding your financial health – we provided you with feedback on your financial resilience including feedback on the achievement of cost improvement programmes in year and pressures on delivery in future years

• Annual reporting – we benchmarked your annual report and made recommendations for improvements. Trust management adopted a number of our recommendations in its 2015/16 Annual Report

• Providing assurance over data quality – we provided assurance over key indicators and followed up on prior year recommendations. The Trusts’ prompt action in addressing previous year recommendations has enabled an unqualified for the first time in three years

• Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports

• Providing training – we provided your teams with free training on financial accounts and annual reporting. We plan to run similar events in 2017.
Working with the Trust

**Working with you in 2016/17**
We will continue to work with you and support you over the next financial year.

Nationally we are planning the following events:

- Health and Social Care Integration – we are working with the Manchester authorities so that we are able to share insight into how best to integrate health and social care. We will share the outcome of our work early in 2017
- Thought leadership – we are preparing thought leadership reports on Future of Primary Care and on NHS commercial structures
- Audit updates - we will continue to provide regular audit committee updates covering best practice and emerging issues in the sector
- Providing training – we will continue to provide financial accounts and annual reporting training
- Improving your annual reporting – we will benchmark your annual report and highlight potential areas for improvement
- Providing insight – we will update our Health and Well Being analysis and share our information on key health conditions and lifestyle needs in your area.

Locally our focus will be on:

- An efficient audit – we will continue to deliver an efficient audit, underpinned by an increased focus on your core financial systems and key controls, as well as early substantive testing
- Understanding your operational health – we will focus our value for money conclusion work on financial sustainability and efforts to move out of special measures
- Supporting development – we will provide regular updates to Audit Committee on key technical and accounting issues, as well as free workshops on Annual Reporting.
Grant Thornton in Health

Our client base and delivery
- We are the largest supplier of external audit services to the NHS
- We audit over 120 NHS organisations
- 99% of 2015/16 audit reports were issued by the national deadline
- Our clients scored us 8 out of 10 or higher

Our connections
- We meet regularly with and second people to the Department of Health, CQC, NHS Improvement and NHS England
- We work closely with local government and blue light services
- We work with the Think Tanks and legal firms to develop workshops and good practice
- We provide thought leadership, seminars and training to support our clients and to provide solutions.
- In 2016 we issued reports on Mental Health Collaboration, and NHS governance and finance.
- We will publish reviews on the Future of Primary Care and on NHS commercial structures later this year.

Our support for the sector
- We are sponsors for HFMA and work with the provider faculty, mental health faculty and commissioning faculty. We regularly speak at HFMA events to share best practice and solutions.
- We provide auditor briefings into what is happening with department policy, sector regulation, and at other NHS organisations to help support our clients.
- We provide Key Issues Bulletins that summarise what is happening in the sector.
- We hold regular 'free to access' financial reporting and other training sessions for finance staff to ensure they have the latest technical guidance.

Our quality
- We fully meet the criteria for appointment as external auditors.
- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing.
- We are fully compliant with ethical standards
- We have passed all external quality inspections including QAD and AQRT.

Our technical support
- We are members of all of the key NAO, ICAEW, and HFMA technical forums.
- We have specialists leads for Public Sector Audit quality and Public Sector technical.
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas.
- Local teams are supported on information technology by specialist IT auditors.
- We use specialist audit software to identify and assess audit risk.

Our people
- We have over 30 engagement leads accredited by ICAEW to issue NHS audit reports
- We have over 300 public sector specialists
- We invest heavily in our people including technical and personal development training
- We invest in the future of the public sector and employ over 80 Public Sector trainee accountants
Appendix A: Reports issued and fees

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

<table>
<thead>
<tr>
<th>Fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service</td>
</tr>
<tr>
<td>----------------------------------</td>
</tr>
<tr>
<td>Statutory audit</td>
</tr>
<tr>
<td>Charitable fund</td>
</tr>
<tr>
<td><strong>Total fees</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fees for other services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service</td>
</tr>
<tr>
<td>Assurance on your quality report</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Reports issued</th>
</tr>
</thead>
<tbody>
<tr>
<td>Report</td>
</tr>
<tr>
<td>Audit Plan</td>
</tr>
<tr>
<td>Audit Findings Report</td>
</tr>
<tr>
<td>Auditor's opinion on the financial statements</td>
</tr>
<tr>
<td>Auditor's opinion on the Accounts Summarisation Schedule</td>
</tr>
<tr>
<td>Auditor's conclusion in respect of the trust's arrangements for securing economy, efficiency and effectiveness in its use of resources</td>
</tr>
<tr>
<td>Quality Account Report</td>
</tr>
<tr>
<td>Annual Audit Letter</td>
</tr>
<tr>
<td>Independent Examinations report on the Charitable Funds</td>
</tr>
</tbody>
</table>