
Sherwood Forest Hospitals NHS Foundation Trust

Report to the Audit & Assurance Committee
External audit plan 2018/19

**Government &
Public Sector**

January 2019

DRAFT





Private and confidential

The Audit & Assurance
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January 2019

Dear Audit & Assurance Committee Members,

**Sherwood Forest Hospitals NHS Foundation Trust –
Audit Strategy 2018/19**

We are delighted to present to you, in your capacity of *'Those Charged with Governance'*, our external audit plan for the year ended 31 March 2019. We have prepared this audit plan to provide the Audit & Assurance Committee with information about our responsibilities as external auditors and how we plan to discharge those responsibilities.

Our audit strategy for 2018/19 is set out in detail on the following pages. As in previous years this includes an assessment of risk based upon our existing knowledge of the Trust, the wider sector issues, and other factors specific to the Trust which we believe increase risk. This ensures our audit approach reflects the key risks relevant to the Trust, as well as providing Management and the Audit & Assurance Committee with an informed and independent view of risk in the organisation.

This document also includes our proposed audit strategy for the identified risks, the audit and reporting timetable and other matters we are required to communicate as part of our audit planning.

Discussion of our strategy with you enables our engagement team members to understand your concerns and agree on mutual needs and expectations to provide the highest level of service quality. Our approach is responsive to the many changes affecting Sherwood Forest Hospitals NHS Foundation Trust, including any significant changes applicable to this year's audit.








If you have any questions regarding matters in this document please contact Ali, Matt or Glen who will be happy to discuss.

Yours faithfully

PricewaterhouseCoopers LLP

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Section 1

Our responsibilities

Our responsibilities

Our plan is required by International Standards on Auditing (UK) ('ISAs (UK)') and sets out our duties under the National Audit Office's Code of Audit Practice (the 'Code of Audit Practice').

We will conduct our audit in accordance with the relevant requirements of the NHS Act 2006 and the Code of Audit Practice. The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. 'Relevant bodies' are set out in Schedule 2 of the Act and include NHS Foundation Trusts.

Our primary responsibility is to form an independent opinion on the financial statements of Sherwood Forest Hospitals NHS Foundation Trust. In addition we will:

- Issue a report to the Audit & Assurance Committee setting out our findings relating to the audit of the financial statements;
- Provide a limited assurance report on the Trust's Quality Report; and
- A "Governors Report" summarising the findings from our procedures over the Trust's Quality Report.

The remainder of this document sets out how we will discharge our responsibilities and we welcome any feedback or comments that you may have on our approach.

Our audit approach in numbers

£5.876m

Our overall materiality to be applied to the Trust's financial statements.

£293k

Our proposed 'clearly trivial' reporting de minimis limit.

5

The number of significant audit risks to be addressed through our audit.

£(34)m

The Trust's deficit control total as agreed with NHS Improvement. Includes £12.4 of PSF income.



Section 2

Our audit approach

The PwC audit approach is designed to provide reasonable assurance over the areas of greatest financial misstatement risks within the Trust.

The identified risks are the result of our assessment of the wider sector-specific risks facing the Trust, as well as more specific risks stemming, for example, from developments discussed with management.

This section sets out the six fundamental steps that are integral to the PwC Audit approach. We explain the process we follow to identify risks, how we then scope our audit and testing to address these risks and how we plan to provide you with reasonable assurance and insightful conclusions thereon.

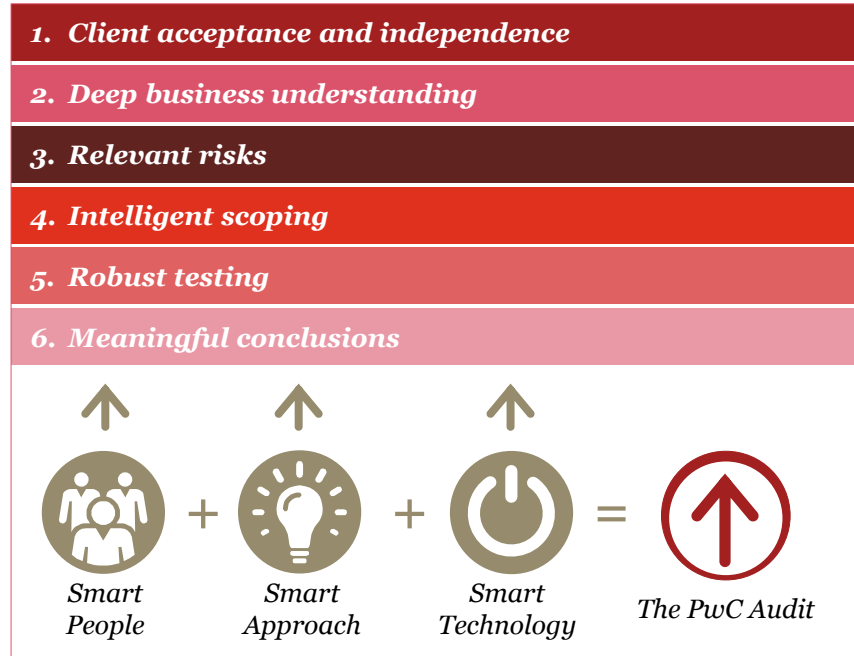
1 • Client acceptance and independence

For all our audit engagements the starting point in the risk assessment process is our Client acceptance process. This initial evaluation supplements our planning risk assessment. This assessment considers a wide range of factors and is not just limited to risks specific to financial statement line items.

We have also completed our initial independence procedures and include more details in Appendix 1. We will provide our formal independence letter to the Audit & Assurance Committee as part of our reporting in May 2019, but at this stage there are no significant issues to report regarding our independence.

At the date of this plan we confirm that in our professional judgement, we are independent accountants with respect to the Trust, within the meaning of UK regulatory and professional requirements, including the Financial Reporting Council’s Revised Ethical Standard 2016.

In addition we confirm that the objectivity of the audit team is not impaired.



PwC’s audit is built on a foundation of smart people, a smart approach and smart technology. This together with our six-step audit process, results in an audit that is robust, insightful and relevant.



Section 2

Our audit approach

2 • Understanding the business environment

Each year we update our audit approach to ensure that it continues to be focused on the risks that are relevant to the Foundation Trust and reflects the latest changes and developments in the Trust. Key members of the audit team including the engagement manager and team leader were involved in the audit in the prior year. This ensures continuity which is beneficial both for our people and your audit through ensuring that accumulated knowledge remains within the audit team, improving our understanding of your business and consequently the quality of the audit we deliver.

Set out below is a summary of the main factors that have informed our view of audit risk and our audit approach:

Provider Sustainability funding	<ul style="list-style-type: none">• Provider Sustainability funding (PSF), like the Sustainability and Transformation funding before it, remains contingent on the Trust achieving certain performance measures. The total PSF available to the Trust is £12.4m which is contingent on the Trust achieving its control total of £(46.37)m deficit as agreed with NHS Improvement. The existence of the PSF monies means management have added incentives and pressures to manage short term financial performance of the Trust to trigger payment of the full PSF allocation.• Overall the Trust has underperformed during the 2018/19 year to date relative to budget. At the end of November, the Trust is £2.13m behind the control total excluding Provider Sustainability Funding (PSF) and is £2.63m behind the control total including PSF. The Trust is forecasting to recover this position over the remainder of Q3 and Q4 and to achieve its control total at year end.
Quality, safety and patient experience	<ul style="list-style-type: none">• The Single Oversight Framework Integrated Performance Report to the Trust Board in December 2018 identified that although many standards are being met, there remain areas of underperformance. Exception reports for the following performance indicators were reported to the December meeting of the Trust Board with mitigating actions being proposed.<ol style="list-style-type: none">1. Sickness absence2. Avoidable hospital acquired pressure ulcers3. Friends and Family Test4. % of Ambulance handover >30 minutes/ % of Ambulance handover >60 minutes5. Maximum time of 18 weeks from referral to treatment – RTT6. Number of cases exceeding 52 weeks referral to treatment7. Fractured neck of femur achieving best practice tariff8. Sixty-two day urgent referral to treatment
Financial Improvement Plan (FIP)	<p>The Trust has a financial improvement plan (FIP) for 2018/19 of £17.3m. The FIP programme will be delivered with support from a dedicated project management team. At month 8, the FIP had delivered £7.02m. This is £2.85m behind plan. The year end forecast has been revised to £16.48m, £0.82m lower than the annual plan. The Trust has been working with external consultants, Ernst & Young, on a plan to recover the position.</p>



Section 2

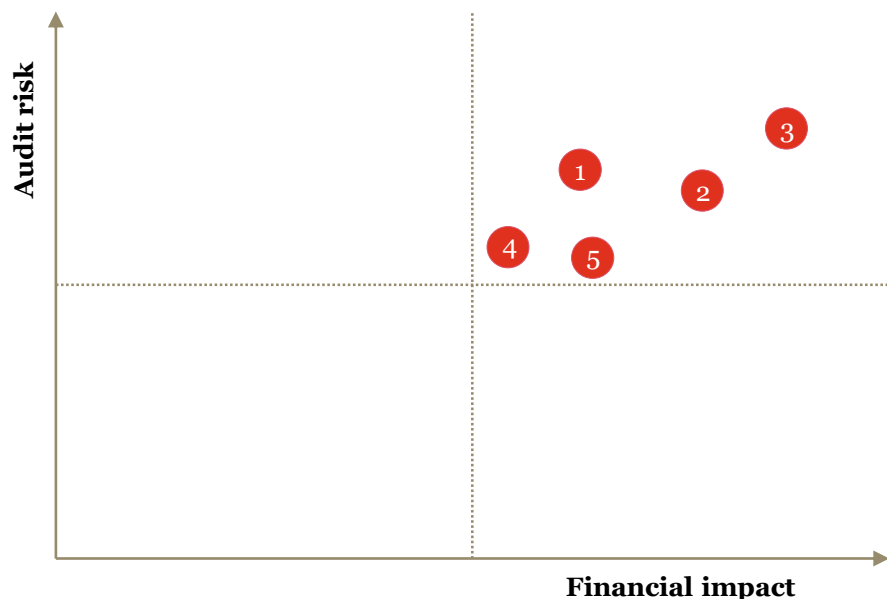
Our audit approach

3 • Relevant audit risks

Our audit is risk based, which means we focus on the areas that matter to the Trust. Our risk assessment is conducted prior to considering the mitigating impact of controls, as required by auditing standards. Our risk assessment draws on our existing knowledge and experience of the Trust, updated to reflect developments and changes to the Trust and its operational environment.

We determine if risks are significant, elevated or normal and whether we are concerned with fraud, error or judgement. This subsequently drives the design of our testing procedures. Significant audit risks are those in the top right quadrant of the chart above with the highest potential for material misstatement due to a combination of their size, nature and likelihood and which in our judgement require specific audit consideration.

Relevant audit risks



Key: ● Significant risks ● Elevated risks

We have summarised our audit response to these risks on pages 5 and 6.

Risks	Fraud	Error	Judgement
1 Fraud in revenue recognition	●	○	○
2 Fraud in expenditure recognition	●	○	○
3 Management override of controls	●	○	○
4 Valuation of property, plant and equipment	○	○	●
5 Going Concern	○	○	●

There are two differences in our 2018/19 risk assessment compared to the prior year.

- Opening balances (elevated) - This is our second year of auditing the Trust. We performed procedures in 2017/18 to obtain assurance over the opening balances audited by our predecessor auditor.
- Private Finance Initiative (PFI) accounting (significant) – We performed procedures in 2017/18 to review the Trust’s accounting model for its PFI scheme. The Trust made changes to the accounting model to ensure that this was in accordance with the 2009 Department of Health (DH) Guidance, ‘Accounting for PFI under IFRS’.



Section 2

Our audit approach

Set out below is a summary of the principal audit risks, their related impact on the Trust and our planned audit response to the identified risks:

Area and risk assessment	Comment	Audit response
Fraud in revenue recognition	Under ISA (UK) 240 there is a (rebuttable) presumption that there are risks of fraud in revenue recognition. There is a risk that the Trust could adopt accounting policies or treat income transactions in such a way as to lead to material misstatement in the reported revenue position. Revenue recognition is a particular risk due to the pressures on the Trust to achieve its control total.	<ul style="list-style-type: none">• We will obtain an understanding of the key income recognition controls;• We will perform testing over pre and post year end transactions to assess cut-off of income recognition;• We will evaluate and test application of the accounting policy for recognition of income to ensure that this is consistent with the requirements of the Department of Health and Social Care Group Accounting Manual;• We will substantively test a sample of income recognised during the period by tracing amounts to contracts, invoices and bank statements; and• We will review the intra NHS agreement of balances any disputed amounts (revenue and receivables) to consider any implications on your financial statements.
Fraud in expenditure recognition	We extend the presumption in respect of revenue to the recognition of expenditure in the NHS. In the current economic environment, and pressures associated achieving the agreed control total, the Trust is subject to, and assessed on, significant cost reduction plans.	<ul style="list-style-type: none">• We will obtain an understanding of the key expenditure recognition controls;• We will perform testing over post year end transactions to assess completeness and cut-off of expenditure recognition;• We will understand the basis of the control total, in particular which costs are included and excluded from the calculation (e.g. depreciation versus impairment) and test the classification of expenses; and• We will review the intra NHS agreement of balances any disputed amounts (expenditure and payables) to consider any implications on your financial statements.
Management override of controls	ISA (UK) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk that management may override controls in order to manipulate the financial statements	<p>We will perform procedures to:</p> <ul style="list-style-type: none">• Test the appropriateness of journal entries using Computer Assisted Audit Techniques;• Review accounting estimates for bias and evaluate whether circumstances producing any bias, represent a risk of material misstatement due to fraud;• Evaluate the business rationale underlying significant transactions; and• Incorporate an element of 'unpredictability' to our procedures.



Section 2

Our audit approach

Area and risk assessment	Comment	Audit response
Valuation of property, plant and equipment	<p>Property, plant and equipment (PPE) represents the largest balance in the Trust's Statement of Financial Position. The Trust measures its properties at fair value. This involves a range of assumptions and the use of external valuation expertise, provided by the District Valuer. ISA (UK) 500 and 540 require us, respectively to undertake certain procedures on the use of external expert valuers and processes and assumptions underlying fair value estimates.</p> <p>Whilst the Trust has considerable experience in this area and we have not found any significant issues in recent years which have led to audit adjustments, the level of judgement required means we consider this to be a significant risk.</p> <p><i>PFI – Lifecycle Events</i></p> <p>In 2017/18, we reported that the Trust had not been accounting for lifecycle replacement as capital and had instead been expensing these costs to the Statement of Comprehensive Income. In each individual year the planned maintenance and lifecycle replacement costs are not material. However they are material over the life of the contract and their inclusion impacts on other aspects of PFI accounting. We recommended that the Trust obtains more detailed information from the PFI provider so that a full assessment of lifecycle events can take place; in particular, so that capital items aren't expensed. This will become increasingly important as the amount dedicated to lifecycle events becomes larger over time.</p>	<ul style="list-style-type: none">• We will review the proposed accounting treatment (including financing arrangements) for any new capital scheme and material additions in 2018/19 and consider the implications of the valuation basis;• We will use valuation experts to review the assumptions used in determining the fair value of assets recorded within the Trust's financial statements, and the basis for reaching this fair value; and• We will agree fixed asset additions in the year to supporting documentation and consider whether transactions have been appropriately classified as capital or revenue. <p><i>PFI – Lifecycle Events</i></p> <ul style="list-style-type: none">• We will review the action taken by management since our 2017/18 audit relating to the accounting of lifecycle replacement costs to ensure that the accounts are materially correct.
Going concern	<p>The Trust's financial statements are prepared on the assumption that it is a going concern and will continue its operations for the foreseeable future.</p> <p>Due to the Trust operating at a deficit, and the resulting challenges this presents for your cash flow, we will be required to perform additional work on management's assumptions for applying the going concern basis when producing the financial statements. We will also focus on the disclosures you make in your financial statements to ensure that they fully reflect any material uncertainties that exist over your future financial position.</p>	<p>We will undertake the following specific procedures:</p> <ul style="list-style-type: none">• Review the Trust's going concern assessment, prepared as part of preparations for the annual accounts process;• Review the Trust's cash forecasts and the assumptions underpinning them if material uncertainties are identified; and• Work with the Trust to ensure disclosures around the financial sustainability of the organisation are clear and robust within the financial statements and annual report.



Section 2

Our audit approach

Our approach to value for money

Under its terms of authorisation, the Foundation Trust is required to exercise its functions economically, efficiently and effectively.

Under the Code of Audit Practice, we must satisfy ourselves, by examination of the financial statements and otherwise, that you have made proper arrangements for securing economy, efficiency and effectiveness in your use of the Trust's resources. The NAO guidance is included in Auditor Guidance Note 03 (AGN 03) and requires us to reach our statutory conclusion on your arrangements based on the following overall evaluation criterion:

“In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.”

Our conclusion is then informed by three sub-criteria which guide our work:

- informed decision making;
- sustainable resource deployment; and
- working with partner and other third parties.

As part of the planning process we are required to perform procedures to assess the Trust's arrangements to secure VFM through the economic, efficient and effective use of its resources. We are required to continually reevaluate this risk assessment during the course of the audit. In performing these procedures we are required to determine whether any risks exist which may impact on our value for money conclusion, and what procedures we will perform to assess the implications of those risks.

We are yet to complete out detailed value for money planning and will update the Audit & Assurance Committee at its next meeting.

In the prior year we concluded that, except for two matters, the Trust had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of its resources for the year ended 31 March 2018. The two matters were:

1. The Trust's outturn position for 2017/18 was a deficit from continuing operations. The Trust was forecasting a deficit of £46.4 million in 2018/19 before the receipt of £12.4 million of Provider Sustainability Fund income. The Trust was, and planned to be, reliant on external cash support from the Department of Health on a rolling monthly basis and required significant external financial support into the foreseeable future. These issues were evidence of weaknesses in proper arrangements for planning finances effectively to support the sustainable deployment of resources to deliver the Trust's strategic priorities.

2. The Trust was subject to a Section 111 license condition, which required it to ensure that sufficient and effective management and clinical leadership capacity and capability was in place. This provided evidence of weaknesses in leadership which may impact on the Trust's ability to achieve its strategic objectives.

We understand that the above matters have not materially changed in 2018/19 and therefore will again consider the continuing impact on our conclusion as to whether the Trust had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of its resources for the year ended 31 March 2019.

As required by AGN 03 we will continue to update our risk assessment throughout our work up to completion of our audit.



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Our audit approach

4 • Intelligent scoping

Materiality

We set overall materiality to assist our planning of our overall audit strategy and to assess the impact of any adjustments identified. Overall materiality for the Trust has been set at 2% of forecast income for the year ended 31 March 2019. We will update this assessment as necessary in light of the Trust's actual results upon receipt of the draft accounts in April 2019.

We note that 2% of revenue is a common measure for calculating materiality for Foundation Trusts (and other public sector organisations) and reflects the fact that this is typically the most relevant measure of size of a Trust's operations.

'ISA (UK) 450 (Revised June 2016) Evaluation of misstatements identified during the audit' requires that we record all misstatements identified except those which are "clearly trivial" i.e. those which we do not expect to have a material effect on the financial statements even if accumulated. As part of our audit planning procedures we have identified that all misstatements less than £293k could be classed as clearly trivial at the Trust level and we would like to seek the Audit & Assurance Committee's views on this de minimis threshold. This de minimis threshold is calculated as 5% of overall materiality.

The figure of £293,000 is below the National Audit Office reporting threshold of £300,000.

Business unit	Overall materiality (£'000)		Clearly trivial reporting de minimis (£'000)	
	2018/19	2017/18	2018/19	2017/18
Sherwood Forest Hospitals NHS Foundation Trust	5.876	6.093	293	250



Section 2

Our audit approach

5 • Robust testing

We continue to reassess our testing approach each year to reflect the on-going changes in your organisation and to ensure that our approach remains relevant, effective and efficient. In 2017/18 our testing was largely substantive with relatively little focus on controls and systems. This reflects our assessment of the most efficient approach to your audit given the level of substantive evidence available in the sector, such as the agreement of balances exercise.

Testing IT and systems

Under ISA (UK) 315 we are required to obtain an understanding of the Trust's information systems relevant to financial reporting, including how IT systems are used to initiate, record, process and report transactions. Our planned audit approach is likely to extend to testing or relying on the Trust's IT general controls. Our planned audit approach will rely upon the Electronic Staff Record (ESR) *ISAE 3000 Type II Controls Report* which provides assurance on the IT general controls over the ESR system used by the Trust.

Testing of controls

We will continue to adopt a substantive approach to the audit, with the exception of payroll where we will seek to rely on controls over starters, leavers and amendments to standing data. It is our intention to rely on the control testing performed by 360 Assurance, the Trust's internal auditors, for the above controls.

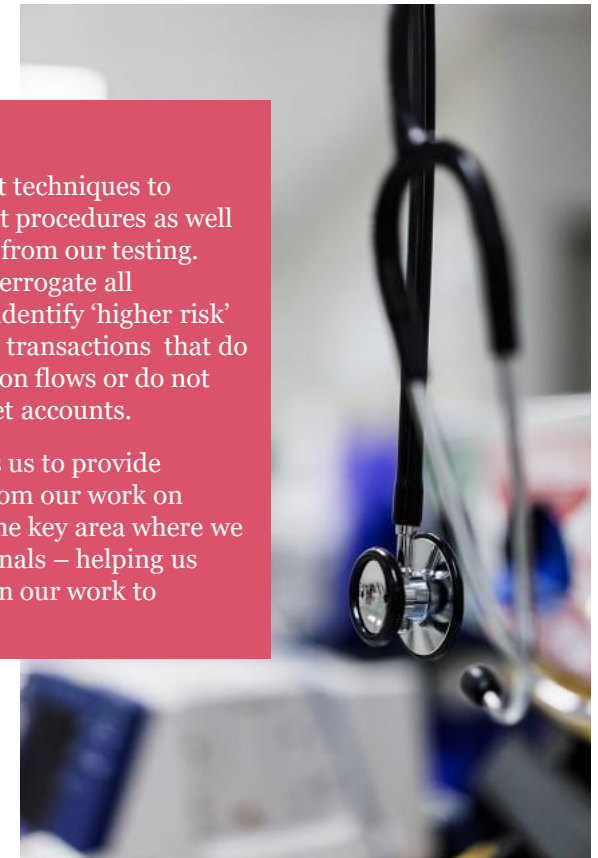
Substantive testing

We will always supplement any controls comfort with further tests of detail, ensuring our overall testing continues to provide reasonable assurance over the financial statements. Where we have assessed audit risks as elevated or significant we will perform additional substantive work and incorporate unpredictable procedures into our testing approach. We will also use our knowledge and experience of the business from previous years to perform more substantive work in areas which involve higher levels of judgement (e.g. valuation of property, plant and equipment).

Data enabled auditing

We will continue to use data audit techniques to enhance the precision of our audit procedures as well as the overall coverage we obtain from our testing. These techniques enable us to interrogate all transactions in a population and identify 'higher risk' transactions – For example those transactions that do not follow the expected information flows or do not offset to appropriate balance sheet accounts.

Data enabled auditing also allows us to provide greater insight to management from our work on transaction flows and controls. The key area where we will use data auditing is over journals – helping us identify higher risk transactions in our work to address fraud risk.





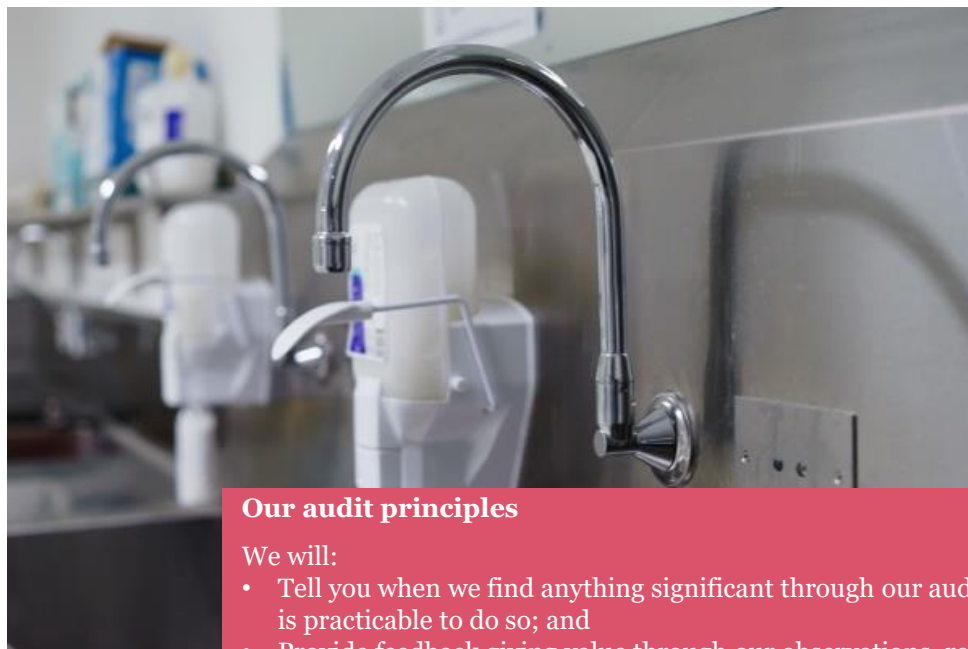
Section 2

Our audit approach

6. Meaningful conclusions

Our primary conclusion is our independent audit opinion on the Trust accounts stating whether: the financial statements provide a true and fair view and have been properly prepared in accordance with the Department of Health and Social Care Group Accounting Manual (DHSC GAM); the audited elements of the Remuneration and Staff Reports have been prepared in accordance with the NHS Foundation Trust Annual Reporting Manual (FT ARM); and the information given in the Performance Report and Accountability Report is consistent with the financial statements.

In addition, we are also required to provide an opinion on whether the final consolidation schedules (TACs) submitted to NHS Improvement are consistent with the audited financial statements.



Our audit principles

We will:

- Tell you when we find anything significant through our audit work as soon as is practicable to do so; and
- Provide feedback giving value through our observations, recommendations and insights at the end of the year on the financial statements production in relation to the audit process.

Additional audit requirements:

We are also required to:

- Report by exception if the disclosures in the Annual Governance Statement are incomplete or if the Annual Governance Statement is misleading or inconsistent with our knowledge acquired during the audit;
- Report on an exception basis on the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year;
- Provide a limited assurance report on the Trust's Quality Report in line with NHS Improvement's detailed guidance for external assurance on quality reports 2018/19; and
- Undertake specified procedures as required by the National Audit Office.



Section 2

Our audit approach

6. Meaningful conclusions

Quality Reports

The NHS FT ARM requires you to publish a Quality Report as part of your Annual Report and Accounts. The aim of this Quality Report is to improve public accountability for the quality of care.

We are required to carry out work in accordance with NHS Improvement's guidance and to provide you with the following:

- a limited assurance report which says that nothing has come to our attention that causes us to believe that, for the year ended 31 March 2019:
 - the Quality Report does not incorporate the matters required to be reported as specified in guidance issued by NHS Improvement;
 - the Quality Report is materially inconsistent with the sources specified in guidance issued by NHS Improvement; and
 - specified performance indicators have not been prepared in all material respects in accordance with the criteria set out in the Quality Report.
- a report to you which includes:
 - our detailed findings from the work we undertook to reach our conclusion on the limited assurance report; and
 - our findings from the work that we are required by NHS Improvement to undertake in relation to any specified performance indicators.

In December 2018 NHS Improvement published their guidance on the contents and assurance requirements for 2018/19 quality reports.

There are changes to both the content of the report and the assurance requirements. The main changes are set out below.

Content

1. The additional considerations included within the quality accounts letter have changed. Providers of acute services are asked to include a statement regarding progress in implementing the priority clinical standards for seven day hospital services. NHS foundation trusts are also asked to provide details of ways in which staff can speak up (including how feedback is given to those who speak up), and how they ensure staff who do speak up do not suffer detriment.
2. The list of indicators required to be disclosed in Part 3 of the quality report (as part of NHS Improvement's extra requirements for quality reports) has not changed since 2017/18 but updates have been made to guidance associated with disclosure of the inappropriate out-of-area placements indicator and ambulance response indicators.

Assurance requirements

1. The indicators for assurance as part of the limited assurance opinion have changed. For NHS foundation trusts providing acute services, the order of selection of indicators has changed. For many acute trusts this will result in the four-hour A&E and 62-day cancer indicators being subject to assurance.
2. The local indicator will continue to be determined by the governors of the NHS foundation trust. For NHS foundation trusts providing acute services, for 2018/19 NHS Improvement strongly recommend that this local indicator should be the Summary Hospital-level Mortality Indicator (SHMI).



Section 2

Our audit approach

6. Meaningful conclusions

Additional procedures for the NAO

The National Audit Office ('NAO') has issued its group audit instructions which set out additional audit requirements. The procedures are similar to previous years and include:

- The NAO audit team for the NHS Foundation Trust Consolidated Accounts 2018/19 has issued us with Group Instructions under *ISA (UK) 600 (Revised) 'Special considerations - audits of group financial statements (including the work of component auditors)'*. These instructions reflect procedures and requirements of the NAO audit team for the Department of Health and Social Care Annual Report and Accounts into which NHS Foundation Trusts will be consolidated in 2018/19.
- The NAO audit team for the Whole of Government Accounts (WGA) request us to undertake specific audit procedures in order to provide them with additional assurance over the amounts recorded in WGA schedules within the Consolidation Schedules (FTCs). The extent of these procedures will depend on whether or not the Trust is a sampled component for 2018/19.

We will seek to comply with the instructions and to report to the NAO in accordance with their requirements. In the unlikely event that we cannot comply with aspects of the instructions, we will discuss this with the Trust and with the NAO.

The Trust has not been selected as a sampled component.



Section 3

Audit timetable

Activity	Proposed timing
Audit & Assurance committee – Presentation of audit plan	17 January 2019
Updated engagement letter to be issued	Prior to 31 March 2019
Planning audit deliverable listing to be issued	January 2019
Planning	
On site planning work	w/c 25 Feb 2019
Meeting with management	March 2019
- Planning debrief and control observations if applicable	
- Year end audit preparation	
Year end audit deliverable listing to be issued	31 March 2019
Final audit and statutory accounts	
First draft of accounts and FTCs to be sent to NHS Improvement	24 April 2019
Audit field work commences	w/c 23 April 2019
Clearance meeting with management	TBC
Audit & Assurance Committee meeting – Presentation of final findings (ISA (UK) 260 report)	23 May 2019
Annual report and accounts (including audit opinions) to be signed and filed with NHS Improvement	29 May 2019





Section 4

Fraud and money laundering

Fraud

Management and the Board are responsible for safeguarding the assets of the Trust and for the prevention and detection of fraud, error and non-compliance with law or regulations. Our audit approach includes discussing the potential for fraud at different levels within the Trust, including with the Audit & Assurance Committee. We are required to obtain your views about the risk of fraud in the Trust, and to confirm whether you have knowledge of any actual, suspected or alleged fraud impacting the Trust.

We are required to comply with ISA (UK) 240 'The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements'. ISA (UK) 240 requires us to assess the risk of fraud within an entity and plan and tailor our procedures appropriately. The standards also require us to evaluate all anti-fraud programmes and controls over risks of fraud that are reasonably likely to have a material effect on the company's financial statements.

Part of the Audit & Assurance Committee's governance role is to understand risks of the business and management's response, including fraud.

We would like to:

- Obtain your views about the risks of fraud in the entity; and
- Confirm whether you have knowledge of any actual, suspected or alleged fraud affecting the Trust.

We will consider incentives and opportunities to commit fraud and obtain and understanding of the controls in place to prevent fraud. Through discussions with management, we will understand their views on the opportunities to commit fraud and their assessment of the risk areas, as well as gain an understanding of the controls in place to mitigate this risk. ISA (UK) 240 also requires us to incorporate an element of planned unpredictability in the selection of the nature, timing and extent of our audit procedures and we will incorporate this into the audit plan as appropriate. We will also focus on the areas that we consider to be key areas for fraud risk in the business, namely accounting estimates, significant unusual transactions and journal entries and other adjustments.

Money laundering

Our audit is covered by the Proceeds of Crime Act 2002. This requires us to report to PwC's Money Laundering Reporting Office if we have any knowledge or suspicion, or have reasonable grounds to know or suspect, that such offences have been committed. There is no 'de minimis' limit below which reports need not to be made.



Section 5

Engagement team

Our core team

Our team has been structured to bring the right combination of specialist skills to the Trust's audit. We also recognise that continuity in the audit team is important to you and the senior members of our team are committed to developing longer term relationships with you.

Audit team	Responsibilities and experience
Engagement leader Alison Breadon	Engagement Leader responsible for independently delivering the audit in line with the Code of Audit Practice (including agreeing the Audit Plan and the ISA (UK) 260 Report to Those Charged with Governance), quality of outputs and signing of opinions and conclusions.
Engagement senior manager Matthew Elmer	Senior manager on the assignment responsible for overseeing the audit engagement, attendance at Audit & Assurance Committee and liaison with Governors.
Team leader Glen Spencer	Manager on the assignment responsible for overall control of the audit engagement, ensuring delivery to timetable, delivery and management of targeted work and overall review of audit outputs. Completion of the Audit Plan and ISA (UK) 260.

Specialist teams:

- **Valuation** - we utilise a valuation expert to review your Valuation of land and buildings.
- **IT and Data** – we use IT auditors to review your general IT controls where applicable.

Health Centre of Excellence:

We have a Centre of Excellence in the UK for the health sector which is a dedicated team of specialists which advises, assists and shares best practice with our audit teams in more complex areas of the audit. Your audit team works side by side with the Centre of Excellence to ensure we are executing the best possible audit approach.

Service Delivery Centres:

We use dedicated delivery centres to deliver parts of our audit work that are routine and can be done by teams dedicated to specific tasks; for example these include confirmation procedures, preliminary independence checks and financial statements quality checks. The use of our delivery centres frees up your audit team to focus on the areas of the audit that matter to you.



Section 6

Independence and fees

Audit fees

Set out below are our proposed audit fees for the 2018/19 audit. We believe that our fees continue to represent a 'best value for money fee' without compromising the high quality of service we already deliver.

	2018/19 £	2017/18 £
Audit of Trust financial statements	78,084	76,553
Work in respect of Quality Report	8,636	8,434
Variation in respect of 2017/18 audit	-	22,341
Total audit fees in respect of Trust	86,720	107,328



Independence

Independence is fundamental to our ability to serve as auditors and we have procedures in place that enable us to assess whether accepting any engagement would be inconsistent with our role as auditors. We have fully considered our position with respect to the Trust and can report that we are satisfied with our independence at this stage and that we monitor this continually. We have included the specific threats and safeguards in relation to the non-audit services we perform and other independence considerations within Appendix 1 to this report, and we will update you on any further changes to this at the final Audit & Assurance Committee meeting in May 2019.

Appendices



Appendix 1: Independence threats and safeguards

In concluding on our independence as auditors, we have made enquiries of all PricewaterhouseCoopers teams who work with your organisation, and we have specifically considered the following factors. We would be happy to discuss any of these areas with you in more detail at the Audit & Assurance Committee meeting.

Potential threats	Considerations and safeguards in place	Conclusions
Relationships and investments	We have not identified any potential issues in respect of personal relationships with the Trust or investments in the Trust held by individuals.	No significant threat to our independence has been identified.
Employment of PwC partners or staff by the Group	<p>We noted as part of our proposal processes that Graham Ward, a Non-Executive Director of the Trust, was also previously employed by PwC. We do not consider this to be a threat to our independence. Graham is not undertaking an executive role and has not worked at PwC for in excess of 10 years. Given these circumstances, we do not believe this represents a threat to our independence – in particular in relation to familiarity or intimidation threats to independence.</p> <p>Other than the case above, we are not aware of any former PwC partners or staff being employed, or holding discussions in respect of employment, by the Trust as a director or in a senior management or financial reporting oversight role covering financial, accounting or control related areas.</p>	No significant threat to our independence has been identified.
Business relationships	We have not identified any business relationships between PwC and the Trust.	No significant threat to our independence has been identified.
Services provided to the Group	<p>PwC has provided the following non-audit services to the Trust during the year, all of which were approved by Ali Breadon and are permissible under the applicable ethical standards:</p> <ul style="list-style-type: none">• Our work on the Quality report – this work is mandated by NHS Improvement as part of our audit appointment.	No significant threat to our independence has been identified.
Fees (including contingent fees)	<p>The total non-audit fees for the year ended 31 March 2018 were £8,434, and there were no contingent fees between PwC and the Trust. The overall level of non-audit fees is not considered to be disproportionate to the audit fees and is not significant to PwC as a firm.</p> <p>We expect non-audit fees for the year ended 31 March 2019 to be in the region of £8,636.</p>	No significant threat to our independence has been identified.



Appendix 1: Independence threats and safeguards

Potential threats	Considerations and safeguards in place	Conclusions
Services to directors and senior management	PwC has not provided any services e.g. personal tax services, directly to directors, or other members of senior management.	No significant threat to our independence has been identified.
Rotation of audit staff	The lead audit engagement partners are rotated at least every ten years, as required by our own rules and by regulatory bodies. Rotation ensures a fresh look without sacrificing institutional knowledge. Rotation of audit engagement partners, key partners involved in the audit and other staff in senior positions is reviewed on a regular basis by the audit engagement partner.	No significant threat to our independence has been identified.
Gifts and hospitality	We have not identified any significant gifts or hospitality provided to, or received from, a member of the Trust's Board, senior management or staff.	No significant threat to our independence has been identified.

Conclusion

We hereby affirm that, in our professional judgement, as at the date of this letter:

- we comply with UK regulatory and professional requirements, including the Ethical Standard issued by the Auditing Practices Board; and
- our objectivity is not compromised.

This report is intended solely for the use of the Audit & Assurance Committee, the Board of Directors, management, and others within the Trust and should not be used for any other purposes.

We look forward to discussing with you the matters addressed in this appendix as well as other matters that may be of interest to you at the forthcoming Audit & Assurance Committee meeting. We will be prepared to answer any questions you may have regarding our independence as well as other matters.

We would ask the Audit & Assurance Committee to consider the matters in this report and to confirm that they agree with our conclusion on our independence and objectivity.

This document has been prepared only for Sherwood Forest Hospitals NHS Foundation Trust and solely for the purpose and on the terms agreed with them in our agreement dated 23 March 2018. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

In the event that, pursuant to a request which Sherwood Forest Hospitals NHS Foundation Trust has received under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), Sherwood Forest Hospitals NHS Foundation Trust is required to disclose any information contained in this document, it will notify PwC promptly and will consult with PwC prior to disclosing such document. Sherwood Forest Hospitals NHS Foundation Trust agrees to pay due regard to any representations which PwC may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such report. If, following consultation with PwC, Sherwood Forest Hospitals NHS Foundation Trust discloses any this document or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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