

Council of Governors: Summary Sheet

Title of Paper: Auditor's Annual Governance Report on the Trust's Accounts

Presented By: Rashpal Khangura, Director, KPMG LLP

Action Required:	For Information	<input type="checkbox"/>	For Ratification	<input type="checkbox"/>	For a decision	<input type="checkbox"/>
	For Feedback	<input type="checkbox"/>	Vote required	<input type="checkbox"/>	For Receipt	<input checked="" type="checkbox"/>

To which duty does this refer:

Holding non-executive directors individually and collectively to account for the performance of the Board	<input type="checkbox"/>
Appointment, removal and deciding the terms of office of the Chair and non-executive directors	<input type="checkbox"/>
Determining the remuneration of the Chair and non-executive directors	<input type="checkbox"/>
Appointing or removing the Trust's auditor	<input type="checkbox"/>
Approving or not the appointment of the Trust's chief executive	<input type="checkbox"/>
Receiving the annual report and accounts and Auditor's report	<input checked="" type="checkbox"/>
Representing the interests of members and the public	<input type="checkbox"/>
Approving or not increases to non-NHS income of more than 5% of total income	<input type="checkbox"/>
Approving or not significant transactions including acquisitions, mergers, separations and dissolutions	<input type="checkbox"/>
Jointly approving changes to the Trust's constitution with the Board	<input type="checkbox"/>
Expressing a view on the Trust's operational (forward) plans	<input type="checkbox"/>
Consideration on the use of income from the provision of goods and services from sources other than the NHS in England	<input type="checkbox"/>
Monitoring the activities of the Trust to ensure that they are being conducted in a manner consistent with its terms of authorisation and the constitution	<input type="checkbox"/>
Monitoring the Trust's performance against its targets and strategic aims	<input type="checkbox"/>

How does this item support the functioning of the Council of Governors?

Governors will be fulfilling their statutory duty to receive the Auditor's report on the Trusts Accounts

Author of Report: Rashpal Khangura

Designation: Trust Auditor

Date: July 2020



Year end report 2019/20

Sheffield Health and Social Care NHS
Foundation Trust

FINAL

24 June 2020

I confirm that this is the final version of our ISA 260 Audit Memorandum relating to our audit of the 2019/20 financial statements for Sheffield Health and social care NHS Foundation Trust. This document was discussed and approved by the Trust's Audit & Risk Committee

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Rashpal Khangura

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

24 June 2020

Our audit opinions and conclusions:

Financial Statements: unqualified

Use of resources: qualified

Introduction

To the Audit & Risk Committee of Sheffield Health and Social Care NHS Foundation Trust

We are pleased to have the opportunity to meet with you on 21 June 2020 to discuss the results of our audit of the financial statements of Sheffield Health and Social Care NHS Foundation Trust (the 'Trust'), as at and for the year ended 31 March 2020

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 21 January 2020. We will be pleased to elaborate on the matters covered in this report when we meet.

Our audit is substantially complete. There have been changes to our audit plan and strategy based on revised requirements from NHSI and NHSE as communicated in March 2020. These changes relate to the following:

- Quality report assurance is not required to be provided for 2019/20; and
- IFRS 16 is deferred with only limited disclosure requirement for 2019/20.

Subject to your approval of the financial statements, we expect to be in a position to sign our audit opinion on 21 June 2020, provided that the outstanding matters noted on page 3 of this report are satisfactorily resolved.

We expect to issue an unmodified Auditor's Report on the financial statements and an qualified Value for Money Conclusion,

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

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

Yours faithfully,



Rashpal Khangura

24 June 2020



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.

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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 Trust's Audit & Risk Committee, in order to communicate matters of interest as required by ISAs (UK and Ireland), 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 Sheffield Health and Social Care NHS Foundation Trust (the 'Trust') which have been 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 2020. 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 now complete.

Restrictions on distribution

The report is provided on the basis that it is only for the information of the Audit & Risk 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.



Summary



Financial Statements Audit

We intend to issue an unqualified audit opinion on the accounts following the Audit & Risk Committee adopting them and receipt of the management representations letter.

We have completed our audit of the financial statements. We have also read the content of the Annual Report (including the Remuneration Report) and reviewed the Annual Governance Statement (AGS). Our key findings are:

- There are no unadjusted audit differences.
- We have agreed presentational changes to the accounts with Finance, mainly related to compliance with the Group Accounting Manual (GAM).
- We have reviewed the annual report and have no matters to raise with you.

Quality Report

For 2019/20, we are not required to provide assurance over your quality report as a result of updated guidance issued by NHSI/E in response to the Covid-19 pandemic.

Value for Money

Based on the findings of our work, we have concluded that the Trust does not have adequate arrangements to secure economy, efficiency and effectiveness in its use of resources. This is as a result of the findings of the April 2020 CQC report which rated the Trust as 'Inadequate' overall and made reference to a number of key issues which have led us to need to issue an adverse Value for Money conclusion.

Other Matters

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 NHS Improvement (NHSI).

We have identified 1 prior year recommendation that requires further action by management. We have made no recommendations as a result of our work.

Audit Certificate

We are required to certify that we have completed the audit of the Trust financial statements in accordance with the requirements of the Code. If there are any circumstances under which we cannot issue a certificate, then we must report this to those charged with governance. There are no issues that would cause us to delay the issue of our certificate of completion of the audit.

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; and whether the public interest requires any such matter to be made the subject of an immediate report rather than at completion of the audit. There are no matters that we wish to report.

Summary: Impact of COVID-19



Scepticism Challenge

Below we have summarised the impact of COVID-19 on our audit approach for 2019/20:

Area of the audit	Status	Page	Impact on Audit Approach
Financial Statements: Valuations		Page 13	No matters to report. We were able to gain assurance around the valuation of land and buildings through our audit procedures.
Financial Statements: Going Concern		Page 16	While impacting across the corporate sector the directions under which you prepared your accounts included in the FREM and GAM and the funding mechanisms put in place across the NHS mean your Trust will be considered a going concern. We have however considered your financial position through our work on use of resources in line with the FRC's Practice Note 10 (Audit of financial statements of public sector bodies in the United Kingdom).
Financial Statements: Events after the reporting period			We have considered whether it is necessary to disclose any post date events from the effects of the COVID pandemic on the Trusts operations. No matters to report. We have not identified any subsequent events that require adjustment or disclosure.
Financial Statements: Revision to threshold for the AoB exercise			As a result of the guidance to the NHS increasing the threshold at which balances require confirmation between bodies we amended our audit procedures to confirm your income, expenditure, receivable and payables with counterparties within the NHS resource accounting boundary. This also impacted the procedures we perform for issuing our consolidation opinion to the NAO. No matters to report.
Financial Statements: Procedures			We have considered more broadly how our audit procedures should be revised given the extended deadline for submission. This means we have updated our procedures, for example considering a longer period for post date events, extending the sample period we considered for our cut off procedures and specifically considering whether COVID related income and expenditure from the final weeks of the year were correctly included in the financial statements. No matters to report. We have not identified any issues that require adjustment or disclosure.
Financial Statements: IFRS 16			The implementation of the new lease accounting standards has been deferred to 1 April 2021 with only limited disclosure requirement for 2019/20. We have only carried out limited work as part of our interim audit to understand the Trust's approach to adopting IFRS16. This work has been paused and will be completed and reported upon as part of our 20/21 audit. We have therefore not included the adoption of IFRS16 as an "other audit matter" in this report.
Quality Accounts: revised requirements			We are no longer required to provide assurance over the quality report for 2019/20.



Financial Statements Audit

Section one

Financial statements audit - our summary findings



Scepticism Challenge

Assessment of the control environment

Significant control deficiencies 0

Other control deficiencies 0

The Trust outsources an element of its control environment to the following service organisations. For each, we rely on the findings of the service auditors assessment of the local control environment as part of our audit approach.

- IBM – the Trust uses the ESR system. The service auditor issued an unqualified opinion.

Representations

You are required to provide us with representations on specific matters such as your going concern assertion. We provided a draft of this representation letter to the Director of Finance. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us.

Accounts Production

We received complete draft accounts by 27 April 2020 in accordance with NHSI's deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of ARM and GAM. We thank the finance team for their co-operation throughout the visit which allowed the audit to progress and complete within the allocated timeframe.

Risks

Risk change

Our findings

Significant Risks

Page 10-15

- | | | | |
|---|-----------|---|------------------------------------|
| 1. Management override of control | No Change | ■ | No audit misstatements identified. |
| 2 and 3. NHS and non-NHS Income and Receivables | No Change | ■ | No audit misstatements identified. |
| 4. Valuation of land and buildings | No Change | ■ | No audit misstatements identified. |
| 5. Fraudulent expenditure recognition | No Change | ■ | No audit misstatements identified. |

Other Matters

Page 16

- | | | | |
|------------------|-----------|---|------------------------------------|
| 6. Going concern | No Change | ■ | No audit misstatements identified. |
|------------------|-----------|---|------------------------------------|

Financial statements audit – our summary findings



Scepticism Challenge

Compliance with ISA 260: We are required under ISA 260 to communicate to you any matters specifically required by other auditing standards to be communicated to those charged with governance; and any other audit matters of governance interest. As the Trust is required to comply with elements of the UK Corporate Governance Code through the Foundation Trust Code of Governance, ISA 260 also requires us to communicate to you any information that we believe is relevant to understanding our rationale and the supporting evidence for the exercise of our professional judgement. This includes our view of: Business risks relevant to the financial reporting objectives, the application of materiality and the impact of our judgements on these areas for the overall audit strategy and audit plan; significant accounting policies; management's valuations of the Trust's material asset and liabilities and the related disclosures; the quality of management's assessment of the effectiveness of the system of internal control included in the AGS; and any other matters identified during the course of the audit.

Compliance with the Audit Code: Your audit is undertaken to comply with the Local Audit and Accountability Act 2014 which gives the NAO the responsibility to prepared an Audit Code (the Code), which places responsibilities in addition to those derived from audit standards on us. We have discharged these responsibilities as follows:

Type	Status	Response
Our declaration of independence		No matters to report. The engagement team and others in the firm, as appropriate, have complied with relevant ethical requirements regarding independence.
Make a referral to your 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.
Provide a statement to the NAO on your consolidation schedule		This "Whole of Government Accounts" requirement is fulfilled when we check your summarisation scheduled are consistent with your annual accounts. We have completed that work and found no matters to report.
Provide a summary of our key use of resources risks		We are required to reach a conclusion on your use of resources. We have identified two significant risks which are outlined on pages 21-22 which we will comment on in our long form audit report.
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.

Financial statements audit – significant risks



Management override of control (Significant risk that professional standards require us to assess in all cases)

Significant audit risk

The risk

Professional standards 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..

Planned response

Our audit methodology incorporates the risk of management override as a default significant risk.

- In line with our methodology, test the operating effectiveness of controls over journal entries and post closing adjustments.
- Assess the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.
- Assess the appropriateness of the accounting for significant transactions that are outside the Trust's normal course of business, or are otherwise unusual.
- Consider accounting judgements which impact the reported outturn position;
- Reconcile the year end outturn to in year financial reporting to ensure that divergence in performance can be justified; and
- Consider the year end cut off processed to ensure that revenue and expenditure items have been reflected in the correct period.

Outcome from audit work

- As part of our interim audit, we tested journals controls and found them to be operating effectively. As part of our year end audit we have gained evidence to support post closing adjustments. We also identified journal entries that we considered high risk and tested journals that met these criteria, agreeing the transaction back to supporting evidence.
- We confirmed there have been not significant changes to the methods and assumptions used in preparing accounting estimates.
- We have not identified any significant unusual transactions as part of our work.
- We have considered key accounting judgement from the year end and have not noted any issues with the judgements applied by management.
- There has been no divergence from in year reported performance that we have noted as part of our testing.
- We performed cut off testing at the year end and confirmed that items tested had been accounted for the in the correct period.

Financial statements audit – significant risks



2 and 3 NHS and Non-NHS Income Receivables

Significant audit risk

The risk

The main source of income for the Trust is the provision of healthcare services to the public under contracts with NHS Commissioners, which make up around 70% of operating income.

Income from NHS England and CCGs is captured through the Agreement of Balances (AoB) exercises performed at months 6, 9 and 12 to confirm amounts received and owed.

Mismatches in income and expenditure, and receivables and payables are recognised by the Trust and its counterparties to be resolved. Where mismatches cannot be resolved they can be reclassified as formal disputes.

In addition to patient care income the Trust also receives a significant proportion (around 25%) from non-patient care activities, principally social care support to people with learning disabilities, education and training, and research and development. Much of this income is generated by contracts with other NHS and non-NHS bodies which are based on varied payment terms, including payment on delivery, milestone payments and periodic payments. Consequently there is a greater risk that income will be recognised on a cash rather than an accruals basis.

Planned response

- We will inspect the information provided by the Trust as part of the 2019/20 AoB exercise to agree that it is consistent with the information in the accounts covering both NHS income and NHS receivables;
- We will identify any mismatches (both income and receivables) with Commissioners and obtain explanations for the mismatches;
- We will agree any disputed NHS income or receivables to documentation supporting the Trust's estimates, including contract documentation and evidence of the achievement of required activity levels or performance measures;
- We will assess whether any adjustments to balances agreed with other NHS organisations has been appropriately reflected in the accounts;
- We will agree any accrued or deferred income balances to supporting documentation to confirm they have been recorded appropriately;
- We will agree income recorded in the financial statements to signed contracts and contract variations with Local Authorities and non-government bodies; and
- For a sample of invoices raised immediately before and after the balance sheet date, we will check that income had been recognised in the correct financial period.

See next page for details of the outcome of our work.



2 and 3 NHS and Non-NHS Income Receivables

Outcome from audit work

- We have reconciled the amounts submitted by the Trust as part of the AoB exercise to the amounts included in the accounts and NHS income and NHS receivables. No issues have been noted as a result of this work.
- We have investigated all mismatches shown by the AoB exercise over £100k (our audit mispostings threshold) and have received satisfactory explanations and supporting evidence in all cases. As part of this process we have obtained evidence to support the Trust's position. There are two mismatches above the £300k NAO group audit threshold which we have reported as required in Appendix 4.
- There has not been a requirement to amend the accounts as a result of the AoB process.
- We have undertaken testing and gained assurance over accrued income (deferred income was not material).
- We have agreed non-NHS income to contracts and contract variations to gain comfort over the amount of non-NHS income received in year.
- We performed cut off testing at the year end and confirmed that items tested had been accounted for the in the correct period.



4 Valuation of Land and Buildings

Significant audit risk

The risk

Land and buildings are required to be held at fair value. The Trust's main land and buildings relate to multiple sites across Sheffield.

Land and buildings are required to be maintained at up to date estimates of year-end market value in existing use (EUV) for non-specialised property assets in operational use, and, for specialised assets where no market value is readily ascertainable, the depreciated replacement cost (DRC) of a modern equivalent asset that has the same service potential as the existing property. There is a significant judgement involved in determining the appropriate basis (EUV or DRC) for each asset according to the degree of specialisation, as well as over the assumptions made in arriving at the valuation of the asset. In particular the DRC basis of valuation requires an assumption as to whether the replacement asset would be situated on the existing site or, if more appropriate, on an alternative site. Furthermore, DRC is decreased if VAT on replacement costs is deemed to be recoverable. Both of these assumptions can have potentially significant effects on the valuation.

Valuations are completed by an external expert engaged by the Trust using construction indices and so accurate records of the current estate are required. Full valuations are completed every five years, with interim desktop valuations completed in interim periods. Valuations are inherently judgemental, therefore our work focused on whether the methodology, assumptions and underlying data, are appropriate and correctly applied.

The Trust is also likely to have an Asset Held for Sale (AHFS) at the year end (Fulwood House). There is a significant amount of judgement related to the valuation and treatment of this AHFS in the year end accounts.

Planned response

- We will assess the competence, capability, objectivity and independence of the Trust's external valuer to carry out the valuation objectively and competently;
- We will agree the information provided to the valuer by the Trust to underlying records of the NHS Estate held by the Trust to assess whether all land and buildings have been valued;
- We will critically assess the valuation method and the reasonableness of the assumptions used by the valuer to arrive at the final valuations by considering the basis on which this valuation method had been chosen alternatives to the assumptions used by the valuer
- We will test material additions during the year to supporting documentation including invoices;
- We will assess whether the impairments and revaluations have been correctly accounted for in line with applicable accounting standards and the GAM;;
- We will assess the adequacy of the disclosures about the key judgements and degree of estimation involved in arriving at the valuation and the related sensitivities; and
- We will critically assess the valuation and classification of any AHFS at the year end.

See next page for details of the outcome of our work.



4 Valuation of Land and Buildings

Outcome from audit work

- We assessed the competence, capability, objectivity and independence of the Trust's external valuer and considered the terms of engagement of, and the instructions issued to the valuer for consistency with the requirements of the Department of Health Group Accounting Manual 2019/20;
- In 2019/20, the Trust requested that their valuer provide them with information on whether the value of the estate was likely to have changed during 2019/20 based on available indices. As such, no data was provided to the valuer for us to agree back to records and the valuer used their previous knowledge of the Trust and its land and buildings to provide information on expected changes in values. We tested the data provided to the valuer in 2017/18 when a full revaluation was undertaken. We have confirmed that there have been no material changes to land and buildings since then.
- We assessed and recalculated the impact of the indices used by the valuer on the value of the Trust's land and buildings. We also obtained alternative valuation indices to consider whether there would have been a material change in the value of the Trust's land and buildings had a different method of valuation been used. We did not note any issues as a result of this work.
- We tested material additions which this year related to assets under construction. We were able to agree back the amounts capitalised to invoices from the contractors for the works.
- We confirmed via testing that transactions relating to impairments and revaluations have been appropriately applied in the year end accounts.
- We have gained assurance that management have adequately disclosed key judgements and estimations involved in arriving at the valuation and the related sensitivities.
- At the year end, there was no AHFS and therefore we did not carry out any work in this area. We considered and tested management's assessment whether Fulwood House had met the conditions for it to be treated as an AHFS and we agreed with management's assessment it had not met the conditions to be treated as an AHFS.



5 Fraudulent expenditure recognition (Significant risk that professional standards require us to assess in all cases)

Significant audit risk

The risk

In the public sector, auditors also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period). This may arise due to the audited body manipulating expenditure to meet externally set targets.

As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk of material misstatements due to fraud related to revenue recognition and so the auditor has regard to this when planning and performing audit procedures.

Planned response

Our review of the heightened risk of fraudulent expenditure recognition will focus on non-pay operating expenses. In particular we will complete the following procedures:

- We will test the design and operation of process level controls over expenditure cut off;
- We will inspect invoices and payments for material expenditure, in the periods either side of 31 March 2020, to determine whether expenditure is recognised in the correct accounting period;
- We will consider the completeness and judgements made within the expenditure balance, specifically accrued expenditure;
- We will test samples of expenditure transactions by agreeing a sample of expenditure transactions through to supporting documentation and cash payments; and
- We will assess the outcome of the agreement of balances exercise and compare the values reported to the value of expenditure captured in the financial statements. We will seek explanations for any variances over £300,000, and all balances in dispute.

Outcome from our audit work

- We tested the design and operation of controls over expenditure cut off and found them to be appropriately designed and effectively operating in year.
- Our testing of a sample of transactions around the year end date found no issues and all transactions tested could be agreed back to invoices or other supporting documents which showed they have been accounted for in the correct period.
- We have tested both NHS and non-NHS accruals at year end and confirmed that our sample could be agreed to appropriate evidence to support the completeness of accrual and the judgments made by management.
- We have performed statistical sampling of all material expenditure balances captured by this risk (non-pay operating expenses) and noted no issues as a result of our testing.
- We have reviewed the outcome of the agreement of balances exercise and have corroborated the Trust's position in all cases where there is a variance above £100k (our audit mispostings threshold). There are two variances over £300k (the NAO Group reporting threshold) which have been presented in more detail in Appendix 4.



6 Going Concern

Other area of focus

The risk

The GAM directs that your financial statements will be prepared on a going concern basis unless services are being transferred outside of the public sector or being discontinued.

Risks to your financial position are expressed through disclosure in the financial statements (which need to be complete and balanced) and consideration in our use of resources responsibilities.

Key analysis of your future financial performance is contained in your submissions to NHSI which forecast both current and future years expected financial performance.

Planned response

- We will confirm whether your accounting policies comply with the suggested template content from NHSI, and so reflect the correct basis of the application of going concern.
- We will consider whether the Directors have appropriately identified any uncertainties in their future financial forecasts, and if material, that these are appropriately reflected within the financial statements.
- We will consider whether our opinion needs to be amended to draw attention to any aspects of uncertainty in your future financial forecasts.

We will link the work we perform on this element of our financial statements audit with the work we complete on use of resources where we will challenge and review

Outcome from our audit work

- Our review of the Trust's accounting policies confirmed that the Trust has applied the template NHSI policies and therefore has reflect the correct basis for the application of going concern.
- We have gained assurance than any relevant uncertainties are reflected within the financial statements. We are working on agreeing a form of words with management for inclusion in the basis of preparation section of the financial statements to reflect Covid-19 and its impact on NHS funding processes.
- We are not aware of any uncertainties which would require us to amend our audit opinion in relation to the Trust's going concern status.
- We have not noted any issues as a result of our use of resources work in relation to the assumptions and forecasts used by management to predict future financial performance.

Financial statements audit - mandated risks



Scepticism Challenge

Risk	Why	Finding from the audit
Fraud risk from revenue recognition	Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.	This risk has been considered as part of our NHS and non-NHS Income and Receivables significant risk. See pages 11-12.
Fraudulent expenditure recognition	Practice Note 10 suggests that auditors in the public sector should consider whether there is a fraud risk arising from the recognition of expenditure.	This risk has been considered as part of our Fraudulent Expenditure Recognition significant risk. See p15.
Fraud risk from management override of controls	<p>Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its 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>	Our procedures, including testing of journal entries, accounting estimates and significant transaction outside the normal course of business, no instances of fraud were identified. See p10.

Reconfirming materiality: We can confirm that we have completed all our audit work to the materiality that we proposed at the planning stage of the audit, which was a total materiality of £2m, performance materiality of £1.5m with an audit differences posting threshold of £100k.

Section one

Financial statements audit - other matters



Scepticism Challenge

Annual report

We have read the contents of the Annual Report (including the Accountability Report, Performance Report and AGS) and audited the relevant parts of the Remuneration Report. We have checked compliance with the NHS Foundation Trust Annual Reporting Manual (ARM) issued by NHSI. 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 provides the information necessary for patients, regulators and other stakeholders to assess the Trust's performance, business model and strategy.
- The part of the Remuneration Report that is required to be audited were all found to be materially accurate;
- The AGS is consistent with the financial statements and complies with relevant guidance subject to updates as outlined within section three; and
- The report of the Audit & Risk Committee included in the Annual Report is currently being reviewed by management to ensure that it appropriately addresses matters communicated by us to the Audit & Risk Committee, and meets guidance as set out in the ARM.

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 £49,250 plus VAT (£58,350 plus VAT in 2018/19). Our 2018/19 fee included £9,100 plus VAT for our audit of the Quality Accounts. In 2019/20, we included this same amount in our audit plan to carry out our audit of the Quality Accounts. We have not charged this fee in 2019/20 as NHSI guidance was changed in March 2020 to no longer require us to carry out this work and we had not substantially started our testing for the year.



Value for Money

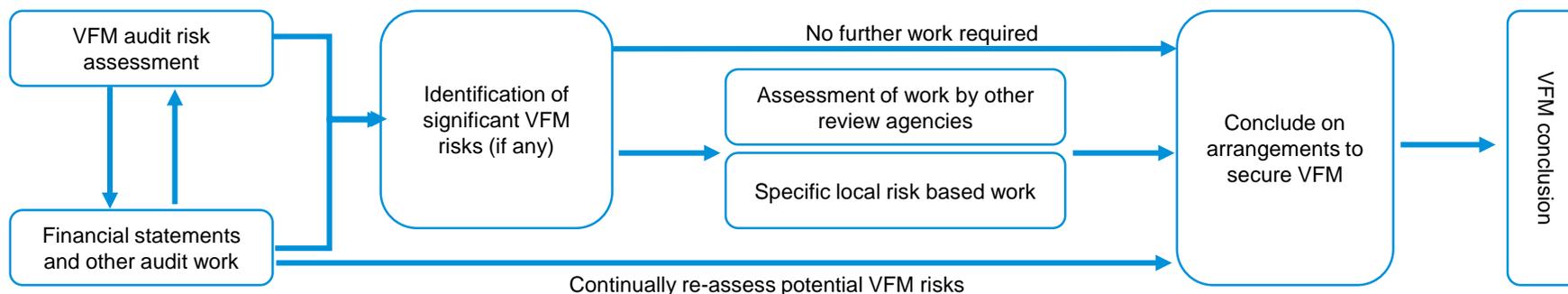
Section two

Value for Money



Scepticism Challenge

For 2019/20 our value for money (VFM) work follows the NAO's guidance. It is risk based and targets audit effort on the areas of greatest audit risk. Our methodology is summarised below. We identified two significant VFM risks which are reported overleaf.



Risk	Why	Finding from the audit
<p>We reviewed the 2019/20 AGS and took into consideration the work of internal audit.</p> <p>We confirm that the AGS reflects our understanding of the Trust's operations and risk management arrangements.</p>	<p>We considered the outcomes of relevant regulatory reviews (NHS Improvement, CQC, etc.) in reaching our conclusion.</p> <p>We reviewed the Trust's latest Single Oversight Framework support level, which as of June 2020 was level 4.</p> <p>We reviewed the latest CQC inspection report dated April 2020 which provided an overall rating of 'Inadequate'</p>	<p>As part of our risk assessment we reviewed various matters, including:</p> <ul style="list-style-type: none"> • core assumptions in the 2019/20 Annual Plan. • recurrent cost improvement schemes are identified and delivered • current operational performance and commissioner relationships / contractual risks. • planned VS actual outturn. • Management's assessment of the Trust's ability to continue as a going concern.



1 Delivery of CIPs

Related BAF risks

A401: The Trust will not continue to be financially sustainable and that plans will not deliver the required financial savings.

Significant UoR risk

The risk

Delivery of Cost Improvement Programmes (CIPs):

NHS Trusts and Foundation Trusts submitted financial plans for 2019/20 that in aggregate forecast a system deficit. So maintaining financial balance, whilst maintaining the quality of healthcare provision, is therefore a key objective for all organisations.

The Trust has a CIP target of £2.8m for 2019/20. As at Month 6, the Trust had plans identified for £1.9m of the required savings with plans in progress for a further £800k of savings. £40k of saving were still unidentified. £1,533k of the overall planned savings are designed to come from non-recurrent staff turnover savings. The Trust is still reporting that it will achieve its overall Financial plan at year end but this is reliant on an £141k improvement in the forecast out-turn.

The sustained financial pressure on the sector means that the Trust must continue to identify and achieve challenging savings goals to continue to meet these targets. At each year end, the risk therefore increases the Trust will not be able to identify the required level of savings to meet further savings targets.

Planned response

Our work will focus on the arrangements in place to deliver recurrent cost improvements. We will also review how the shortfall in the planned CIP is managed by the Trust; and

We will seek evidence that the Trust has in a place a process to identifying further CIP schemes to meet future savings targets, including for the 2020/21 year.

Outcome from audit work:

We have performed testing which showed that the Trust had appropriate arrangements in place throughout the year to manage and monitor its CIP delivery. For 2019/20, the Trust achieved its CIP target of £2.8m (less £25k which remained unidentified at the year end). The Trust has worked throughout the year to identify any additional areas of saving and keep remaining schemes on track in order to deliver 100% of its CIP target at year end. Overall the Trust has achieved a surplus of £3.3m against a planned surplus of £1.2m.

At the 11th March meeting, the Trust Board approved the Draft 20/21 financial plan as it stood at that time. That included the intention to continue to breakeven and sign up to the Financial Improvement Trajectory (FIT), previously referred to as the control total. The Board also approved the approach to CIP target – in line with prior years the target was to achieve savings of 2.4%. This was before financial planning deadlines were postponed due to Covid. In common with prior years, the Trust had started to identify specific savings schemes in March 2020 but this has not been fully completed by the time of our final audit because of Covid.

At the time of reporting, CIP requirements for 2020/21 were still to be agreed nationally as a result of the impact of the Covid-specific funding regime which has been put in place. We will continue to monitor the development of 2020/21 CIP schemes as part of our 2020/21 audit but do not have concerns in relation to our 2019/20 conclusion that would cause us to modify our VFM conclusion as a result of our findings in relation to this significant risk.



2 CQC action plan

Related risk

A101i: Action plans will not produce the required improvements, and the Trust will not continue to be a viable service provider.

Significant UoR risk

The risk

Delivery of CQC improvement action plans:

The latest CQC report raised concerns in relation to safety and leadership, resulting in the Trust being given an overall 'requires improvement' rating.

The Trust is looking at investment required to address the major concerns as well as implementing an overall action plan to respond to the findings of the CQC. The Trust is likely to be re-inspected prior to the date that we sign our audit report. We will consider the impact of any new CQC report published prior to the date of our audit report.

Planned response

We will consider how the Trust is working with key stakeholders to ensure the issues raised by the CQC review are understood, and an action plan has been formulated to address the issue.

In relation to the CQC improvement action plan, our work will focus on the arrangements in place to identify and deliver improvements. We note that there were 13 issues outlined in the CQC report, we will consider your arrangements to address these areas.

We will also review how the action plan is being managed by the Trust.

We will present our findings in our ISA 260 report at the end of the audit and consider the implications for our opinion (subject to the publication of a new CQC report).

Outcome from audit work

The Trust received an overall inadequate rating by CQC in its latest inspection report dated 30 April 2020. The Well-Led domain was rated inadequate as part of this inspection and as a basis of the report, the Chief Inspector of Hospitals has recommended the Trust be placed into special measures.

The inspection report has identified a number of concerns in relation to governance, risk management and workforce management. We are satisfied this provides evidence the Trust did not put in place proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned sustainable outcomes, including working with partners, for the year ended 31 March 2020.



Appendix

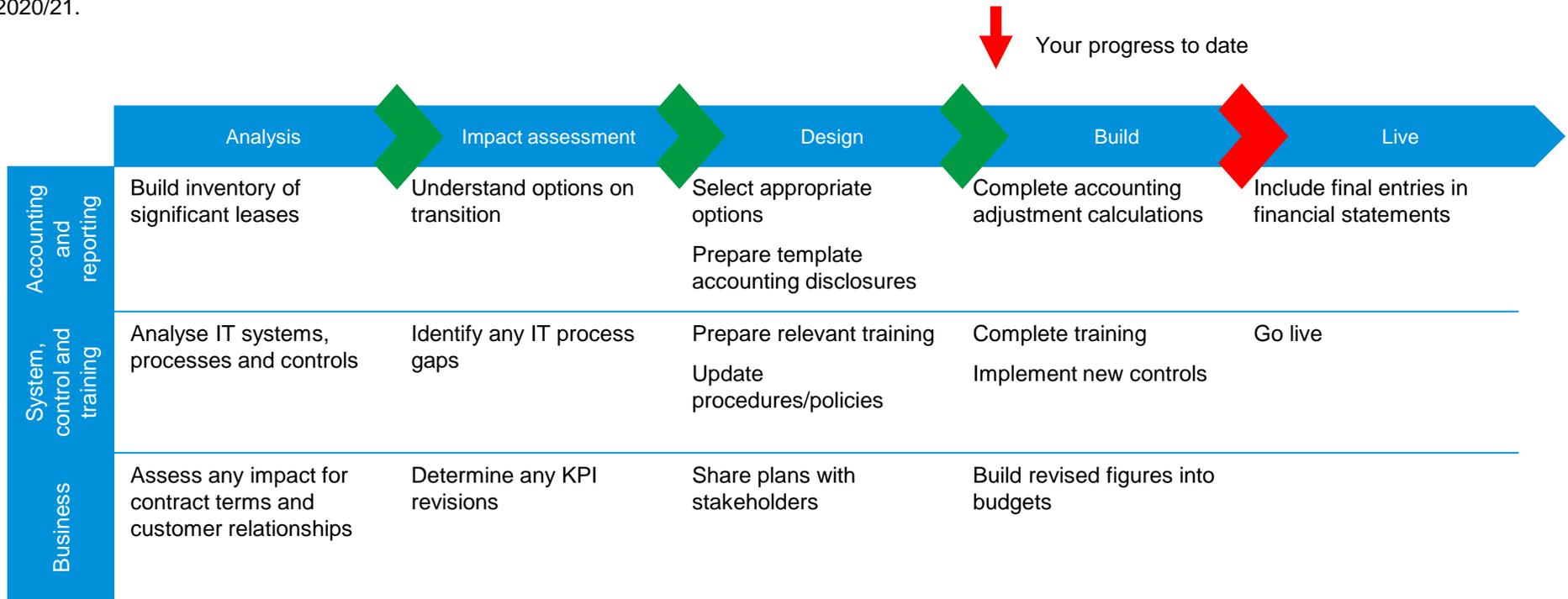
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Readiness for IFRS 16 (Leases)



The implementation of the new lease accounting standards has been deferred to 1 April 2021 with only limited disclosure requirement for 2019/20. For IFRS 16 full analysis is required of expenditure that could constitute an lease (such as operating leases for buildings that were previously not held on the balance sheet). We have outlined below the typical stages a transition programme would go through. Through our work at interim and follow on discussion with management, the Trust has reached the “build” stage of the process prior IFRS16 adoption being deferred for another year in March 2020. We will test this process in detail in 2020/21.



Revision to the Going Concern auditing standard

In September 2019 the FRC published a revised UK auditing standard for Going Concern ISA UK 570. This responds to recent enforcement cases and well-publicised corporate failures where the most recent auditor's report had not included a material uncertainty on going concern. The revised standard is applicable for periods commencing on or after **15 December 2019**, including short periods. We have not early adopted the standard for 31 December 2019 year-ends.

The key changes

The key changes in comparison to the current standard are:

- Enhanced coverage of going concern in the audit report, including:
 - A positive statement from the auditor that the use of the going concern basis is appropriate and the auditor has not identified a material uncertainty on going concern.
- More detailed audit requirements on risk assessment procedures, including on the entity and its environment; the applicable financial reporting framework; and the entity's system of internal control.
- Additional audit procedures when events or conditions are identified which have not been identified or disclosed to the auditors by management.
- Under the new standard detailed substantive procedures will be required in all cases, whereas in the current standard there are reduced requirements if no events or conditions are identified that may cast significant doubt on the entity's ability to continue as a going concern.
- For UK Corporate Governance Code adopters, additional audit procedures on the viability statement, *for NHS Foundation Trust's the principles in the UK Corporate Governance Code are included within the adopted NHS Foundation Trust Code of Governance.*
- Requirement to consider reporting material uncertainties to external regulatory and enforcement authorities.

NHS bodies are directed to prepare accounts on a going concern basis unless otherwise instructed for example unless services are being transferred outside of the public sector or being discontinued. We set out below the key impacts:

Risk assessment procedures and related activities: In addition to work which the auditor previously undertook understanding the entity and its environment, the new standard requires auditors to perform more detailed risk assessment procedures including specific work on the entity's system of internal control and risk assessment processes as they specifically pertain to going concern. This will include greater scrutiny over areas such as cash flow management and borrowing arrangements.

Removal of the gateway to assess whether events or conditions exist: The auditor will perform an evaluation of management's going concern assessment in all cases, not only when events or conditions which may cast significant doubt as to the entity's ability to continue as a going concern have been identified.

Increased challenge due to change in emphasis in the report: The FRC intends that auditors increase their scrutiny of going concern. Whilst much of our detailed work will remain unchanged with continued emphasis to robustly challenge management's assessment of going concern which includes thoroughly testing the adequacy of the supporting evidence, evaluating the risk of management bias. The change in the nature of the report is likely to result in more challenges being raised. This will mean the Trust will need to specifically design, perform and document its own assessment of Going Concern.

Specified procedures on viability reports and potential impact on going concern periods: The viability report is required via adoption of the UK Corporate Governance Code. As the principles of this are adopted by NHS Foundation Trusts through the NHS Foundation Trust Code of Governance these requirements are considered through our work on the Trust's value for money arrangements. This means this part of the standard is not directly applicable to NHS Foundation Trusts.

Recommendations followed up



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

Total number of recommendations	Number of recommendations implemented	Number outstanding (repeated below):
1	0	1

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date	Current Status (June 2020)
Financial Statements				
1	2	<p>2017/18 Audit</p> <p>Documenting Authorisation of New Starters</p> <p>During our audit there were difficulties in evidencing appropriate authorisation for new starters sampled. For three new starters, the manager authorisation was not evidenced with a signature on the summary of selection form. For four new starters the summary of selection form was not available.</p> <p>We recommend that all summary of selection forms are signed as authorised by managers and kept on file.</p>	<p>2017/18 management response: All recruitment activities should have a completed Summary of Selection Form which is signed by the Recruiting Manager. If we receive the Summary of Selection unsigned then Recruitment Officer would email the form back to the Recruiting Manager asking for them to return a signed copy. There is a checklist in each recruitment file which is completed by the Recruitment Officer/HR Assistant.</p> <p>In order to improve the recruitment process for both external and internal recruitments we are currently in the process of producing an electronic Summary of Selection Form. This is currently in the testing phase and will hopefully be implemented by 30 June 2018. Processes that fall outside of the routine process will be documented, to ensure clarity is available in relation to exceptions or unusual recruitment processes. (e.g. bank and Deanery employed medics which were the source of some of the sample testing issues found.) These processes will be developed during quarter 2 for exceptions that remain following the introduction of the electronic form under development and planned for the end of quarter one. This new process is expected to cover bank and thus exceptions should be significantly fewer going forward.</p> <p>Responsible officer: Dean Wilson</p> <p>Implementation date: 30 June 2018</p> <p>Post 2018/19 Audit Revised management response: Electronic summary of selection has been tested, and we await a go live date from IMST. The outstanding 15 cases within the sample are being actively chased.</p> <p>Responsible officer: Dean Wilson</p> <p>Implementation date: 30/09/2019</p>	<p>We selected a sample of 25 new starts in the year as part of our 2019/20 payroll controls testing. For seven out of 25 new starters, we were unable to obtain a Summary Selection form.</p> <p>For the 18 cases where these forms were available, we confirmed that these had been signed as authorised by managers.</p> <p>We therefore consider this recommendation to be outstanding and have reiterated it here.</p> <p>We recommend that all summary of selection forms are signed as authorised by managers and kept on file.</p> <p>Revised management response:</p> <p>Responsible officer:</p> <p>Implementation date:</p>

Audit Differences



Under UK auditing standards (ISA (UK&I) 260) we are required to provide the Audit & Risk 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&I) 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 & Risk Committee, details of all adjustments greater than £100k are shown below:

There are no unadjusted audit differences above £100k.

Under UK auditing standards (ISA UK&I 260) we are required to provide the Audit & Risk Committee with a summary of adjusted audit differences (including disclosures) identified during the course of our audit. There have been no adjusted audit differences as a result of our work.

We have also agreed a small number of presentational changes with management which will be incorporated into the final version of the accounts.

Audit Differences



We are required to report any inconsistencies greater than £300,000 between the signed audited accounts and the consolidation data and details of any unadjusted errors or uncertainties in the data provided for intra-group and intra-government balances and transactions regardless of whether a Trust is a sampled or non-sampled component. We have provided details of the inconsistencies that we are reporting to the NAO as follows:

Counter party	Type of balance/ transaction	Balance as per Trust (£'000)	Balance as per counter party (£'000)	Difference (£'000)	Comments on Difference
Yorkshire and the Humber Specialised Commissioning Hub	Income / Expenditure	£6,021k	£5,209k	£812k	Due to the revised AoB thresholds for 2019/20 the Trust has not been able to obtain further information from the counterparty for the reason for the variance. For the purposes of our audit, we have agreed the Trust's figure per the AoB to the Trust's statement and ledger. Our testing on income has not identified any misstatements in relation to income from this counterparty. We are therefore satisfied for our audit purposes that the Trust does not need to amend its figure.
NHS England	Income / Expenditure	£1,100k	£1,606k	(£506k)	Due to the revised AoB thresholds for 2019/20 the Trust has not been able to obtain further information from the counterparty for the reason for the variance. For the purposes of our audit, we have agreed the Trust's figure per the AoB to the Trust's statement and ledger. Our testing on income has not identified any misstatements in relation to income from this counterparty. We are therefore satisfied for our audit purposes that the Trust does not need to amend its figure.

Audit 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 Director and audit staff is not impaired.

To the Board of Directors/Audit & Risk Committee members

Assessment of our objectivity and independence as auditor of Sheffield Health and Social Care NHS Foundation Trust ('the Trust')

Professional ethical standards require us to provide to you at the conclusion of the audit 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.

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

Summary of fees

We have considered the fees charged by us to the Trust and its affiliates for professional services provided by us during the reporting period. We have detailed the fees charged by us to the company and its related entities for significant professional services provided by us during the reporting period below, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2020 can be analysed as follows:

Component of audit (all fees exclude VAT)

	2019/20	2018/19
Audit services – statutory audit		
Financial Statements Audit	£49,250	£49,250
<i>Sub-total</i>	£49,250	£49,250
Non audit fees		
Quality account opinion	-	£9,100
Total Fee	£49,250	£58,350

Appendix 5

Audit Independence



Confirmation of audit independence

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

This report is intended solely for the information of the **Audit & Risk Committee** of the Trust 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.

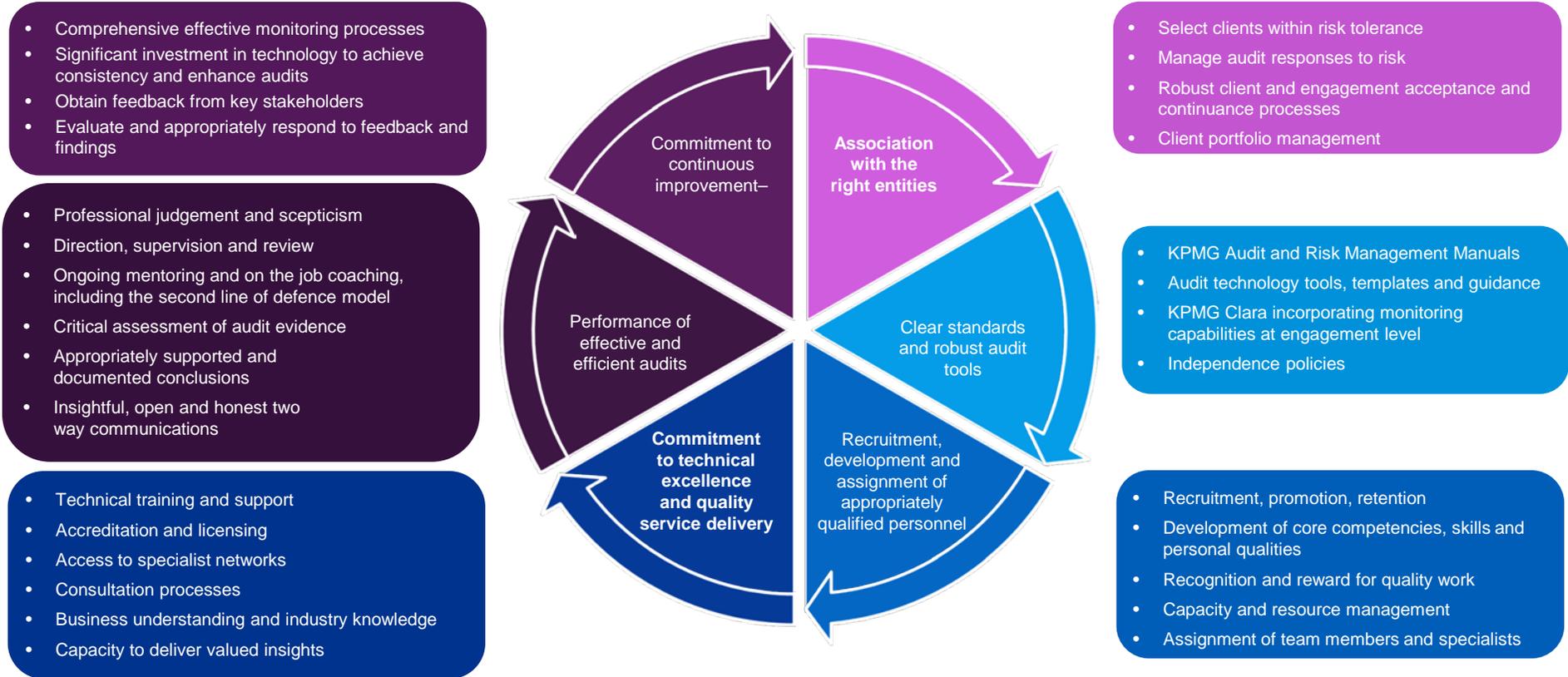
Yours faithfully

KPMG LLP

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.





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