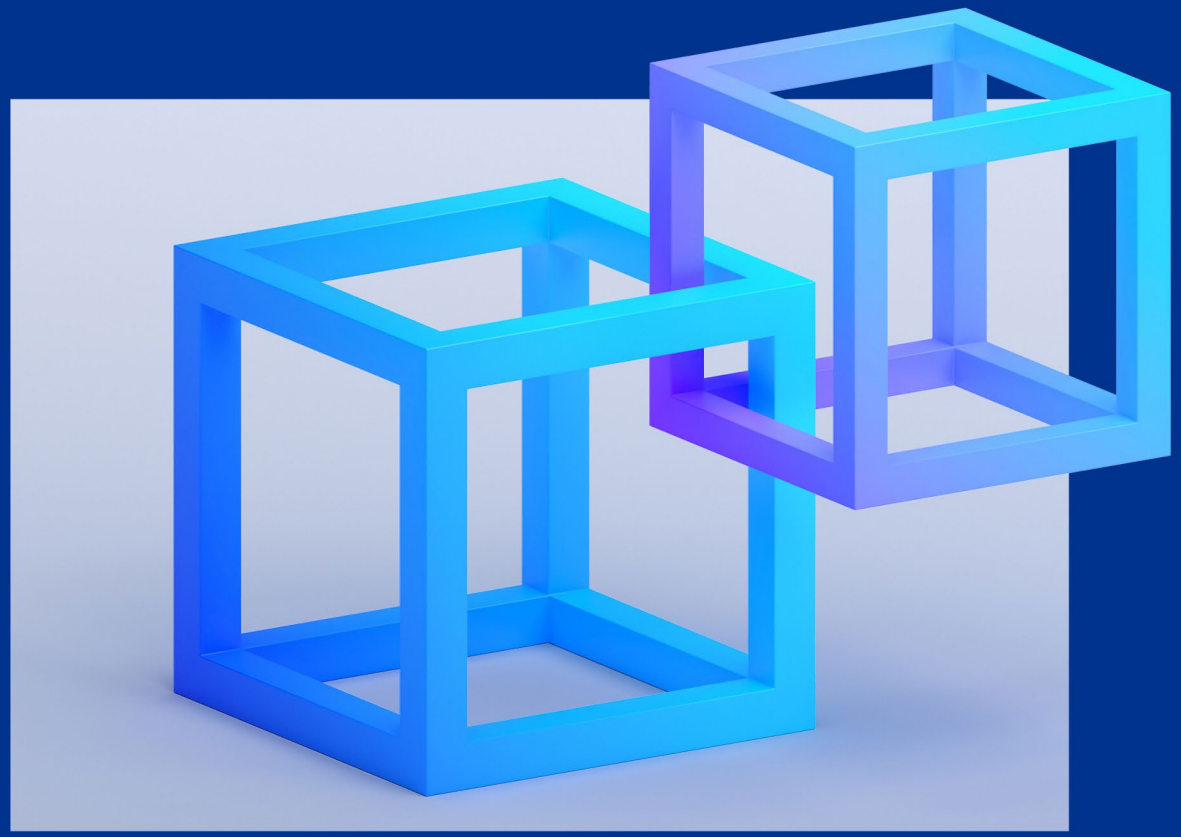
KPMG

Sherwood Forest Hospitals NHS Foundation Trust



Year end report to the Audit and Assurance Committee

Year end report for the year ended 31 March 2026

—

18 June 2026

KPMG required communications for all entities

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 18 June 2026 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 2026.

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 15 January 2026. We will be pleased to elaborate on the matters covered in this report when we meet.

Summary

We expect to be in a position to sign our audit opinion following the Board's approval of the financial statements and auditor's representation letter on 18 June 2026, provided that the outstanding matters noted on page 4 of this report are satisfactorily resolved.

In line with guidance issued by the National Audit Office, and following them considering their required assurances from us as component auditors, we are unable to certify our audit as complete until they have completed their work over the Department of Health and Social Care group. We anticipate we will issue our certificate in November. This applies to all NHS entities in 2025-26.

There have been no significant changes to our audit plan and strategy.

We expect to issue an unmodified Auditor's Report.

We draw your attention to the important notice on page 3 of this report, which explains:

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

Yours sincerely,

Richard Walton

18 June 2026

How we deliver 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 management and
- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

Contents **Page**

KPMG required communications for all entities

Important notice

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

Circulation of this report is restricted.

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

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 2026.

This Report has been prepared for the Trust's Audit and Assurance Committee, a sub-group of those charged with governance, in order to communicate matters that are significant to the responsibility of those charged with oversight of the financial reporting process 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.

This report summarises the key issues identified during our audit but does not repeat matters we have previously communicated to you by written communication on 15 January 2026.

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. Page 4 'Our Audit Findings' outlines the outstanding matters in relation to the audit. Our conclusions will be discussed with you before our audit report is signed.

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. We note that the Trust will provide a copy of our final report to NHS England.

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Our audit findings

Significant audit risks		Pages 6-14
Significant audit risks	**Risk change**	**Our findings**
Fraud risk – expenditure recognition	No change	The results of our testing were satisfactory. We have not identified any evidence of material error as a result of our audit work.
Management override of controls	No change	Our work over journals is completed and we have not identified any issues, subject to review.
Other audit risks	**Risk change**	**Our findings**
Valuation of land and building	No change	Based on our audit findings, evidence obtained, and conclusion reached, we have concluded that the valuation of land and building is materially correct.
Key accounting estimates		**Page 15**
Valuation of land and building	Neutral	We assessed the assumptions underpinning the valuation. The assumptions were found to be within our acceptable range.

Uncorrected Audit Misstatements		Page 27
Understatement/ (overstatement)	**£m**	**%**
Revenues	(6.8)	(1.3%)
Deficit for the year	(6.8)	(27.6%)
Total assets	(6.8)	(1.5%)
Total taxpayers' equity	(6.8)	(15.6%)

Misstatements in respect of Disclosures	Page 28
Area of disclosure	**Findings**
Remuneration report has been adjusted to reflect requirements of the guidance.	Corrected

Number of Control deficiencies	Pages 29-30
Significant control deficiencies	0
Other control deficiencies	2
Prior year control deficiencies remediated	0

Outstanding matters

Our audit is substantially complete except for the following outstanding matters:

- Review of follow up evidence provided for journals
- Review of follow up evidence provided for purchase cut-off
- Final manager and Director review of audit file
- Receipt of signed management representation letter
- Finalise audit report and sign

Value for money

We have not identified any significant weaknesses in the Trust's arrangements for achieving value for money. Further details are provided on page 18.

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 bought to the attention of the public. There are no such matters we wish to bring to your attention.

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Significant risks and Other audit risks

We discussed the significant risks which had the greatest impact on our audit with you when we were planning our audit.

Our risk assessment draws upon our historic knowledge of the business, the industry and the wider economic environment in which Sherwood Forest Hospitals NHS Foundation Trust operates.

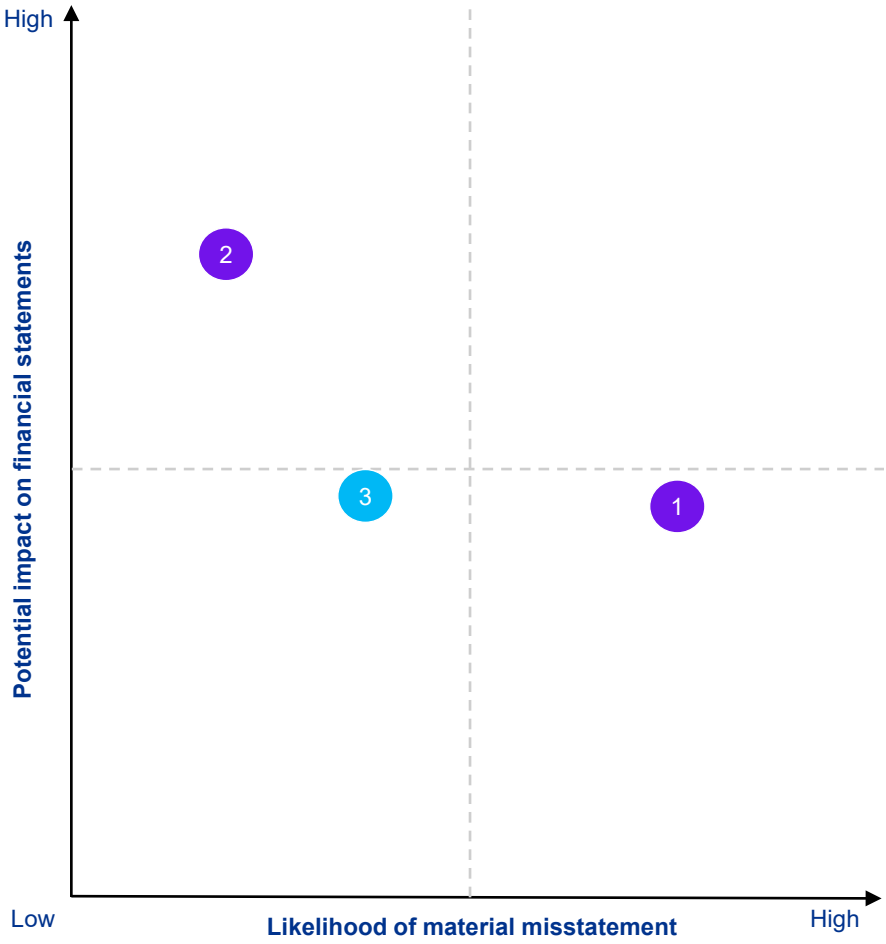
We also use our regular meetings with senior management to update our understanding and take input from internal audit reports.

Significant audit risks	
1.	Fraud risk – expenditure recognition
2.	Management override of controls

Other audit risks	
3.	Valuation of land and buildings

Key:

- Significant financial statement audit risks
- Other audit risk
- Increasing or decreasing risk compared with planning
- New [key audit matter]/[significant audit risk]/[other audit risk]



See the following slides for the cross-referenced risks identified on this slide.

Audit risks and our approach

1 Fraud risk from expenditure recognition - understatement

Liabilities and related expenses for purchases of goods or services are not completely identified and recorded, or those recorded are understated

Significant audit risk

Risk: ***Liabilities and related expenses for purchases of goods or services are not completely identified and recorded***

As the Trust is set a financial performance target by NHSE 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 control total 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 2026/27 to mitigate financial pressures.

Our response

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

- We evaluated the design and implementation of controls for reviewing manual expenditure accruals at the end of the year to verify that they exist and are valid;
- We inspected a sample of invoices and payments of expenditure, in the period after 31 March 2026, to determine whether expenditure has been recognised in the correct accounting period;
- We selected a sample of payments from the bank statements in the period after 31 March 2026 and agreed these to underlining supporting evidences to determine that all the liabilities are completely and accurately recorded in the correct accounting period;
- We selected a sample of year end accruals and inspected evidence of the actual amount paid after year end and other information in order to assess whether the accruals have been accurately recorded;
- We inspected journals posted as part of the year end close procedures that decrease the level of expenditure recorded in order to critically assess whether there was an appropriate basis for posting the journal and the value can be agreed to supporting evidence; and
- We performed a year on year comparison of a sample of the largest accruals made in the prior year and current year and challenged management where the movement is not in line with our understanding of the entity.

Audit risks and our approach (cont.)

1 Fraud risk from expenditure recognition - understatement

Liabilities and related expenses for purchases of goods or services are not completely identified and recorded, or those recorded are understated

Significant audit risk

Risk: ***Liabilities and related expenses for purchases of goods or services are not completely identified and recorded***

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We consider this would be most likely to occur through understating accruals, for example to push back expenditure to 2026/27 to mitigate financial pressures.

Our findings

As a result of our identified procedures, we noted the following:

- We noted that 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 design and implementation of these controls. The Trust consider the existing controls to be proportionate to address the associated operational risk therefore 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 52 invoices of expenditure and payments made in the period after 31 March 2026 and confirmed that all items were recorded in the correct accounting period.
- We selected a sample of 12 payments from the bank statements in the period after 31 March 2026 and confirmed all payments were recorded in the correct accounting period.
- We selected a sample of 27 year-end accruals to review the calculation of the accrual test to supporting documentation. We have no matters to bring to your attention.
- We inspected 10 journals posted as part of the year end close procedures that met our high-risk criteria. We have completed our work in regard to all of these samples and have no issues to report.
- We performed a retrospective review of prior period accruals to compare the recorded amount to the actual amount paid. We have no issues to report.

Audit risks and our approach (cont.)

2 Management override of controls(a)

Fraud risk related to unpredictable way management override of controls may occur

Significant audit risk

Professional standards require us to communicate the fraud risk from management override of controls as significant.

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.

We have not identified any specific additional risks of management override relating to this audit.

Our response

Our audit methodology incorporated the risk of management override as a default significant risk. We have performed the following procedures:

- Assessed accounting estimates for bias by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicated a possible bias;
- In line with our methodology, evaluated the design and implementation of controls over journal entries and post closing adjustments;
- Assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates;
- Assessed the business rationale and the appropriateness of the accounting for significant transactions that are outside the Trust's normal course of business, or are otherwise unusual; and
- We have analysed all journals through the year using data and analytics and focused our testing on those with a higher risk. Identified journal entries and other adjustments with characteristics that make them susceptible to fraud using KPMG Clara Journal Entry Analysis and performed procedures to test the appropriateness of these entries and adjustments.

Note: (a) Significant risk that professional standards require us to assess in all cases.

Audit risks and our approach (cont.)

2 Management override of controls(a)

Fraud risk related to unpredictable way management override of controls may occur

Significant audit risk

Professional standards require us to communicate the fraud risk from management override of controls as significant.

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.

We have not identified any specific additional risks of management override relating to this audit.

Note: (a) Significant risk that professional standards require us to assess in all cases.

Our findings

As a result of our identified procedures, we noted the following:

- We evaluated the design and implementation of controls over journals entries and post closing adjustments. The Trust have an alert via Integra to inform the relevant parties when journals have been self-reviewed. However, as this is a live control, the system only keeps a record of the last 50 instances where this has been performed. As such, we have not been able to evaluate the effectiveness of this control. The Trust consider the existing controls to be proportionate to address the associated operational risk therefore 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 performed screening and risk assessment routines over the journals population to establish high risk criteria for unusual characteristics compared to the total journal population and transactions reducing year end expenditure and accruals. We analysed the population to identify 29 journals matching our criteria to test. We inspected supporting evidence to assess that these journals were recorded in the normal course of business and have no issues to report.
- We evaluated accounting estimates, including the consideration of BCIS & location factors as part of the valuation of Land and Buildings and did not identify any indicators of management bias. See page 15 for further detail.
- Our procedures did not identify any significant unusual transactions.
- From the above procedures, we did not identify any instances of management override of control.

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AI Transaction Scoring: FY26 Planned Audit Approach

What did we do?

Our audit approach in FY26 evolved beyond D&A to include **AI and advanced statistical techniques in our audit of the significant risk relating to management override of controls**.

High-risk journals

- Enables an automated analysis of the entire general ledger identifying those journal entries that are entries posted outside the normal course of your business.
- An ensemble of **7 algorithms** to identify journals or adjustments that **collectively indicate an increased risk of management override of controls** in the context of your entity's data (labelled as High). **These journals are tested to underlying supporting documentation.**

Segment	Total activity	Total entries	% of £ value in High risk	% of £ value in Med. risk	% of £ value in Low risk	High risk entries	£ value in High risk
Overall scores							
HRJE Ensemble	£12,466,147,680.24	1,458,445	1.1%	-	98.9%	29	£133,470,834.46

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AI Transaction Scoring: A new way of auditing

Incredible Speed, Expert Precision.

Advanced AI and **Statistical Techniques** power routines that analyse **100% of the Data**

By employing a range of algorithms in parallel, we identify anomalous transactions (labelled as High or Medium) subject to further testing, enabling a **more targeted testing approach**.

Sharper Vision, Deeper Insights.

By leveraging **AI**, the analysis performed is unique to your data. Transactions are scored by considering your business processes, your entity's posting habits, using **Unsupervised Machine Learning** delivering **Advanced Anomaly Detection**.

With the power of AI in the hands of our teams, we can identify patterns and outliers that wouldn't be captured by traditional sampling methods, providing deeper insights.

Application to your audit

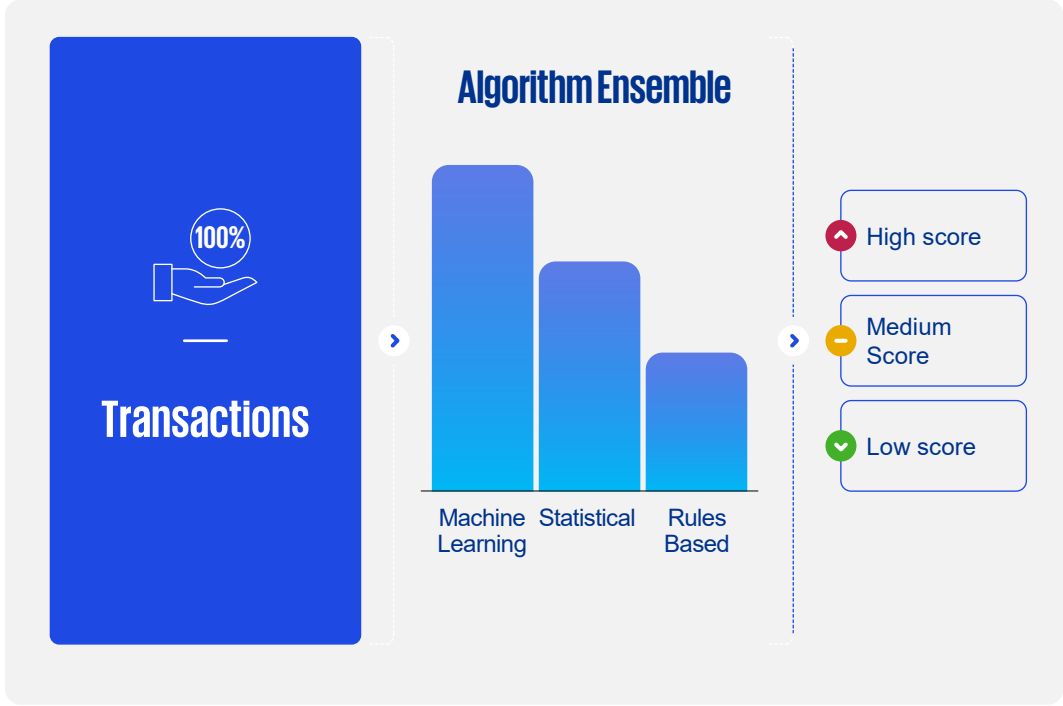
Review of journal postings to identify high risk transactions for further testing

Benefits

Robust insight, facilitating more meaningful discussions

Safeguarding quality through next-generation AI

Efficiency through automation and increased focus



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AI Transaction Scoring: Results Overview – High-risk journals

Using our KPMG - AI Transaction Scoring we have analysed 100% of the journal transactions within the financial period.

The work enabled us to identify the journals which fall outside of the expected patterns, therefore requiring further investigation.

Key highlights include:

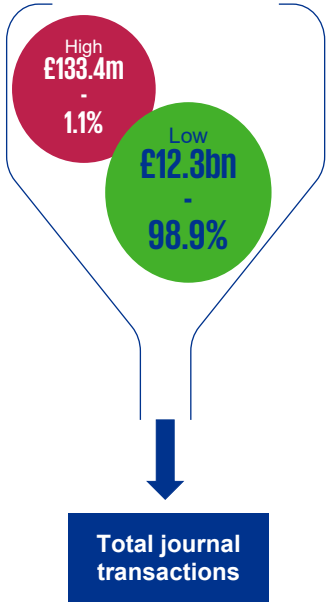
- 98.9% of journal transactions during the period were categorised as low risk
- 1.1% were classified as high risk and our examination did not identify unauthorised, unsupported or inappropriate entries.
- SFH acted as a pilot for the use of this tool across other NHS audits, the learning of which will be analysed to feed into our audit approach across all NHS bodies for the 26/27 financial year

Population Analysed

- KPMG applied AI Transaction Scoring solution over 100% of the journal transactions, for 2025/26

Results

- 1.1% of the journal transactions were identified as high-risk. The robust evaluation from the algorithms enabled us to identify journal transactions considered as high-risk, which we have tested substantively and vouched to supporting documents. We have also performed work on completeness and data integrity.
- We also identified an additional 10 journals meeting our high-risk criteria through manual screening in relation to reversals to accruals posted at year end.
- We inspected supporting evidence to assess that these journals were recorded in the normal course of business and have no issues to report.



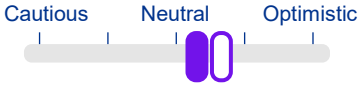
Insights

- The results did not highlight entries that suggest additional fraud risks requiring separate consideration and from the procedures performed we concluded that no misstatements were identified.
- Now we have established this approach we will seek to implement the journals analysis earlier in the period and expand our use of the tool into other areas (learning from other NHS pilots).

Audit risks and our approach (cont.)

3 Valuation of Land and Buildings

The carrying amount of revalued Land & Buildings differs materially from the fair value



Higher assessed risk

Risk: The carrying amount of revalued Land & Buildings differs materially from the fair value

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'.

The value of the Trust's land and buildings at 31 March 2025 was £272m, of which £249m are valued as specialised assets at depreciated replacement cost.

The Trust is due to undertake a desktop revaluation of its land and buildings in year. The last full revaluation took place on 31 March 2025.

Due to the inherent complexity of this accounting estimate we consider there to be a higher assessed risk of error in relation to this balance. Our audit approach to this area is described to the right however during our detailed risk assessment of the approach followed by the Trust, we will consider the risk of error for each element of the estimate and tailor our approach accordingly.

Key:
Prior year
Current year

Our response

We have performed the following procedures designed to specifically address the higher assessed risk associated with the valuation:

- We have critically assessed the independence, objectivity and expertise of Clark Weightman Limited, the valuers used in developing the valuation of the Trust's properties at 31 March 2026;
- We have inspected the instructions issued to the valuers 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 have 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 have evaluated the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used; and
- We have challenged the appropriateness of the valuation of land and buildings; including any material movements from the previous revaluations. We have 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.

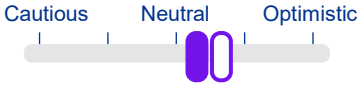
We have performed the following standard procedures over the non-higher assessed risk associated with the valuation:

- We have compared the accuracy of the data provided to the valuers for the development of the valuation to underlying information, such as floor plans, and to previous valuations, and challenged management where variances are identified;
- We have agreed the calculations performed of the movements in value of land and buildings and verified that these have been accurately accounted for in line with the requirements of the GAM; and
- Disclosures: We have considered the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.

Audit risks and our approach (cont.)

3 Valuation of Land and Buildings

The carrying amount of revalued Land & Buildings differs materially from the fair value



Higher assessed risk

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Key:
Prior year
Current year

Our findings

As a result of our identified procedures, we noted the following:

- We assessed the valuer's independence, competence, experience and qualifications, and deemed them suitably qualified and experienced to carry out the review;
- The instructions issued to the valuers are appropriate and consistent with the requirements of the Group Accounting Manual (GAM);
- The methodology used in preparing the valuation is consistent with the requirements of the RICS Red Book and the GAM;
- The key assumptions used within the valuation have been assessed in line with the NHS Healthcare Benchmarking Report issued by Montagu Evans, as appointed by the NAO, and were found to be consistent with our understanding of the entity and the wider sector;
- We challenged the key assumptions used by performing sensitivity analysis over the BCIS indices and identified that the movements would not materially impact the valuation;
- Samples were selected to confirm the accuracy of the data provided for floor areas, capital expenditure and useful economic lives. No deviations were found in the data;
- The movements in impairments and revaluation reserve are consistent with the valuation movements reported by the valuer, have been displayed correctly and are in line with the GAM; and
- The disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation were found to be adequate.

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Key accounting estimates and management judgements– Overview

Our view of management judgement

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.

Asset/liability class	Our view of management judgement	Balance (£m)	YoY change (£m)	Our view of disclosure of judgements & estimates	Further comments
PPE Land and buildings	Cautious – Neutral – Optimistic	258.9	(13.3)	Needs improvement – Neutral – Best practice	We have considered the appropriateness of the valuation of land and buildings and have summarised our findings on page 14. 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. The valuer used the BCIS build costs and location factor from March 2026, which is reasonable for the assumptions and a commonly used approach within the sector. In 2024/25, we identified that the use of the mid-February BCIS build cost resulted in a more optimistic valuation for FY25, however the valuation stayed within the acceptable range.

Key:
Prior year Current year

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). The draft annual report was received on 31 May 2026, which was incomplete. 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.
- Amendments were identified in the parts of the Remuneration Report that are required to be audited. These were corrected by management, as outlined on page 28;
- The AGS is consistent with the financial statements and complies with relevant guidance subject to updates as outlined on page 4; and
- 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 National Audit Office (NAO) we are required to provide a statement to the NAO on your consolidation schedule. We comply with this by checking that your summarisation schedule is consistent with your annual accounts. We have completed that work and found no matters to report.

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 £193,800 plus VAT (£190,000 in 2024/25). We have not completed any non-audit work at the Trust during the year.

KPMG

Value for money

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 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, with 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 risk identified	No significant weaknesses identified
Governance	No significant risks identified	No significant weaknesses identified
Improving economy, efficiency and effectiveness	No significant risks identified	No significant weaknesses 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 arrangements

Financial sustainability

Description of risk

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.

Our response

- We have considered the development of the Trust and system arrangements in place to establish the required efficiency programme and longer-term savings central to achieve short and medium term financial sustainability;
- We have reviewed the effectiveness of actions taken by the Trust to reduce the reported deficit and achieve the CIP target; and
- We have understood the process for identifying cost savings for future financial periods and considered how the Trust supports wider ICS plans to address future financial performance, including the process and input into development of the 2025/26 financial plan.

Our findings

Financial Performance

As part of the 2025/26 planning process, the Trust issued a financial plan with an overall breakeven position, as in line with NHS England guidance. The plan included receipt of £9.8m of non-recurrent deficit support and was also required to: reduce agency expenditure by 30% and bank staff expenditure by 10% of the November 2024 forecast outturn, and reduce support function spending to the April 2022 level.

The Trust achieved a deficit for the year of c£24.6m (adjusted financial performance of c£28.9m) against the breakeven plan. The main drivers for this adverse movement was a reduction in income of £7.9m driven by loss of prior year non-recurrent support and PFI-related income charges, an increase in pay costs of £16.2m driven by growth in substantive workforce as per the above required deliver, and a decrease in efficiency delivery of £9.5m compared to plan.

The Trust had planned capital spend for 2025/26 of £39.12m, revised to £47.46m due to additional funding received for the Spine Corridor, Mortuary and Sterile service projects. The Trust met their revised plan of £47.46m, further progressing key developments for the MRI and Mansfield Community Diagnostics Centre. Work was also undertaken in year for the Electronic Patient Record however this was delayed by NHS England in March over concerns to operational impact.

The Trust has a cash balance of c£16.1m at March 2026, a positive movement from plan of c£11.3m. The Trust maintained a stable cash balance throughout the financial year, with the exception of December and January, where this was managed through the creditor position. This has been discussed in more detail at *Cashflow Monitoring and Reporting* below.

Value for money arrangements

Financial sustainability

Description of risk

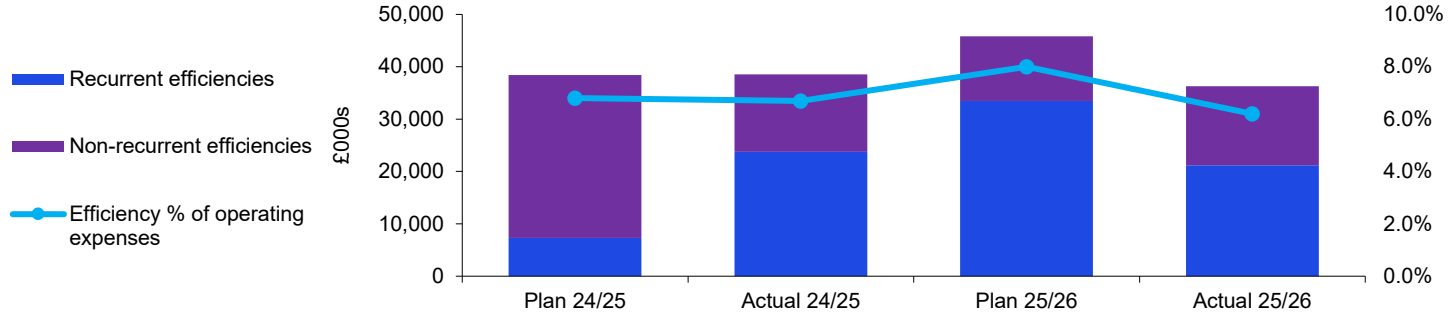
Based on the risk assessment procedures performed we have identified a significant risk associated with financial sustainability.

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.

Financial Performance (cont.)

The Trust identified Financial Improvement Programmes (FIPs) of c£45.8m for 2025/26, with c£33.5m relating to recurrent savings as per the 2025/26 financial plan. The Trust achieved total FIPs of c£36.3m in the year, being c£21.2m recurrent and c£15.1m non-recurrent. The £9.5m variance between actual and planned FIPs was driven by pay establishment reviews and non-pay procurement costs. The Trust have remained consistent in the percentage of recurrent CIP achievement from 62% in 2024/25 to 58% in 2025/26. The increase in recurrent efficiency savings was driven by savings made to workforce, which have been carried forward into the 2025/26 plan.

Cost Improvement Plans Recurrent / Non-Recurrent and as % of Expenditure



Overall, the Nottingham and Nottinghamshire Integrated Care System (the 'ICS') reported 2025/26 performance of a c£169.5m deficit position, with all providers reporting deficits in year. The Trust were involved in system wide discussions and actions to mitigate risks throughout the period.

Financial Reporting

As per ***Financial Performance***, the Trust has experienced challenges in year, in order to achieve their 2025/26 planned position. The main drivers for this adverse movement was a reduction in income of £7.9m driven by loss of prior year non-recurrent support and PFI-related income charges, an increase in pay costs of £16.2m driven by growth in substantive workforce as per the above required deliver, and a decrease in efficiency delivery of £9.5m compared to plan.

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Value for money arrangements

Financial sustainability

Description of risk

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.

Financial Reporting (cont.)

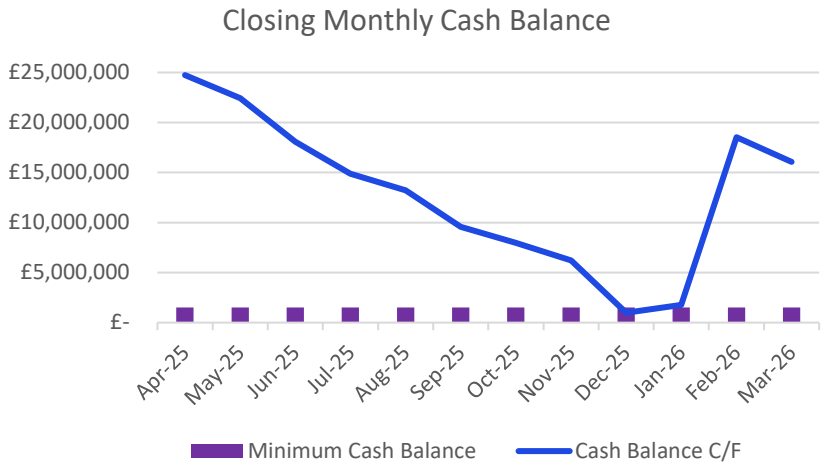
The Trust continued the monthly Financial Recovery Cabinets within 2025/26. These were introduced to develop a plan and create actions in order to reduce the forecast deficit in 2023/24, and have been adapted to cover the challenges arising within 2025/26. Key workstreams were identified for the Trust for identify saving opportunities, aligned with the Financial Recovery Plan in place at the Trust. Reporting from the Financial Recovery Cabinets are taken to Finance Committee with any key assurances or actions escalated to the Trust Board.

Cashflow Monitoring and Reporting

The Trust has a cash balance of c£16.1m at March 2026, a positive movement from plan of c£11.3m. The Trust maintained a stable cash balance throughout the financial year, with no cash support was required for 2025/26.

The Trust have a specific section within the monthly finance reports which considers cashflow (including any requirement for support) in detail. These are taken to the Finance Committee, with any issues escalated to the Trust Board.

As reported above in ***Financial Performance,*** the Trust had a favourable year end cash position as at 31 March 2026 of £16.1m. However, the closing cash balance for December did drop below the minimum cash balance set by the Trust and was just above the minimum cash balance for January.



The adverse cash positions for these two months were managed through the creditor position at the Trust, impacting the payable days and Better Payment Practice Code reporting in year. As at 31 March 2026, the Trust still have a c£24.3m creditor position which indicates future liquidity risk without the delivery of cash-releasing savings in 2026/27.

Value for money arrangements

Financial sustainability

Description of risk

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.

2026/27 Financial Plan

The 2026/27 Trust plan was submitted in March 2026 with a planned breakeven even target for the adjusted financial position. The Trust's plan includes £34.9 million of FIPs, of which £21.9 million (63%) are recurrent. The Trust has confirmed that the Financial Recovery Cabinets will continue into 2026/27. These were introduced in 2023/24, and ensures alignment with the Financial Recovery Plan and system priorities, to ensure sufficient discussion and monitoring of the in-year Trust position, and timely identification of any potential issues or deviations from the plan.

The Trust were also required to submit a 3-year plan as part of the planning submission for 2026/27. This included a planned adjusted financial position of £10m deficit for 2027/28 and breakeven for 2028/29. The 2026/27 to 2028/29 plan was approved by NHS England on 2nd April 2026, as "Compliant with Conditions due to non-compliance in your activity submissions and non-compliance for finance in year 2027/28."

The Trust has engaged in NHSE planning initiatives, including outpatient transformation, reform for urgent care and technology-enabled productivity improvements. In particular, the Trust has engaged the Board, Finance Committee and kept the senior leadership team updated and informed throughout the process, with necessary background and detail included within such updates. Prior to submission, management obtained appropriate approval, and the audit team have reviewed minutes evidencing sufficient challenge and scrutiny on all relevant aspects of the draft plan.

Given the Trust's 2025/26 performance (as detailed under ***Financial Performance***), the above plan represents a challenge for the Trust. The risks and challenges associated with delivery of the 2026/27 plan have been clearly and concisely communicated. Financial Recovery Cabinets are in place, aligned with the Financial Recovery Plan and system priorities, to ensure sufficient discussion and monitoring of the in-year Trust position, and timely identification of any potential issues or deviations from the plan.

Conclusion

Based on the findings above we have not identified any significant weaknesses in the Trust's arrangements

Appendices

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Required communications

Type	Response
Our draft management representation letter	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 2026.
Adjusted audit differences	There were two adjusted audit differences with a deficit impact of £6.7 million. See page 28.
Unadjusted audit differences	The aggregated surplus impact of unadjusted audit differences would be £6.8m. In line with ISA 450 we request that you adjust for these items. However, they will have no effect on the opinion in the auditor's report, individually or in aggregate. See page 27.
Related parties	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 Committee	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.
Control deficiencies	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 on 15 January 2026.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	No actual or suspected fraud involving Trust management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements identified during the audit.
Make a referral to the regulator	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	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.

Type	Response
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 related to other information in the annual report, Strategic and Directors' reports. The Strategic report is fair, balanced and comprehensive, and complies with the law.
Breaches of independence	No matters to report. The engagement team and others in the firm 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	The significant matters arising from the audit 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. We will issue our certificate once we have received confirmation from the National Audit Office that all assurances required for their opinion on the DHSC group accounts have been received.
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 identified no differences to be reported on.

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 Sherwood Forest Hospitals NHS Foundation Trust

Professional ethical standards require us to provide to you 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 partners/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.

Independence and objectivity considerations relating to the provision of non-audit services

Summary of non-audit services

We have not performed any non-audit services.

Confirmation of independence (cont.)

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:

	2025/26 (to date)	2024/25
	£'000	£'000
Audit of Trust	194	190
Additional work	-	-
Total audit	**194**	**190**
Total non-audit services	-	-
Total Fees	**194**	**190**

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).

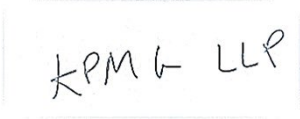
AGN 01 states that when the auditor provides non-audit services, the total fees for such services to the audited entity and its controlled entities in any one year should not exceed 70% of the total fee for all audit work carried out in respect of the audited entity and its controlled entities for that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

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 Compliance 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

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Uncorrected audit misstatements

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit and Assurance Committee with a summary of uncorrected 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 £700k are shown below:

Uncorrected audit differences (£'000s)				
No.	**Detail**	**SOCI Dr/(cr)**	**SOFP Dr/(cr)**	**Comments**
1	Dr Other operating income Cr Additions - Buildings Cr Accrued income	6,800 - -	- (1,360) (5,440)	As identified in 2024/25, KPMG noted that £6.8m of income continued to be recognised in year in relation to the proposed PFI Settlement Agreement,. This is a current estimate of the amount due to the Trust, based on third party advise, with the Trust capitalising a fifth of the balance in 2025/26, leaving £5.44m as accrued income. This transaction arose due to an ongoing dispute with the PFI provider regarding overpayment of costs in relation to services provided, spanning a number of financial periods. Whilst negotiations are ongoing and progress is being made, no formal settlement has been agreed with the provider to date. KPMG challenge the basis of recognition within the current financial period under IAS 37 and IFRS 15. *Note - the income was initially recognised in the prior period, however as it is not material the amendment is proposed to take place during the current period as required by accounting standards.*
Total		6,800	(6,800)	

DRAFT

Corrected audit misstatements

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

Corrected audit differences (£'000s)				
No.	**Detail**	**SOCI Dr/(cr)**	**SOFP Dr/(cr)**	**Comments**
1	Dr Impairment - opex Cr Building - cost	6,749 -	- (6,749)	KPMG noted a difference between the amounts per the valuation report and the financial statements. It was confirmed that the 'PFI Lifecycle Replacement' asset was incorrectly recognised at the enhancement value, when it should have been recorded as nil. This occurred due to a system error within RAM. Management have made an adjustment to recognise the correct PPE balance, against the impairment expense.
2	Dr Revaluations - OCI Cr Impairments - OCI	1,428 (1,428)	- -	KPMG noted a difference between the amounts per the charge to revaluation reserve in the valuation workings and the financial statements. It was confirmed that the amounts per the charge to revaluation reserve in the valuation workings was incorrectly recognised as impairments charged to revaluation reserve. This occurred due to a formula error in management's workings.
Total		6,749	(6,749)	

Corrected Disclosure Adjustments:

- Annual Report – The Staff Survey results initially only showed prior year comparators for one year, when at least two years is required per the GAM
- Remuneration Report – A number of disclosure adjustments have been identified in the salary and pension tables, fair pay multiple disclosure and a footnote was added stating the prior year disclosure included NEDs.
- Exit packages – It was noted that the MARS payments made in year were initially excluded from the exit packages tables
- Note 16.1 Property, plant & equipment – It was noted that "Other Adjustments" had been posted to the "Reclassifications" line in error

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Recommendations

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	2	**PFI Settlement Agreement** As identified in 2024/25, KPMG noted that £6.8m of income continued to be recognised in year in relation to the proposed PFI Settlement Agreement,. This is a current estimate of the amount due to the Trust, based on third party advise, with the Trust capitalising a fifth of the balance in 2025/26, leaving £5.44m as accrued income. This transaction arose due to an ongoing dispute with the PFI provider regarding overpayment of costs in relation to services provided, spanning a number of financial periods. Whilst negotiations are ongoing and progress is being made no formal settlement has been agreed with the provider to date. KPMG challenge the basis of recognition within the current financial period under IAS 37 and IFRS 15. **Recommendation** We recommend that accrued income is assessed against recognition criteria under IAS 37 and IFRS15.	To be updated

Recommendations

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
2	3	**Asset Verification Responses** Of the 15 asset verification forms tested for 2025/26, it was noted that 6 included non-verification of assets: 4 where no assets had been verified, and 2 where not all of the assets had been verified within the form. It is noted that these were chased by the finance team, and it is on the division leads to respond to the requests. **Recommendation** We recommend that full accountability is taken by the division leads to ensure that the full asset verification exercise is completed in year.	To be updated

FRC's areas of focus

The FRC released their Annual Review of Corporate Reporting 2024/25 (the 'Review') in September 2025 which also incorporated the outcomes of two limited scope thematics (the 'thematics').

The Review and thematics identify where the FRC believes companies can improve their reporting. These slides give a high-level summary of the key topics covered. We encourage management and those charged with governance to read further on those areas which are significant to their entity.

Key expectations for 2025/26 annual reports

Overview

The Review identifies that the quality of reporting across FTSE 350 companies has been maintained however, there remains a quality gap between FTSE 350 and other companies.. The FRC continue to focus on proportionality and materiality in their work and fewer substantive queries and restatements have been identified in the current year.

For the 2025/26 reporting season, the reporting areas the FRC believe companies should focus on remain consistent with recent years, given stable reporting requirements and recurring themes.

The FRC's top three focus areas remain consistent with the previous period including 'Impairment of assets', 'Cash Flow Statements' and 'Financial Instruments'. The FRC also note that the lack of internal consistency within the annual report and accounts continues to be a key driver of queries.

Pre-issuance checks and restatements

The FRC expects companies to have in place a sufficiently robust self-review process to identify common technical compliance issues. Fewer queries would also be raised if there were clear, company-specific accounting policies for these key accounting matters.

The reviewer should take a step back and consider whether the annual report tells a consistent and coherent story throughout the narrative reporting and financial statements.

Risks and uncertainties

Geopolitical and economic risks remain high and, in this context, the FRC continue to push for clear and consistent disclosures about judgements, risks and uncertainties. Disclosures should be sufficient to allow users to understand the position taken in the financial statements, and how this position has been impacted by the wider risks and uncertainties discussed elsewhere in the annual report.

Narrative reporting

The FRC reminds preparers to consider the overarching requirements of the UK financial reporting framework in determining the information to be presented, particularly in relation to narrative reporting. Companies should focus on the requirement for a true and fair view, along with a fair, balanced, and comprehensive review of the company's development, position, performance, and future prospects.

The FRC does not expect companies to provide information that is not relevant and material to users, however, they should ensure that they carefully comply with all applicable requirements, including climate-related reporting requirements.

Companies should also consider including disclosures beyond the specific requirements of the accounting standards where this is necessary to enable users to understand the impact of particular transactions or other events and conditions on the entities financial position, performance and cash flows.

FRC's areas of focus (cont.)

Impairment of assets

Impairment remains a key topic for the FRC. There have been no restatements in the current year, but many disclosures have been identified as requiring improvement.

Disclosures should provide adequate information about key inputs and assumptions, and these should be consistent with events, operations and risks noted elsewhere in the annual report and accounts (the 'ARA'). These should be supported by a reasonably possible sensitivity analysis as required.

Forecasts should reflect the asset in its current condition when using a value in use approach and forecasts should not extend beyond five years without explanation.

Preparers should also ensure that goodwill is allocated to a monitored CGU or group of CGUs that is no larger than an operating segment.

Cash flow statements

Cash flow statements remain the most common cause of prior year restatements.

Companies must carefully consider the classification of cash flows and whether cash and cash equivalents meet the definitions and criteria in the standard. The FRC encourage a clear disclosure of the rationale for the treatment of cash flows for key transactions.

Cash flow netting is a frequent cause of restatements, and this was highlighted in the previous 'Offsetting in the financial statements' thematic. Further, materially dissimilar classes of cash flows (e.g. purchases of tangible vs. intangible assets) should be presented separately.

Preparers should ensure the descriptions and amounts of cash flows are consistent with those reported elsewhere and that non-cash transactions are excluded but reported elsewhere if material.

Financial instruments

The number of queries on this topic remains high, with inappropriate application of offsetting requirements resulting in all identified restatements.

Companies are reminded that cash and overdraft balances should only be offset when they meet the qualifying criteria, including the intention to settle net or realise assets and liabilities simultaneously.

Companies should ensure sufficient explanation is provided of material financial instruments, including company-specific accounting policies.

Disclosures on risks should show the nature and extent of material risks, including credit risk, arising from financial instruments and the related risk management.

Expected credit loss provisions should explain the significant assumptions applied, including concentrations of risk where material.

Presentation

Companies should provide clear, company-specific material accounting policy information so users can understand unusual or complex transactions. Information on these transactions should be consistent with information elsewhere in the ARA.

Common restatement areas such as the classification of receivables as current or non-current, or the presentation of material financial asset impairment losses on the face of the income statement, should be identified by a thorough self-review.

Revenue

Questions raised in this area focussed on the clarity of the accounting policy and significant judgement disclosures.

For each material revenue stream, the accounting policy should cover the timing of revenue recognition, the basis for recognising revenue over time and the methodology. If the application of the accounting standards required significant judgement, this should also be disclosed.

Strategic report and Companies Act

The Strategic report must provide an unbiased discussion of all aspects of a company's development, position, performance and future prospects. In the case of a quoted company there should also be a clear description of it's strategy and business model.

Companies should ensure they comply with all the statutory requirements for making distributions.

Judgements and estimates

Disclosures over judgements and estimates are particularly important during periods of economic and geopolitical uncertainty. Disclosures should include sufficient, appropriate detail and be written in simple language. Sensitivities or ranges of possible outcomes should be provided to allow users to understand these judgement and estimates.

Areas of estimation uncertainty with a significant risk of a material adjustment within one year should be distinguished from other estimates.

FRC's areas of focus (cont.)

Income taxes

Evidence supporting the recognition of deferred tax assets should be disclosed in sufficient detail and be consistent with information reported elsewhere in the ARA.

Where applicable, the effect of Pillar Two income taxes should be disclosed.

Consolidated financial statements

Disclosures of the factors affecting control judgements should be consistent with other disclosures in the ARA. The disclosure must meet the requirements of IFRS 10.

Climate

Compliance with Taskforce for Climate-related Financial Disclosures (TCFD) has improved. The FRC reviewed compliance with Companies Act 2006 Climate-related Financial Disclosures (UK-CFD) for the first time this period. As a result, companies are reminded that UK-CFD disclosures are mandatory and cannot be 'explained' or included in another document.

Disclosures should focus only on material climate-related information and should be concise and company specific. The impact of material climate factors should also be addressed within the financial statements.

Thematic reviews

The FRC has issued five thematic reviews this year. 'Climate-related Financial Disclosures by AIM and Large Private Companies' was issued in January 2025 and is considered further on slide [X]. The key findings of the other thematics are outlined below. The FRC expect to issue a further thematic on 'Reporting by the UK's smaller listed companies' before the end of 2025.

Supplier finance arrangement disclosures

The key recommendations from this limited-scope review are:

- Provide high quality disclosures on the use of supply-chain financing (SCF) proportionate to the risks faced.
- Explain how SCF impacts liabilities and cash flows disclosing any judgements if relevant.
- Describe how SCF impacts liquidity risk and how liquidity risk is managed.

Review of disclosures of a pension accounting surplus

Pension surplus disclosures may be of heightened interest if proposed changes to employer's access to surpluses go ahead.

This review identified divergent practice in whether to recognise an asset when pension scheme trustees have the right to enhance benefits or wind up the scheme without the company's consent. Companies should:

- Clearly describe the basis on which the surplus is recognised (or restricted) including the impact of any trustees power.
- Consider whether disclosures around the technical funding position would be helpful to users' understanding of the amounts recognised in the financial statements and future contributions.
- Describe the nature and scale of bulk annuity policies or insurance transactions and the accounting treatment applied.

Share-based payments

This thematic focussed on listed companies with significant share-based payment (SBP) arrangements. Companies are encouraged to:

- Clearly explain the valuation technique used and assumptions made, in determining the fair value of instruments granted.
- Disclose the accounting policy and judgements regarding the choice of settlement, including the implications of any cash-settlement.
- Provide material disclosures which are clear and concise, cross-referencing and aggregating to avoid duplication.
- Assess if excess tax deductions have been recognised directly in equity.
- Consider the effect of group arrangements on individual companies and distributable reserves.

Investment trusts, venture capital trusts and similar closed-ended entities

The accounting for these entities is typically straightforward, however this thematic asks these entities to:

- Explain valuation techniques and provide sufficient meaningful disclosures on unobservable inputs to level 3 measurements e.g. weighted averages when the range of inputs is wide.
- Disclose sensitivities for level 3 measurements, when required.
- Ensure that APMs are appropriately used, reconciled to the nearest GAAP measure or otherwise explained.
- Clearly explain the basis for significant judgements on whether the IFRS 10 investment entity definition is met.

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

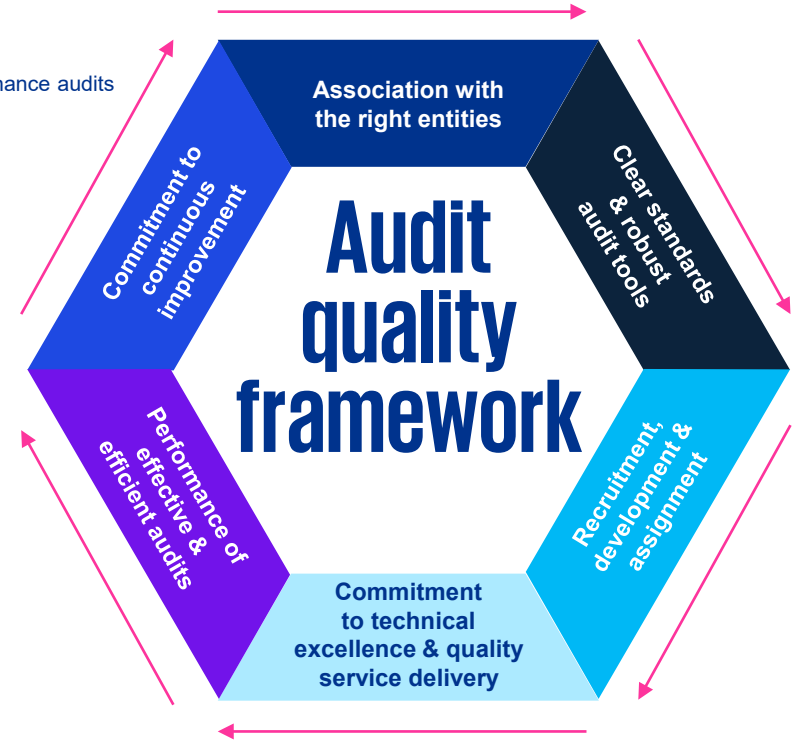
- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

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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Audit quality, evidence & the timeline of completion activities

Audit quality is at the core of everything we do – the quality and timeliness of information received from management and those charged with governance also affects audit quality.

The timeline on this page is for illustration only and shows the timing of our completion activities around the signing of the audit opinion. We depend on well planned timing of our audit work to avoid compromising the quality of the audit. We aim to complete all audit work no later than 2 days before audit signing.

Key:
- One day activity
- Activity over a period of time
- Year end
- Signing date of the Audit Report

Weeks before signing Audit Opinion	-3 weeks	-2 weeks		-1 week		Completion week			Teams involved in the process
Individual day's activities		Day 1	Day 3	Day 5	Day 1	Day 5	Day 1	Day 3	Day 5	
Arrange Pre-Issuance Review, Long Form Audit Report reviews and Going concern consultation, if applicable										Audit Team
Final audit fieldwork										Audit Team
Review audit field work & provide points to the audit team										2nd Line of Defence
Review significant risk audit areas and challenge work performed										RI and EQCR
Going Concern consultation										DPP Accounting & Reporting
Review of the Pre-Issuance Review and Long Form Audit Report										DPP Accounting & Reporting
Review of the financial statements as part of the Pre-Issuance Review										DPP Accounting & Reporting
Ensure points raised by the Pre-Issuance Review and Long Form Audit Report review are dealt with										RI and EQCR
Review Audit Committee report and draft accounts										RI and EQCR
Completion risk panel to discuss the draft Audit Committee report and draft accounts										Audit Risk Review Panels
KPMG Audit Committee report issued										Audit Team
Final Audit Committee										Audit Team
Ensure Pre-Issuance Review, Long Form Audit Report review and Going Concern consultation points have been satisfactorily dealt with										Audit Team & DPP Accounting & Reporting
Final audit field work completed and signed off										Audit Team
Stand-Back review										Audit Team
Ensure all points raised are cleared										RI / EQCR / 2nd Line of Defence

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KPMG's quality interventions

The audit team is responsible for the quality of the audit opinion and the audit file. However, increasingly KPMG audit teams are supported by 'quality interventions', as part of our overall Audit Quality Plan.

This page summarises the key interventions in the audit cycle to support audit teams through the audit cycle – planning, fieldwork and completion. They provide assistance and independent challenge to ensure that the audit team follow our audit methodology; consider emerging regulatory trends; and judgments and estimates are reasonable and evidenced. This page shows the positive influence they have on the overall quality of work performed.

The influence of KPMG's lines of defence in the audit

Review & challenge	Second Line of Defence	EQCR	Audit Risk Panels	Pre-issuance reviews	Going Concern triage
Role	Provide coaching and support to the audit team over the risk assessment, planned audit approach and how audit work is performed and reporting. In-flight reviews of the audit file during each phase of the audit cycle.	An independent audit partner reviews and challenges key audit areas and assesses how these are reflected in the Annual Report, our AC report and LFAR.	The audit risk panel, that is chaired by a member of the Audit Quality leadership team and includes an independent audit field partner and 2LD, challenges the RI and the audit team on the audit strategy and then on the audit conclusions.	Review of the Annual Report by our accounting and reporting specialists, focusing on current areas of regulatory challenge. Independent challenge on narrative included within LFAR.	Completed during the planning phase of the audit cycle, the triage team supports the audit team in identifying potential going concern matters well in advance of the year end audit to enable the audit team to formulate a robust challenge of management's going concern assessment.
FY Impact	The Second Line of Defence team highlighted points following the review of audit file documentation which were addressed by the audit team before the opinion was issued.	Reviewed significant risk areas, Audit Committee memo and Annual Report including LFAR. Involved in key decisions around significant risks [for example, *team to provide relevant examples*].	The audit risk panel challenged our assessment of X and Y and made suggestions for the wording in the KAMs and the Audit Committee report	The review of the Annual Report resulted in points which were dealt with by a combination of the audit team and management. [The most significant of these points were highlighted as disclosure misstatements reported to the Audit Committee at year-end.]	Early identification of potential going concern matters and a more robust challenge to management of the key assumptions and inputs in the cash flow forecasts.

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