



Year End Report 2022/23

I confirm that this is the final version of our ISA 260 Audit Memorandum relating to our audit of the 2022/23 financial statements for Sherwood Forest Hospitals NHS Foundation Trust. This document was discussed and approved by the Trust's Audit and Assurance Committee on 15 June 2023.

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Richard Walton

Director for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Nottingham

15 June 2023

Our audit opinions and conclusions:

Financial Statements: **unqualified**

Use of resources: **no significant weaknesses identified**

Sherwood Forest Hospitals NHS Foundation Trust

15 June 2023

Key contacts

Your key contacts in connection with this report are:

Richard Walton

Director

Tel: 07917 232307

Richard.Walton@kpmg.co.uk

Debbie Stokes

Senior Manager

Tel: 07551 135715

Debbie.Stokes@kpmg.co.uk

Bella Chibwe

Assistant Manager

Tel: 07584 881758

Bella.Chibwe@kpmg.co.uk

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Introduction

To the Audit and Assurance Committee of Sherwood Forest Hospitals NHS Foundation Trust

We are pleased to have the opportunity to meet with you on 15 June 2023 to discuss the results of our audit of the financial statements of Sherwood Forest Hospitals NHS Foundation Trust (the 'Trust'), as at and for the year ended 31 March 2023.

We are providing this report in advance of our meeting to enable you to consider our findings and hence enhance the quality of our discussions. This report should be read in conjunction with our audit plan and strategy report, presented on 16 March 2023. We will be pleased to elaborate on the matters covered in this report when we meet.

Our audit is substantially complete. There have been no significant changes to our audit plan and strategy. Subject to your approval of the financial statements, we expect to be in a position to sign our audit opinion on 19 June 2023, provided that the outstanding matters noted on page four of this report are satisfactorily resolved.

We expect to issue an unmodified Auditor's Report on the financial statements and have not identified any significant weaknesses in your arrangements to secure value for money. In addition to this opinion we have prepared our Auditor's Annual Report which contains a narrative summary of our findings to be published on the Trust's website. This is included in the papers for this meeting.

We draw your attention to the important notice on page four of this report, which explains:

- The purpose of this report;
- Limitations on work performed; and
- Restrictions on distribution of this report.

Yours sincerely,

Richard Walton
15 June 2023



How we have delivered audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

We define 'audit quality' as being the outcome when audits are:

- **Executed consistently**, in line with the requirements and intent of **applicable professional standards** within a strong **system of quality controls** and
- All of our related activities are undertaken in an environment of the utmost level of **objectivity, independence, ethics** and **integrity**.

The National Audit Office (NAO) has issued a document entitled Code of Audit Practice (the Code). This summarises where the responsibilities of auditors begin and end and what is expected from the Trust.

External auditors do not act as a substitute for the Trust's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

Important notice

This report is presented under the terms of our audit engagement letter.

Circulation of this report is restricted.

The content of this report is based solely on the procedures necessary for our audit.

This report has been prepared for the Audit and Assurance Committee, in order to communicate matters of interest as required by ISAs (UK), and other matters coming to our attention during our audit work that we consider might be of interest, and for no other purpose.

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this report, or for the opinions we have formed in respect of this report.

Purpose of this report

This report has been prepared in connection with our audit of the financial statements of Sherwood Forest Hospitals NHS Foundation Trust (the 'Trust'), prepared in accordance with International Financial Reporting Standards ('IFRSs') as adapted by the Group Accounting Manual issued by the Department of Health and Social Care, as at and for the year ended 31 March 2023. This report summarises the key issues identified during our audit but does not repeat matters we have previously communicated to you.

Limitations on work performed

This report is separate from our audit report and does not provide an additional opinion on the Trust's financial statements, nor does it add to or extend or alter our duties and responsibilities as auditors. We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this report.

The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit

Our audit is not yet complete and matters communicated in this report may change pending signature of our audit report. We will provide an oral update on the status of our audit at the Audit and Assurance Committee meeting but would highlight the following work is still outstanding:

- Financial Statements audit:
 - Finalising our work in regard to a specific approach used by the valuer. We are working across audit clients to respond to this issue and will give a verbal update to the audit committee.
 - Clearing any residual audit queries as part of our completion process;
 - Receiving the signed Directors' statements and signed management letter of representation; and
 - Finalisation procedures in regard to final versions of the Remuneration Report, Annual Report, AGS and Financial Statements.

Restrictions on distribution

The report is provided on the basis that it is only for the information of the Audit and Assurance Committee of the Trust; that it will not be quoted or referred to, in whole or in part, without our prior written consent; and that we accept no responsibility to any third party in relation to it.

Our audit findings

Significant audit risks	Risk Change	Findings Page 6 - 9
Fraud risk in regard to expenditure recognition (completeness and accuracy of accruals)	No change	We have not identified any evidence of material error as a result of our audit work. We have reported some adjustments in regard to our testing in this area – see page 21 and 22.
Property, Plant and Equipment Valuation	No change	We have not identified any evidence of material error as a result of our audit work.
Management override of controls	No Change	We have not identified any evidence of material error as a result of our audit work. We have made one recommendation suggesting potential improvement in the control environment.
Other area of audit focus - IFRS16	No change	We have not identified any evidence of material misstatement as a result of our audit work in this area.
Key accounting estimates	Risk Change	Findings Page 10
Property Plant and Equipment Valuation	No change	We have tested the assumptions used in the valuation of land and buildings. The assumptions reviewed were found to be within our acceptable range and are considered to be neutral. We have made a recommendation suggesting a potential improvement in the disclosures made in regard to this estimate.

Value for Money – Pages 12 - 13

Under the Code of Audit Practice we are required to report to you if we have identified a significant weakness in the Trust’s arrangements for securing economy, efficiency and effectiveness in its use of resources. We have nothing to report in this respect. Our Auditor’s Annual Report contains our public commentary in regard to this work and is elsewhere on the agenda.

Whole of Government Accounts - Page 11

We intend to issue an unqualified Group Audit Assurance Certificate to the NAO regarding the Whole of Government Accounts submission, made through the submission of the summarisation schedules to the Department of Health and Social Care. Our work on this is subject to review of the final schedules post agreed amendments.

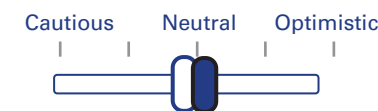
Uncorrected and Corrected Audit Misstatements	Page 20-21
<p>We are reporting one uncorrected audit misstatements in relation to the overstatement of accruals. This is not material.</p> <p>We report one corrected misstatement relating to reclassification of income between types of income £3.9m, this has no impact on the reported outturn of the Trust.</p> <p>The remaining amendments relate to presentational disclosures, including updating related party disclosures.</p>	

Number of Control deficiencies	Page 17
Significant control deficiencies	0
Other control deficiencies	4
Prior year control deficiencies remediated	1

Other Matters

In auditing the accounts of an NHS body auditors must consider whether, in the public interest, they should make a report on any matters coming to their notice in the course of the audit, in order for it to be considered by Trust members or brought to the attention of the public. There are no such matters we wish to bring to your attention.

Audit risks and our audit approach



Valuation of land and buildings	
Significant audit risk	Our response
<p>Risk: The carrying amount of revalued Land & Buildings differs materially from the fair value</p> <p>Land and buildings are required to be held at fair value. As hospital buildings are specialised assets and there is not an active market for them they are usually valued on the basis of the cost to replace them with a 'modern equivalent asset'.</p> <p>The value of the Trust's land, buildings and dwellings at 31 March 2023 is £265m, an increase of £2m from 31 March 2022 from £263m. The Trust has undertaken a desktop valuation exercise as at 31 March 2023, utilising DVS Property Services to prepare the valuation.</p> <p>There is a risk of material misstatement of this balance either due to accounting estimates (e.g. application of modern equivalent asset judgements) not being appropriate or the selection of data inputs (such as building cost indices) used to calculate the valuation.</p>	<p>We have performed the following procedures designed to specifically address the significant risk associated with the valuation:</p> <ul style="list-style-type: none"> – We critically assessed the independence, objectivity and expertise of the District Valuer (DV), the valuers used in developing the valuation of the Trust's properties at 31 March 2023. – We inspected the instructions issued to the valuer for the valuation of land and buildings to verify they are appropriate to produce a valuation consistent with the requirements of the Group Accounting Manual. We are currently considering our response to the approach used to estimate building costs by the valuer. This is not an issue limited to the specific valuation at the Trust. We will give a verbal update at the Audit and Assurance Committee. Further to this please see page 10 for our consideration of the timing of the index used by the valuer. – We reviewed the accuracy of the data provided to the valuers to prepare the valuation by comparing to underlying information, such as floor plans or previous valuations and challenged management where variances were identified. – We evaluated the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used. We note the Trust has existing high level controls in place designed to review the valuation and the appropriateness of assumptions used. However, these controls are not formally documented, and lack the precision specified in order to meet the requirements per auditing standards. As such we have not been able to evaluate the effectiveness of these controls. The Trust consider the existing controls to be proportionate to address the associated operational risk and we have not raised a formal recommendation in this regard. Since the control relates to a significant risk we are required to bring this to your attention. We challenged key assumptions within the valuation, including the use of relevant indices and assumptions of how a modern equivalent asset would be developed, as part of our judgement. – We performed inquiries of the valuers in order to verify the methodology that was used in preparing the valuation and whether it was consistent with the requirements of the RICS Red Book and the GAM. – We considered the adequacy of the disclosures concerning the key judgements and the degree of estimation uncertainty involved in arriving at the valuation. We have made a recommendation highlighting potential best practice in regard to this area for the Trust to consider. <p>Our findings</p> <p>From the work undertaken to date we did not identify any evidence of material misstatement as a result of our audit work. We have raised a recommendation to enhance the PPE disclosure note to include more narrative on the key areas of judgement within the valuation and to detail the level of sensitivity to movements for each of the key assumptions. This is detailed in appendix two.</p>

Audit risks and our audit approach

Fraud risk from expenditure recognition – completeness and accuracy

Significant audit risk

Risk: Liabilities for purchases of goods or services are recorded inappropriately when they are not accurately recorded or not complete.

As the Trust and system is set a financial performance target by NHS England there is a risk that non-pay expenditure, excluding depreciation, may be manipulated in order to report that the control total has been met.

The setting of a financial performance target can create an incentive for management to understate the level of non-pay expenditure compared to that which has been incurred. We consider this would be most likely to occur through understating accruals, for example to push back expenditure to 2023-24 to mitigate financial pressures.

Our response to the significant account

We performed the following procedures in order to respond to the significant risk identified:

- We assessed the design and implementation and operating effectiveness of process level controls for the purchase ordering of goods and services. We assessed the design and implementation of process level controls including management’s control over a review of the year end accruals balance to support our significant risk.
- We noted the Trust has existing high level controls in place designed to detect the risk of misstatement of accruals (such as review of management accounts). However, these controls are not formally documented, and lack the precision specified in order to meet the requirements per auditing standards. As such we have not been able to evaluate the effectiveness of these controls. The Trust consider the existing controls to be proportionate to address the associated operational risk and we have not raised a formal recommendation in this regard. Since the control relates to a significant risk we are required to bring this to your attention.
- We inspected a sample of invoices of expenditure, in the period after 31 March 2023, to determine whether expenditure has been recognised in the correct accounting period and whether accruals recognised were complete and accurate.
- We selected a sample of year end accruals and inspected evidence of the actual amount paid after year end in order to assess whether the accrual exists and has been accurately recorded.
- We inspected journals posted as part of the year end close procedures that decreased the level of expenditure recorded (after an initial outturn was known to management) in order to critically assess whether there was an appropriate basis for posting the journal and the value could be agreed to supporting evidence.

Other procedures

- We performed a retrospective review of prior year accruals in order to assess the existence and accuracy with which accruals had been recorded at 31 March 2022 and consider the impact on our assessment of the accruals at 31 March 2023. We also compared the items that were accrued at 31 March 2022 to those accrued at 31 March 2023 in order to assess whether any items of expenditure accrued for the first time have been done so appropriately or whether any items no longer accrued for were excluded in error.

Our findings

We have not identified any evidence of material misstatement due to error or misstatement due to fraud as a result of our audit work. From our testing we have noted some matters which are included in appendix three.

Audit risks and our audit approach

Management override of controls	
Significant audit risk	Our response
<p>The risk</p> <p>Professional standards require us to communicate the fraud risk from management override of controls as significant.</p> <p>Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>We have not identified any specific additional risks of management override relating to this audit.</p>	<p>Our response</p> <ul style="list-style-type: none"> – We evaluated the design and implementation of controls over journal entries and post-closing adjustments, including general IT controls. We have raised one recommendation in regard to administration rights and the ability to self approve journals, see Appendix Two for more details. – We analysed all journals through the year in order to identify those which match high risk criteria that we have set based on our initial risk assessment. We have then tested all journals identified as higher risk. – We assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates – specifically those in regard to the approach followed by the Trust in regard to the valuation of land and buildings. – We assessed the appropriateness of the accounting for significant transactions that are outside the Trust's normal course of business, or are otherwise unusual. We did not identify any such transactions during the period. – We assessed the controls in place for the identification of related party relationships and tested the completeness of the related parties identified. We verified that these have been appropriately disclosed within the financial statements. <p>Our findings</p> <ul style="list-style-type: none"> – We identified 22 journal entries and other adjustments meeting our high-risk criteria. – We evaluated accounting estimates, including the consideration of BCIS/location factors (valuation of land and building) and did not identify any indicators of management bias. See slides six and ten for further detail of our conclusions in this area.

Audit risks and our audit approach

IFRS 16

Other audit risk

IFRS 16 Leases will be fully adopted for the first time within the 2023 accounts. Impact disclosures were required and reviewed as part of the 2022 audit.

The main source of this risk is that lease terms and lease payments are inappropriately determined. This is a particular risk for arrangements which are not subject to a formal contract such as property agreements with NHS Property Services without an agreed contract or term.

Other risks include that the discount rate used to measure the lease liability is inappropriately determined or that a lease liability is not appropriately remeasured when reassessment is required.

Linked to the above there is a potential risk that lease payments are not completely and accurately recorded, are not recorded in the correct accounting period or have not occurred.

This is noted as an area of audit focus rather than significant risk of material error due to the lack of findings arising from our work in response to this in the prior period and immaterial nature of the assessed impact on the Trust.

Our response

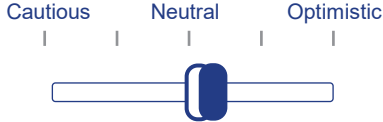
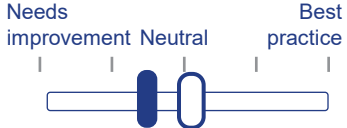
- We evaluated the Trust's process for reviewing current arrangements and contracts to ascertain whether there is a lease falling within the remit of the standard;
- We tested the completeness and accuracy of the data collected by the Trust and used as part of the opening balances;
- We critically assessed the key decisions made about material contracts such as property leases;
- We reviewed the discount rate used in the calculation of the lease liability and confirmed that the rate used is either the HM Treasury rate as per the GAM or the rate implicit within the lease payments for that specific arrangement;
- We reperformed the calculation of the lease liability and right of use asset for a sample of leases; and
- We critically assessed the disclosure proposed for compliance with the requirements of the GAM.

Our findings

We have no matters to report in regard to this risk.

Key accounting estimates – Overview

Our views on management judgments with respect to accounting estimates are based solely on the work performed in the context of our audit of the financial statements as a whole. We express no assurance on individual financial statement captions. Cautious means a smaller asset or bigger liability; optimistic is the reverse.

Asset class	Our view of management judgement	Balance (£m)	YoY change (£m)	Our view of disclosure of judgements & estimates	Further comments
Valuation of PPE		265	(2)		<p>We have considered the appropriateness of the valuation of land and buildings and have summarised our findings on page six. We consider the assumptions used by the valuer, in particular in regard to the use of the modern equivalent asset methodology for specialised buildings to be appropriate.</p> <p>We agreed amendments to the disclosures linked to this key accounting estimate within the financial statements. We have proposed similar amendments of this nature, to other NHS entities similar to the Trust, as best practice in response to this uncertainty which has become evident across the NHS.</p> <p>We note that management's expert used the BCIS index figure reported in February 2023 rather than the one reported in March 2023. If the valuation is updated to reflect the more recently available information this would lead to an increase in the asset value of £7.1m which is not material. As this is an accounting estimate this does not represent an audit error however we are reporting for transparency.</p> <p>Our consideration of the beacon approach to cost inflation used by the valuer is being considered across our client base – a verbal update will be reported to the audit committee.</p>

Other estimates

We have also reviewed the estimate used as part of the depreciation calculation, however consider this to not contain a material level of estimation uncertainty and as such consider this a non-significant estimate. We have no matters to report as a result of our work in this area.

Other matters

Annual report

We have read the contents of the Annual Report (including the Accountability Report, Directors Report, Performance Report and Annual Governance Statement (AGS)) and audited the relevant parts of the Remuneration Report. We have checked compliance with the Foundation Trust Annual Reporting Manual (the ARM). Based on the work performed:

- We have not identified any inconsistencies between the contents of the Accountability, Performance and Director's Reports and the financial statements.
- We have not identified any material inconsistencies between the knowledge acquired during our audit and the director's statements. As Directors you confirm that you consider that the annual report and accounts taken as a whole are fair, balanced and understandable and provide the information necessary for patients, regulators and other stakeholders to assess the Trust's performance, business model and strategy.
- The parts of the Remuneration Report that are required to be audited are subject to updates as outlined on page four.
- The AGS is consistent with the financial statements and complies with relevant guidance subject to updates as outlined on page four.
- The report of the Audit and Assurance Committee included in the Annual Report includes the content expected to be disclosed as set out in the ARM and was consistent with our knowledge of the work of the Committee during the year.

Whole of Government Accounts

As required by the Local Audit Code of Practice we are required to provide a statement on your consolidation schedule. We comply with this by checking that your summarisation schedule is consistent with your annual accounts. This work is ongoing as needs to be finalised alongside final approved financial statements.

Independence and Objectivity

ISA 260 also requires us to make an annual declaration that we are in a position of sufficient independence and objectivity to act as your auditors, which we completed at planning and no further work or matters have arisen since then.

Audit Fees

Our fee for the audit was £124,708 plus VAT, £117,875 in 2021/22). We have not completed any non-audit work at the Trust during the year.

Value for money

We are required under the Audit Code of Practice to confirm whether we have identified any significant weaknesses in the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources.

In discharging these responsibilities we include a statement within the opinion on your accounts to confirm whether we have identified any significant weaknesses. We also prepare a commentary on your arrangements that is included within our Auditor's Annual Report, which is required to be published on your website alongside your annual report and accounts.

Commentary on arrangements

We have prepared our Auditor's Annual Report and a copy of the report is included within the papers for the Committee alongside this report.

The report is required to be published on the Trust's website alongside the publication of the Trust's annual report and financial statements.

Response to risks of significant weaknesses in arrangements to secure value for money

As reported in our risk assessment we noted one potential risk of a significant weakness in the Trust's arrangements to secure value for money. Our response to these risks is set out on the following pages, we have no recommendations to report.

Summary of findings

We have set out in the table below the outcomes from our procedures against each of the domains of value for money:

Domain	Risk assessment	Summary of arrangements
Financial sustainability	One significant risks identified	No significant weaknesses identified
Governance	No significant risk identified	No significant weaknesses identified
Improving economy, efficiency and effectiveness	No significant risk identified	Significant weakness identified

We confirm that we have not identified any significant weaknesses to be included within our value for money report.

We identified a significant risk relating to financial sustainability. We have set out on the following page the work performed in response to this risk and a summary of our findings.

Value for money - risk of significant weakness in arrangements

Domain - Financial sustainability	
<p>Description of risk</p> <p>Based on the risk assessment procedures performed we have identified a significant risk associated with financial sustainability. The underlying deficit, lower than planned achievement of efficiency targets and need for working capital support means that there remains a significant risk to the Trust being able to maintain financial sustainability in the medium term</p>	<p>Our response</p> <p>We have performed the following procedures in response to the identified risk:</p> <ol style="list-style-type: none"> 1. Reviewed the outturn position for the Trust for 2022/23; and 2. Reviewed the process followed to finalise the 2023/24 financial plan for both the Trust and the ICS together with arrangements in place to establish the required efficiency programme central to achievement of the 2023/24 plan. <p>Our findings</p> <p>We identified one significant risk in relation to the processes for ensuring financial sustainability. In response to this, we considered the outturn position of the Trust and the ICS and noted appropriate actions to mitigate and reduce the deficit position. The outturn position of the Trust and System showed a deficit of £13.9m, with the Trust's share £3.89m (pre-audit), this was a £0.76m favourable Trust position to the planned deficit of £4.65m. The Trust saw pressures throughout the year, mainly due to covid and the additional open bed capacity for urgent care which was not planned. The Trust received £7.6m additional system resource allocation, without this additional support, the Trust's result would have been a £11.5m deficit. The Trust has monitored and reported its financial position throughout the year to the Board and also worked closely with the ICS to reduce the deficit and manage the financial pressures and challenges. The Trust delivered its Financial Improvement Plan targets of £11.7m which was achieved through £8.4m of divisional non-recurrent underspends.</p> <p>In addition, we considered the arrangements in place to align the Trust's 2023/24 financial plan with the ICS financial plan and found evidence of collaborative working between the Trust and ICS partners. The ICS financial plan, after a number of iterations, was submitted to NHSE following appropriate review and approval in accordance with the relevant guidance from NHS England. The Trust has followed the planning guidance by working within the ICS. The second submitted 2023/24 System and Trust financial plan showed a breakeven position, from its original Trust deficit of £21m and £43.3m for the System. Whilst the Trust has planned for a breakeven position, the financial plan does comprise of operating losses for months 1 – 9 which will be offset by surpluses in quarter four. This is due to the timing of funding which will be received in quarter four. As a result of these losses in month 1 – 9, the Trust will require revenue support borrowing of £11.22m which will be repayable in quarter four. The revised System plan includes significant efficiency targets of which £10.05m is the Trust's share. The Trust has developed a Financial Improvement Plan for the financial year across divisions, which has been phased from quarter two onwards.</p> <p>The Trust has provided Board members with regular updates and has a clear understanding of the risks within the agreed plan and the likely challenges and work needed to deliver its financial plan for 2023/24.</p> <p>Whilst we have not identified a significant weakness associated with the arrangements in place for the current period, we note that there is a high level of risk within the plan due to financial pressures and system wider operational assumptions. Therefore the Trust will need to ensure that the arrangements in place, including the reporting to Board of the Trust and wider system position, are robust and respond to emerging risks during the period.</p> <p>Conclusion</p> <p>Based on the findings above we have not identified any significant weaknesses in the Trust's arrangements in regard to this risk.</p>

Appendices

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Mandatory communications

Type		Statement
Our draft management representation letter	<input checked="" type="checkbox"/>	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2023.
Adjusted audit differences	<input checked="" type="checkbox"/>	There were was one adjusted audit difference and other presentation adjustments as noted on page 21.
Unadjusted audit differences	<input checked="" type="checkbox"/>	There is one unadjusted audit difference greater than our reporting threshold. See page 20.
Related parties	<input checked="" type="checkbox"/>	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit and Assurance Committee	<input checked="" type="checkbox"/>	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process/summarise any matters to raise to the Committee.
Control deficiencies	<input checked="" type="checkbox"/>	We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not previously been communicated in writing.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	<input checked="" type="checkbox"/>	No actual or suspected fraud involving management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements was identified during the audit.
Make a referral to the regulator	<input checked="" type="checkbox"/>	If we identify that potential unlawful expenditure might be incurred then we are required to make a referral to your regulator. We have not identified any such matters.
Issue a report in the public interest	<input checked="" type="checkbox"/>	We are required to consider if we should issue a public interest report on any matters which come to our attention during the audit. We have not identified any such matters.

Mandatory communications

Type		Statement
Significant difficulties		No significant difficulties were encountered during the audit.
Modifications to auditor's report		None.
Disagreements with management or scope limitations		The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information		No material inconsistencies were identified relating to other information in the annual report, Strategic and Directors' reports. The Annual report is fair, balanced and comprehensive, and complies with the Annual Reporting Manual.
Breaches of independence		No matters to report. The engagement team and others in the firm, as appropriate, have complied with relevant ethical requirements regarding independence.
Accounting practices		Over the course of our audit, we have evaluated the appropriateness of the Trust's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.
Significant matters discussed or subject to correspondence with management		There were no significant matters arising from the audit that were discussed, or subject to correspondence, with management.
Certify the audit as complete		We are required to certify the audit as complete when we have fulfilled all of our responsibilities relating to the accounts and use of resources as well as those other matters highlighted above. There are no other issues delaying this being issued.
Provide a statement to the NAO on your consolidation schedule		We will issue our report to the National Audit Office following the signing of the annual report and accounts. We have summarised the differences to be reported on page 11. This work will be finalised alongside consideration of the final approved financial statements.

Appendix Two

Recommendations raised and followed up

The recommendations raised as a result of our work in the current year are as follows:

Priority rating for recommendations			
1		Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	
2		Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	
3		Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.	
#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
1	Best Practice Point	<p>Enhancing Valuation Disclosures</p> <p>The valuation of the Trust's land and buildings continues to be a significant audit risk in the current year. There are a variety of factors driving the valuation both in terms of base "data" such as floor areas, in-year capital expenditure and change in building usage but also several judgemental assumptions applied by the valuer e.g. build cost indices, remaining useful lives, MEA, obsolescence adjustments and judgements around land values.</p> <p>Recommendation</p> <p>We recommend that the Trust provides some additional narrative in its PPE disclosure note in future periods, summarising its key judgemental assumptions applied within the valuation. We recommend that this narrative is supplemented by a summary table setting out at a high level the sensitivity of the Trust's valuation to movements in each of these key assumptions. We also recommend a paper is taken to the Board or Audit and Risk Committee each year setting out its approach to appoint and direct the valuer and the sensitivity of the assumptions and judgements used. This will align to best practice in other sectors.</p>	<p>Agree we will make amendments to the note for 2023/24 and a paper will be taken to a future AAC meeting this year to outline the key assumptions and estimation techniques used and the appointment and direction provided to the valuer.</p> <p>Responsible Officer: Jen Leah – Deputy Chief Financial Officer</p> <p>Due Date: 14 September 2023</p>
2	3	<p>Gross to Net Payroll Reconciliation preparation and approval</p> <p>During our review we noted that the Trust does not prepare the gross to net payroll reconciliation on a monthly basis. A reconciliation was prepared at year end, however there was no evidence that the reconciliation was reviewed.</p> <p>Recommendation</p> <p>Whilst we are aware the Trust reconciles its control accounts on a monthly basis we recommend that the gross to net payroll reconciliations are prepared and reviewed on a monthly basis to ensure timely detection and correction of errors and/or misstatements can occur.</p>	<p>Agreed - Gross to Net report will be completed on a monthly basis and appropriately signed by management.</p> <p>Responsible Officer: Michael Powell - Head of Financial Services</p> <p>Due Date: 30 June 2023</p>

Recommendations raised and followed up

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
3	③	<p>Bank staff not included in the remuneration disclosure per GAM requirements</p> <p>Our testing of the remuneration report disclosure noted that the calculation for number of persons employed has not included the Bank staff as per the GAM requirement.</p> <p>Recommendation</p> <p>We recommend that the Trust review the disclosure for next year to include the information from Bank staff for 2023/24 onwards.</p>	<p>Agreed</p> <p>Responsible Officer: Michael Powell - Head of Financial Services</p> <p>Due Date: 31 March 2024</p>
4	②	<p>Segregation of duties – Journal controls</p> <p>From our review, we noted that the integra application is configured to require approvals before journals are posted.</p> <p>We identified two admin users with access to initiate journals. We also noted that there are no controls restricting the admin users and Sys admin users from self-approving a journal, as these users can initiate a journal by granting themselves access to the journal input group. Once a journal is initiated, these users can then add themselves to the approval hierarchy structure and approve the same journal.</p> <p>Recommendation</p> <p>Admin users should be IT / internal facing and not be part of the finance team who initiate and approve journals. A control should be put in place where this is remediated or where any journals involving admin users are separately reviewed by a senior member of the finance team so that any errors may be effectively and timely prevented or detected.</p>	<p>Due to the size of the Trust and of the finance team, it is not possible for the system admin users outside of the finance team structure. Senior Management do conduct spot reviews of journals to ensure that they are appropriate and no manipulation has taken place. We can bring in a formal signature review process to demonstrate that any journals entered by those users are considered appropriate.</p> <p>Responsible Officer: John Mason - Head of Financial Business Intelligence</p> <p>Due Date: Immediately</p>

Recommendations raised and followed up (cont.)

We have also follow up the recommendations from the previous years audit, in summary:

Total number of recommendations	Number of recommendations implemented	Number outstanding:
1	1	0

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date	Current Status (June 2023)
1	2	<p>Agency costs not included in the Median Pay disclosure calculation</p> <p>Our testing of the median pay disclosure noted that the calculation has not included the impact of payments made to Agency staff in post at the year end as per the GAM requirement. The impact of this is that the Trust disclosure is not comparable to other NHS organisations.</p> <p>Recommendation</p> <p>We recommend that the Trust review the calculation methodology for next year including the information from temporary staffing systems held at year end to enable the inclusion of all required staff groups in the calculation for the disclosure for 2022/23 onwards.</p>	<p>Management Response - This omission will not significantly alter the opinion of the reader of the accounts for 2021/22. Agency costs will however be included in the calculation for 2022/23.</p> <p>Responsible Officer - Michael Powell</p> <p>Due Date - 30 June 2023 (for the accounts at 31 March 2023)</p>	<p>Implemented – agency staff are included in the calculation for the disclosure this year.</p>

Appendix Three

Audit Differences

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit and Assurance Committee with a summary of **unadjusted audit differences** (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the Audit and Assurance Committee, details of all adjustments greater than £300k are shown below:

Unadjusted audit differences (£'000s)				
No.	Detail	SOCI Dr/(cr)	SOFP Dr/(cr)	Comments
1	Dr Accruals		410	This is for reversal of accruals relating to costs linked to the Kingsmill property that are currently overstated.
	Cr Other operating expense	(410)		
Total		(410)	410	

Unadjusted Disclosure adjustments

We note the follow disclosure items which are not material individually or in total.

- Our testing of the remuneration report disclosure noted that the disclosure for the total number of persons employed does not include the Bank staff, which is the GAM requirement.
- An item accrued for at the end of the period (a potential rebate due to NHSE in regard to maternity income) was included in the financial statements. However, a corresponding assumption of rebate was not assumed by the counter party in the WGA resulting in an AOB mis-match. Since then NHSE have formally written to the Trust and the 2023/24 payment has been adjusted down to reflect the maternity standards having been missed in 2022/23 taking effect of the repayment being recognised by the Trust at the year end. This matter is not material and the accrual has not been adjusted in the accounts.
- One item related to a dispute over water charges which is reported as an accrual that is better presented as a provision

Appendix Three

Audit Differences

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit and Assurance Committee with a summary of **adjusted audit differences** (including disclosures) identified during the course of our audit. The adjustments below have been included in the financial statements.

Adjusted audit differences (£'000s)				
No.	Detail	SOCI Dr/(cr)	SOFP Dr/(cr)	Comments
1	Dr Reimbursement and top up funding Cr Non-patient care services to other bodies	3,872 (3,872)		This is for reclassification of income between reimbursement and top up funding and non-patient care services to other bodies to match the NHS TAC schedule.
Total		0	0	

Disclosure adjustments:

- Remuneration report: Exit packages note was corrected to match the evidence provided.
- Contingent liability: The disclosures were adjusted to include £179,000 for two employees that had been excluded from the disclosures.
- Related Parties Disclosure: Inclusion of additional related parties, i.e. Leeds Hospital and NHS providers identified from the DHSC related parties list that had been excluded from the financial statements related parties disclosure.

Appendix Three

Audit Differences

Intra-group error reporting

Further to the misstatements identified on page 21 we are required to report any identified errors in the reporting of intra-group balances with other Department of Health and Social Care entities exceeding £300,000 as part of our reporting on the Whole of Government Accounts to the National Audit Office. We have no such matters to report.

@

Confirmation of Independence

We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Partner and audit staff is not impaired.

To the Audit and Assurance Committee members

Assessment of our objectivity and independence as auditor of the Sherwood Forest Hospitals NHS Foundation Trust

Professional ethical standards require us to provide to you with a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard.

As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications

- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Appendix Four

Confirmation of Independence (continued)

We have considered the fees charged by us to the Trust for professional services provided by us during the reporting period. Total fees charged by us can be analysed as follows:

	2022/23	2021/22
	£	£
Audit of Trust	124,708	117,875
Total audit	124,708	117,875
Total non-audit services	0	0
Total Fees	124,708	117,875

Application of the Auditor Guidance Note 1 (AGN01)

The anticipated ratio of non-audit fees to audit fees for the year at the time of planning is 0: 1., or 0% which is compliant with Auditor Guidance Note 1 (AGN01).

AGN 01 states that when the auditor provides non-audit services, the total fees for such services to the audited entity and its controlled entities in any one year should not exceed 70% of the total fee for all audit work carried out in respect of the audited entity and its controlled entities for that year.

Application of the FRC Ethical Standard 2019

We communicated to you previously the effect of the application of the FRC Ethical Standard 2019. That standard became effective for the first period commencing on or after 15 March 2020, except for the restrictions on non-audit and additional services that became effective immediately at that date, subject to grandfathering provisions.

We confirm that as at 15 March 2020 we were not providing any non-audit or additional services that required to be grandfathered.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Audit and Assurance Committee and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP

Appendix Five

KPMG's Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

- To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.
- Responsibility for quality starts at the top through our governance structures as the UK Board is supported by the Audit Oversight Committee, and accountability is reinforced through the complete chain of command in all our teams.

■ Commitment to continuous improvement

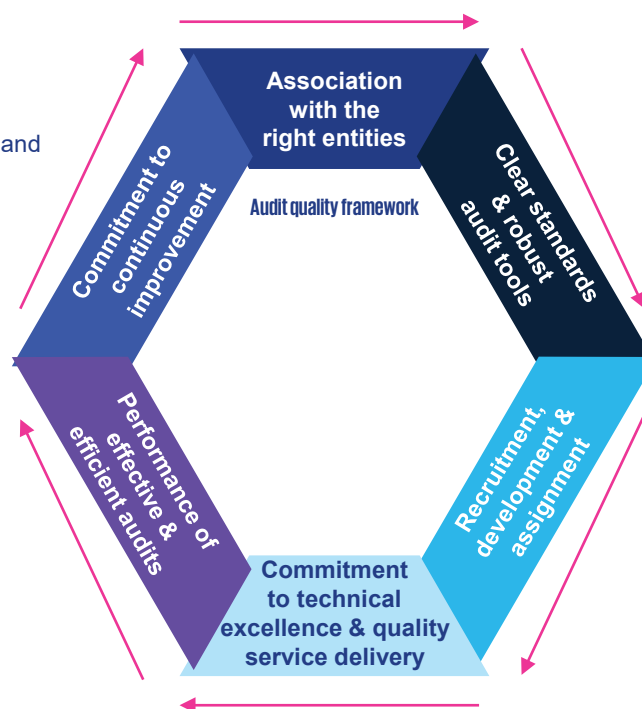
- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

■ Performance of effective & efficient audits

- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching, including the second line of defence model
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Insightful, open and honest two way communications

■ Commitment to technical excellence & quality service delivery

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights



■ Association with the right entities

- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

■ Clear standards & robust audit tools

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- KPMG Clara incorporating monitoring capabilities at engagement level
- Independence policies

■ Recruitment, development & assignment of appropriately qualified personnel

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members employed KPMG specialists and specific team members



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