



Auditor's Annual Report 2023/24

Sherwood Forest Hospitals NHS Foundation Trust

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26 June 2024

Executive Summary

Purpose of the Auditor’s Annual Report

This Auditor’s Annual Report provides a summary of the findings and key issues arising from our 2023-24 audit of Sherwood Forest Hospitals NHS Foundation Trust (the ‘Trust’). This report has been prepared in line with the requirements set out in the Code of Audit Practice published by the National Audit Office and is required to be published by the Trust alongside the annual report and accounts.

Our responsibilities

The statutory responsibilities and powers of appointed auditors are set out in the Local Audit and Accountability Act 2014. In line with this we provide conclusions on the following matters:



Accounts - We provide an opinion as to whether the accounts give a true and fair view of the financial position of the Trust and of its income and expenditure during the year. We confirm whether the accounts have been prepared in line with the Group Accounting Manual prepared by the Department of Health and Social Care (DHSC).



Annual report - We assess whether the annual report is consistent with our knowledge of the Trust. We perform testing of certain figures labelled in the remuneration report.



Value for money - We assess the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the Trust’s use of resources and provide a summary of our findings in the commentary in this report. We are required to report if we have identified any significant weaknesses as a result of this work.



Other reporting - We may issue other reports where we determine that this is necessary in the public interest under the Local Audit and Accountability Act.

Findings

We have set out below a summary of the conclusions that we provided in respect of our responsibilities:

Accounts	<p>We issued an unqualified opinion on the Trust’s accounts on 26 June 2024. This means that we believe the accounts give a true and fair view of the financial performance and position of the Trust.</p> <p>We have provided further details of the key risks we identified and our response on page seven.</p>
Annual report	<p>We did not identify any significant inconsistencies between the content of the annual report and our knowledge of the Trust.</p> <p>We confirmed that the Governance Statement had been prepared in line with the Department of Health and Social Care requirements.</p>
Value for money	<p>We are required to report if we identify any matters that indicate the Trust does not have sufficient arrangements to achieve value for money.</p> <p>We have nothing to report in this regard.</p>
Other reporting	<p>We did not consider it necessary to issue any other reports in the public interest.</p>

Audit of the financial statements

The table below summarises the significant risks that we identified to our audit opinion as part of our risk assessment and how we responded to these in our audit.

Risk	Procedures undertaken	Findings
<p>Fraudulent expenditure recognition</p> <p>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.</p> <p>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.</p> <p>We consider this would be most likely to occur through understating accruals, for example to push back expenditure to 2024-25 to mitigate financial pressures.</p>	<p>We evaluated the design and implementation of controls for reviewing manual expenditure accruals at the end of the year to verify that they have been completely and accurately recorded;</p> <p>We inspected a sample of invoices of expenditure, in the period after 31 March 2024, to determine whether expenditure has been recognised in the correct accounting period;</p> <p>We selected a sample of payments from the bank statements in the period after 31 March 2024 and agreed these to underlying supporting evidence to determine that all the liabilities are completely and accurately recorded in the correct accounting period;</p> <p>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 accruals have been accurately recorded.</p> <p>We inspected journals posted as part of the year end close procedures that decrease the level of expenditure and accruals recorded at the year end in order to critically assess whether there was an appropriate basis for posting the journal and the value can be agreed to supporting evidence;</p> <p>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 2023 and consider the impact on our assessment of the accruals at 31 March 2024.</p> <p>We performed a year on year comparison of the accruals made in March 2024 and April 2024 and challenged management where the movement is not in line with our understanding of the entity.</p>	<p>We did not identify any material misstatements relating to this risk.</p>
<p>Management override of controls</p> <p>We are required by auditing standards to recognise the risk that management may use their authority to override the usual control environment.</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>In line with our methodology, we evaluated the design and implementation of controls over journal entries and post closing adjustments.</p> <p>We assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.</p> <p>We 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.</p> <p>We have analysed all journals through the year using data and analytics and focused our testing on those with a higher risk, such as unusual cash combinations and journals unexpectedly reducing the accruals balance at M12.</p>	<p>We did not identify any material misstatements relating to this risk.</p>

Audit of the financial statements

The table below summarises the other key risks that we identified to our audit opinion as part of our risk assessment and how we responded to these in our audit.

Risk	Procedures undertaken	Findings
<p>Valuation of land and buildings</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>We critically assessed the independence, objectivity and expertise of the District Valuer, the valuers used in developing the valuation of the Trust's land and buildings at 31 March 2024;</p> <p>We 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;</p> <p>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;</p> <p>We challenged the appropriateness of the valuation of land and buildings; including any material movements from the previous revaluations. 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;</p> <p>We 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, challenging management where variances were identified;</p> <p>We 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</p> <p>Disclosures: We considered the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.</p>	<p>We did not identify any material misstatements relating to this risk.</p> <p>We considered the estimate to be balanced based on the procedures performed.</p>
<p>PFI Transition to IFRS 16</p> <p>PFI transition to IFRS 16 will be fully adopted for the first time within the 2024 accounts.</p> <p>As per the GAM this will be processed as an adjustment during the period subject to audit instead of a restatement of the prior year balances.</p> <p>The main impact of these changes is the elimination of contingent rents as a concept, which will lead to an increase in interest costs and an associated remeasurement of the PFI liability and disclosures.</p>	<p>We reviewed the Trust calculation of the adjustment processed as at 1 April 2023, agreeing the information used to underlying records and compare the approach used to that set out in the GAM;</p> <p>We reformed the calculation of the lease liability using the DHSC model as at 31 March 2024; and</p> <p>We critically assessed the disclosure proposed for compliance with the requirements of the GAM.</p>	<p>We did not identify any material misstatements relating to this risk.</p>

Value for Money

Introduction

We are required to consider whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources or 'value for money'. We consider whether there are sufficient arrangements in place for the Trust for the following criteria, as defined by the National Audit Office (NAO) in their Code of Audit Practice:



Financial sustainability: How the Trust plans and manages its resources to ensure it can continue to deliver its services.



Governance: How the Trust ensures that it makes informed decisions and properly manages its risks.



Improving economy, efficiency and effectiveness: How the Trust uses information about its costs and performance to improve the way it manages and delivers its services

Approach

We undertake risk assessment procedures in order to assess whether there are any risks that value for money is not being achieved. This is prepared by considering the findings from other regulators and auditors, records from the organisation and performing procedures to assess the design of key systems at the organisation that give assurance over value for money.

Where a significant risk is identified we perform further procedures in order to consider whether there are significant weaknesses in the processes in place to achieve value for money.

We are required to report a summary of the work undertaken and the conclusions reached against each of the aforementioned reporting criteria in this Auditor's Annual Report. We do this as part of our commentary on VFM arrangements over the following pages.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Trust.

Summary of findings

	Financial sustainability	Governance	Improving economy, efficiency and effectiveness
Commentary page reference	12	14	15
Identified risks of significant weakness?	Yes	No	No
Actual significant weakness identified?	No	No	No
2022-23 findings	Risk to significant weakness was noted but did not materialise into a significant weakness	No significant weakness identified	No significant weakness identified
Direction of travel	↔	↔	↔



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