

Sherwood Forest Hospitals NHS Foundation Trust

2019/20 External Audit Findings
August 2020





Introduction – The core audit team

Your PwC Team



Alison Breadon
Partner



Matthew Elmer
Senior Manager



Glen Spencer
Senior Manager



**Armston Taka
Mofor**
Manager

Background

Purpose of this document

This document provides the Council of Governors of Sherwood Forest Hospitals NHS Foundation Trust (“the Trust”) with a high level summary of the results of our audit for the year ended 31 March 2020. We have already reported the detailed findings from our audit work to the Audit and Assurance Committee in the following reports:

- audit opinion on the financial statements for the year ended 31 March 2020; and
- report to those charged with governance (ISA (UK) 260).

Scope of work

We performed our audit in accordance with the International Standards on Auditing (UK) (“ISAs (UK)”) and the Comptroller and Auditor General’s Code of Audit Practice (“the Code”).

The Board of Directors is responsible for preparing and publishing the Trust’s financial statements, including the Annual Governance Statement. The Board of Directors is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of the Trust’s resources.

As auditors we need to:

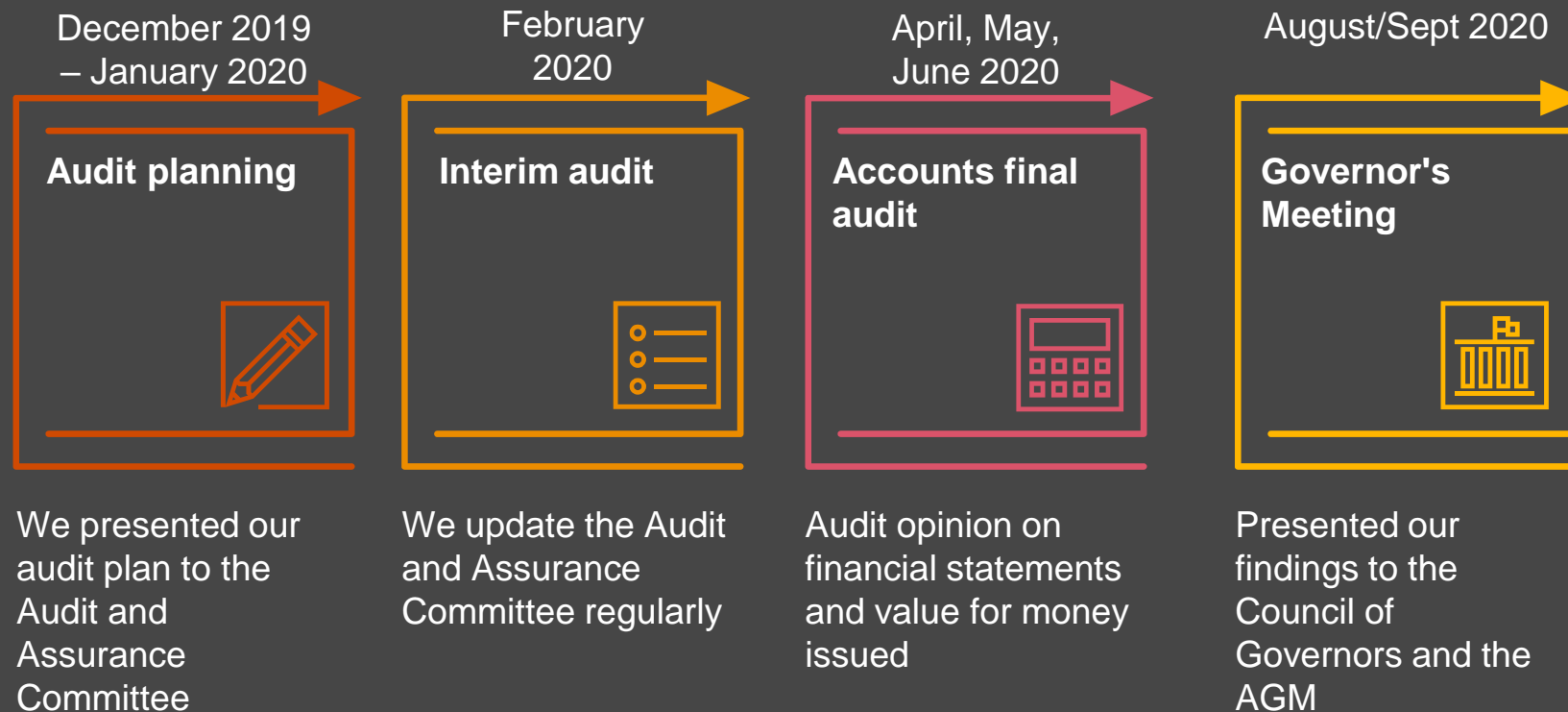
- form an opinion on the financial statements;
- review the Trust’s Annual Governance Statement; and
- form a conclusion on the arrangements in place to secure economy, efficiency and effectiveness in the use of the Trust’s resources.

Due to the Covid-19 pandemic, there were changes this year in the accounts and audit process including:

- the requirement for the Trust to produce a quality report and for us to perform procedures over the content and consistency of the document, as well testing of two performance indicators, was removed by the regulator (NHS Improvement);
- the audit process was undertaken remotely, working closely with the finance team;
- the deadline for the submission of audited accounts to NHSI was extended to 25 June 2020.

Audit timescales

PwC and Governors 2019/20



Ongoing liaison at governors meetings

Key audit findings – Financial statements

We completed our audit work over the financial statements during June 2020 and issued an unqualified audit opinion on the financial statements on 24 June, with the inclusion of a material uncertainty paragraph relating to going concern. The Directors included additional disclosures within the annual report and accounts in respect of going concern, reflecting that the Trust is operating at a recurrent deficit and faces future uncertainty regarding contracting and income arrangements. This position is similar to a number of other NHS trusts.

We identified a number of misstatements as part of our audit, which we reported to the Audit and Assurance Committee. These are set out in Appendix 1 of this report. We also raised a control recommendation, which is summarised in Appendix 2.

The following key accounting issues were reported to the Audit and Assurance Committee before the financial statements were approved:

Operating expenditure - completeness and cut-off

We identified a significant risk relating to operating expenditure and whether the value recorded in the 2019/20 accounts was complete and had been recorded in the correct period at year end.

We identified significant issues with how management accounted for expenditure around year end. This included expenditure on software, travel and printing.

An adjustment for £1.264m was identified for expenditure which had been incorrectly omitted from the 2019/20 accounts.

We performed additional retests and sample test over 240 additional items in order to get comfortable that the misstatement was not material.

Property, Plant and Equipment valuation material uncertainty - Valuation Material Uncertainty

We reviewed and challenged the key assumptions and inputs that impact on the valuation of the Trust's land and buildings.

The Trust's valuer considered the potential impact of the COVID-19 pandemic on the properties held by the Trust, as part of their valuation and provided an addendum to their report which set out a material uncertainty clause. This states, though there has been no diminution in the properties they valued, it was too early for Covid-19 related issues to impact on published indices used for property valuation purposes.

We referred to the Trust's disclosures in the accounts relating to this valuation material uncertainty in our audit opinion.

No errors were found with our testing of the Trust's PPE valuation.

Key audit findings – Financial statements

PFI – Lifecycle replacement costs

As part of the updated accounting approach to PFI that was undertaken for the first time in 2017/18, the Trust has started accounting for lifecycle events.

Although discussions had been held with the PFI provider and more information on lifecycle replacement had been promised for 2019/20, additional information was not received on whether lifecycle expenses should be capital or revenue in nature. As a result, the Trust continued to capitalise all lifecycle costs in 2019/20, amounting to £1.451 million.

This potentially had the impact of reducing operating expenditure by £1.451 million in the year (if all of the lifecycle replacement costs in 2019/20 were in fact revenue in nature). We raised an adjustment for this.

Intangible assets

The Trust's draft accounts included intangible assets with a net book value of £5.271 million as at 31 March 2020.

We identified that £0.75 million related to HSLI (Health System Led Investment) funding provided by NHS England for a Provider Digitisation Programme. The Trust received the funding in March 2020 and was unable to spend the funds before year end.

Due to the contractual requirement to spend the funding, the Trust created an intangible asset. As an asset had not been purchased, in line with the conditions of funding, we did not agree with the accounting treatment followed. We raised an adjustment for £0.75 million.

Key audit findings – Financial statements

Provider Sustainability Funding (PSF), Financial Recovery Funding (FRF) and Marginal Rate Emergency Tariff ('MRET') income.

The majority of foundation trusts agreed a financial control total at the start of the year with NHS Improvement. The Trust agreed a deficit plan of £41.518 million, which, according to the Trust's draft accounts, it achieved. As a result, the Trust recognised:

- £6.459 million – Core PSF
- £14.807 million – Core FRF
- £5.385 million – Core MRET

£0.569 million 2018/19 PSF reallocation was also received in 2019/20.

We identified two misstatements which impacted the Trust's deficit by £2.715m. As the Trust only just met its control total by £0.01m, the reality of these adjustments was that the Trust did not meet its control total, and therefore there was a risk that some PSF and FRF monies could be clawed back.

We asked the Trust to confirm with NHSI whether this funding was subject to being clawed back. NHS improvement confirmed that these errors will be taken into account in assessing future risk in control total performance, and that there was no intention to adjust the Trust's entitlement for 2019/20.

Impact of Covid-19

In March 2020, the UK Government imposed significant restrictions on the population, as a result of the outbreak of COVID-19. This had a significant impact on the healthcare system and the UK economy. Key considerations for the audit were:

- obtaining sufficient and appropriate audit evidence on the use of the going concern assumption;
- considering whether the Annual Report and Accounts included sufficient disclosure related to COVID-19;
- considering if any adjustments to the carrying value of assets and liabilities were required;
- access to audit evidence where this was not available electronically;
- undertaking testing over an enhanced period of time on invoices received and payments made after year end to identify whether expenditure has been appropriately captured in the 2019/20 or 2020/21 accounting period. This testing also reflected the heightened risk of error at year end due to Covid-19;
- addressing the assessed incentive to classify general expenditure as Covid-19 related expenditure in order to obtain the matched income by testing a sample of the costs reimbursed for existence and appropriate classification; and
- considering the increased opportunity during the response to the COVID-19 pandemic for controls to be bypassed or overridden due to staff absences and remote working; and
- considering the financial position and the impact of COVID-19 on the Trust's going concern assumption.

The Trust incurred costs of £1.07m in response to the COVID-19 pandemic during 2019/20. These costs were fully reimbursed by NHS England and Improvement in 2020/21. We obtained a breakdown of the COVID-19 related costs and tested a sample to ensure classification as reimbursable was appropriate.

No issues were identified from this testing.

Key audit findings – value for money

Value for Money

Under the Code of Audit Practice, we must satisfy ourselves, by examination of the financial statements and otherwise, that the Trust made proper arrangements for securing economy, efficiency and effectiveness in its use of its resources. As part of our audit we are required to conclude on whether the Trust had in place, for the year ended 31 March 2020, proper arrangements to secure economy, efficiency and effectiveness in its use resources. We issued an except for conclusion on 24 June 2020 in respect of Value for Money.

Qualified opinion

Except for the matters set out in the basis for qualified opinion paragraph below and key audit matter included in the table above, we have nothing to report as a result of this requirement.

Basis for qualified opinion and key audit matters

The Trust's outturn position for the year ended 31 March 2020 is a deficit from continuing operations, excluding the impact of impairments, of £15.41 million. Included as part of this deficit, is £26.65m of Provider Sustainability Funding (PSF), Financial Recovery Funding (FRF) and Marginal Rate Emergency Tariff ('MRET') income. A further £0.57m of 2018/19 PSF reallocation was also received in the year ended 31 March 2020.

The Trust has been reliant on external cash support from the Department of Health and Social Care on a rolling monthly basis throughout the year ended 31 March 2020. In the year, £24.86m of revenue loans was provided to the Trust. Additionally, a capital loan of £2.77m was also provided.

The Trust is forecasting a deficit for the year ending 31 March 2021. The forecast deficit is based on a number of assumptions and there is significant uncertainty in the financial plan for the year ending 31 March 2021 as a result of the COVID-19 pandemic and its impact on the Trust.

These issues, along with the other matters explained in the material uncertainty relating to going concern section, are evidence of weaknesses in proper arrangements for planning finances effectively to support the sustainable deployment of resources to deliver the Trust's strategic priorities. In this respect, we have concluded that Sherwood Forest Hospitals NHS Foundation Trust has not put in place all necessary arrangements for securing economy, efficiency and effectiveness in the use of its resources for the year ended 31 March 2020.

In arriving at this conclusion, the work that we performed included:

- comparing the Trust's Financial Improvement Plan (FIP) performance outturn for the year ended 31 March 2020 against the targeted savings and considered the degree to which the FIP programme for the year ending 31 March 2021 has been developed;*
- reviewing the outturn position for the year ended 31 March 2020 compared to the planned financial performance for the year ended 31 March 2020; and*
- obtaining the financial trajectory target set by NHS England and NHS Improvement for the year ending 31 March 2021 and reviewing how this compared to the draft financial plan the Trust had developed in March 2020 prior to the COVID-19 pandemic.*

Key audit findings – Annual Governance Statement

Annual Governance Statement

The aim of the Annual Governance Statement (“AGS”) is to give a sense of how successfully the Trust has coped with the challenges it faced, drawing on evidence on governance, risk management and controls. We reviewed the AGS and considered whether it complied with relevant guidance and whether it was misleading or inconsistent with what we know about the Trust.

We found no areas of concern to report in this context

Appendices

Appendix 1: Summary of uncorrected misstatements

We found the following misstatements during the audit that were not corrected by management. Both management and the Audit and Assurance Committee were satisfied that these misstatements remained uncorrected as they did not have a material impact on the financial statements.

As the Trust only just met their control total by £0.01m, if these misstatements had been adjusted, this would have meant the Trust would not have met their control total by £2.7m.

No	Description of misstatement (factual, judgemental, projected)		Income statement		Balance sheet		Cash flow	
			Dr	Cr	Dr	Cr	Inflow	Outflow
1	Dr lifecycle replacement maintenance	F	£1.451m	-	-	-	-	-
	Cr capital lifecycle maintenance		-	-	-	£1.451m	-	-
	To adjust for the impact of all lifecycle costs being charged to capital without appropriate supporting evidence.							
2	Dr Accruals	F	-	-	£0.75m	-	-	-
	Cr Intangible asset additions		-	-	-	£0.75m	-	-
	Dr PDC (Equity)		-	-	£0.75m	-	-	-
	Cr Cash		-	-	-	£0.75m	-	£0.75m
	To adjust for the intangible asset relating to HSLI funding that should not have been capitalised. The adjustment also shows the postings to be made to pay back the funds.							
3	Dr Operating Expenditure	F	£1.264m	-	-	-	-	-
	Cr Accounts Payable		-	-	-	£1.264m	-	-
	To adjust for the operating expenditure cut-off errors.							
Total uncorrected misstatements			£2.715m	-	£1.5m	£4.215m	-	£0.75m
Net impact on the income statement of uncorrected items			£2.715m					

Appendix 2: Summary of recommendations (financial statements audit)

We are required to report to the Audit and Assurance Committee any significant deficiencies in internal control identified during the audit. The purpose of our audit is for us to express an opinion on the financial statements. This includes consideration of internal control relevant to preparation of the financial statements in order to design appropriate audit procedures. It does not extend to expressing an opinion on the effectiveness of internal control. The following control deficiency was not considered to be significant, but was reported to the Audit and Assurance Committee for completeness.

Deficiency	Recommendation	Management's response
<p>1. Operating expenditure year end accounting – We have identified a £1.5m estimate error where expenditure relating to 2019/20 has not been included in the accounts. This is a result of control weaknesses in the accruals process.</p>	<p>Management will perform a review to assess the underlying reason (breakdown in control) that caused accruals for operating expenditure to be missed.</p> <p>Controls will be established to ensure that these costs are accrued correctly in the future. We would expect controls to include:</p> <ul style="list-style-type: none"> - schedules that remind management accountants of the accruals that need to be made each period; and - regular review of registered invoices listing to identify invoices that need to be accrued. <p>Independent oversight and review of management accountant work to identify any errors or omissions.</p>	<p>A detailed review of cut off procedures will be undertaken in July 2020, to be led by the Deputy Chief Financial Officer.</p>
<p>2. Intangible assets (Nil net book value assets (NBV)) – The Trust has 159 intangible assets with a value of £11m which are fully amortised and do not have a net book value. The NBV of all intangibles in the Trust's accounts is £5.3m. This indicates that the Trust's useful life policy is incorrect or that</p>	<p>Management will perform a review of the useful economic life policy to confirm if this is appropriate.</p> <p>A review of the intangible asset portfolio will be undertaken to ensure all assets are still in use.</p>	<p>A review of the useful economic life of intangible assets will be undertaken in Quarter 2 of 2020/21, to be led by the Head of Financial Services.</p>

Appendix 2: Summary of recommendations (financial statements audit) – continued

<p>assets are no longer in use and need to be disposed.</p>		
<p>3. Related parties – We performed independent searches on the internet of all Directors to confirm the completeness of related parties declared on declaration of interest forms. We identified four non-executive directors who appear to have a relationship with entities that were not disclosed.</p>	<p>Management should update the register of interest for omissions.</p> <p>Directors should be reminded of the need to keep the register of interests up to date.</p>	<p>The list of the suspected related parties will be reviewed by the Director of Corporate Affairs. Directors will be reminded of the importance of completing any declarations accurately.</p>

Follow-up of prior year recommendations

In the prior year, we raised one significant control deficiency. This was similar to deficiency 3 in the current year and in the table above, and was also based on related parties:

- *We performed independent searches of all Directors to confirm the completeness of related parties declared on declaration of interest forms. We identified four non-executive directors who appear to have a relationship with entities that were not disclosed.*

The existence of finding 3 in the current year, shows that insufficient action was taken to record related parties on the Trust’s register of interests as a result of our 2018/19 audit.

Thank you

[pwc.com](https://www.pwc.com)

This document has been prepared only for 4 February 2020 and solely for the purpose and on the terms agreed with Sherwood Forest Hospitals NHS Foundation Trust. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

© 2020 PricewaterhouseCoopers LLP. All rights reserved. PwC refers to the UK member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.