KPMG

Year end report 2020/21

Sheffield Health and Social Care NHS Foundation Trust

June 2021

I confirm that this is the final version of our ISA 260 Audit Memorandum relating to our audit of the 2020/21 financial statements for Sheffield Health and Social Care NHS Foundation Trust. This document was discussed and approved by the Trust's Audit Committee on 09 June 2021.

…………………………………………….

Rashpal Khangura

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

17 June 2021

Our audit opinions and conclusions:	
Financial Statements: unqualified	Use of resources: significant weaknesses identified

Key contacts

Your key contacts in connection with this report are:

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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 9 June 2021 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 2021.

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 in January 2021 and our audit risk assessment update, presented to the Audit & Risk Committee in May 2021. We will be pleased to elaborate on the matters covered in this report when we meet.

Our audit is complete. There have been no significant changes to our audit plan and strategy other than those laid out in the aforementioned audit risk assessment update document. Subject to your approval of the financial statements, we expect to be in a position to sign our audit opinion on 17 June 2021, provided that the outstanding matters noted on page 4 of this report are satisfactorily resolved.

We expect to issue an Auditor's Report on the financial statements and we have identified a significant weaknesses in your arrangements to secure value for money. In addition to this opinion we have prepared our Auditor's Annual Report which contains a narrative summary of our findings to be published on the Trust's website. This is included in the papers for this meeting.

We draw your attention to the important notice on page 4 of this report, which explains:

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

Yours faithfully,

Rashpal Khangura

17 June 2021

How we have delivered audit quality

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

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

– **Executed consistently**, in line with the requirements and intent of **applicable professional standards** within a strong **system of quality controls** and

– All of our related activities are undertaken in an environment of the utmost level of **objectivity**, **independence**, **ethics** and **integrity**.

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

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

Important notice

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

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

This report has been prepared for the Audit & 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'), 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 2021. 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 Committee of the Trust; that it will not be quoted or referred to, in whole or in part, without our prior written consent; and that we accept no responsibility to any third party in relation to it.

Our audit findings

Significant audit risks

Page 8-10

Significant audit risk	Risk change	Our findings
Valuation of land and buildings	Neutral	The results of our testing were satisfactory. We considered the valuation of land and buildings recognised in the accounts to be acceptable.
Fraud risk from expenditure recognition	New risk	The results of our testing were satisfactory. We considered the amount of expenditure recognised to be acceptable
Fraud risk from revenue recognition	Neutral	The results of our testing were satisfactory. We considered the amount of revenue recognised to be acceptable.

Key accounting estimates

Page 14

Valuation of land and buildings	Neutral	Assumptions used in the valuation of land and buildings were found to be balanced.

Value for money

Page 16-18

Under the Code of Audit Practice we are required to report to you if we have identified a significant weakness in the Trust's arrangements to securing economy, efficiency and effectiveness in its use of resources. We have one significant weakness to report in this respect. Our Annual Audit Report contains our public commentary in regard to this work and has been included within the papers for this meeting.

Whole of Government Accounts

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 Department of Health and Social Care.

Materiality

Page 15

We have updated Materiality to £2,600k with performance materiality of £1,950k and misstatement posting threshold of £130k. This has increased since planning.

£2.6m

Uncorrected audit misstatements

Page 27

We have not identified any identified any uncorrected audit misstatements as part of our work to date.

Number of Control deficiencies

Page 25

Significant control deficiencies	0
Other control deficiencies	3
Prior year control deficiencies	1

Other matters

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

COVID-19: Audit implications

The table below identifies the specific areas of our audit that were expected to be affected by the COVID-19 pandemic, and how our audit differs from those prior to the pandemic.

Materiality	– Due to the non-recurrent changes to funding arising from Covid-19, we have not considered it necessary to revise our materiality due to the impact of Covid19, however materiality has been updated since planning to align to the 2019-20 Gross income levels.(see page 15) – The risk that uncorrected and undetected misstatements exist and aggregate to an amount that results in a material misstatement of the financial statements has not changed.
Subsequent events disclosures	– Due to the rapidly evolving situation, determining whether subsequent events should be reflected (adjusting) vs. disclosed (non-adjusting) in the financial statements may require significant judgement, and more subsequent events are likely to be identified. – We have concluded that there at the time of writing no subsequent events have been identified. – Our audit procedures will be adjusted to respond to the increased risks of material misstatement.
Audit effort and audit fees	– We have not charged additional fees due to the challenges of remote working as we consider that the extra costs incurred are offset by efficiencies inherent to home working.
Going concern **See page 11**	– The required enhanced procedures under the revised ISA (UK) 570 on your risk assessment process and fact that we need to perform procedures through to the date of the auditors' report, which is due to be later than in prior years, meant a different approach in this key area. – Practice Note 10 (and the Group Accounting Manual) have been updated during the year to reiterate the continuation of services principal and therefore, despite the ongoing uncertainty of funding, we have concluded that it is appropriate to prepare your financial statements on a going concern basis.

COVID-19: Audit implications (contd.)

Accounting estimates **See page 14**	– The Trust's valuation of land and buildings at 31 March 2020 included a material uncertainty paragraph relating to the uncertainty in measuring values of estates at the year-end due to the lockdown restrictions that had recently been implemented. At the time of the final audit, the Royal Institute of Chartered Surveyors issued a statement detailing the material uncertainty paragraph should have been removed. – There may have been additional indicators of possible impairment of the Trust's fixed assets as a result of Covid-19, for example if capital spend was incurred to provide additional capacity that is not anticipated to be fully utilised going forwards. Similarly, Covid-19 may have meant that the Trust should have reassessed the assumptions made in determining the design of a modern equivalent asset for specialised assets, for example in response to enhanced infection control expectations. We found no issues to note here. – We evaluated the methods, assumptions and data used to derive the estimates for PPE valuation and obtained evidence that they are appropriate in the context of the financial reporting framework and were, when appropriate, based on conditions and events at the measurement date. We considered whether management has appropriately addressed the increased estimation uncertainty when setting the estimate. – We evaluated whether sufficient disclosure had been provided of the sources of estimation uncertainty and how estimates have been set within the Trust's accounting policies.
Obtaining sufficient appropriate audit evidence	– As anticipated, our fieldwork was undertaken remotely for our 2020-21 audit. We applied the lessons learned from the remote delivery of our 2019-20 audit to help ensure that this was delivered as smoothly as possible. As with the 2019-20 audit we needed additional time from management to ensure we were able to collect sufficient and appropriate audit evidence to support our opinion. – There was the possibility of delays where we rely on information received from third parties for the completion of our audit, including confirmations from your banking providers of year end balances and reports from service providers, such as South Yorkshire pension Fund, however these were not an issue for this year end.

Audit risks - significant risks

Cautious Neutral Optimistic

1 Valuation of Land and Buildings

Risk of error relating to misstatement of asset valuations

Significant audit risk

The risk

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 2020 was £42.5m, of which £35m are valued as specialised assets at depreciated replacement cost.

This technique involves assessing all the costs of providing a modern equivalent asset using pricing at the valuation date.

The last full revaluation took place as at 31 March 2018. The Trust need to consider how they demonstrate the valuation will still provide fair value.

The Trust are currently in negotiations over the sale of Fulwood House and also the timing of vacating the property, the decisions taken will impact on the accounting treatment as at 31 March 2021.

Our response

We will perform the following procedures designed to specifically address the significant risk associated with the valuation:

- We will critically assess the independence, objectivity and expertise of any valuers used in developing the valuation of the Trust's properties at 31 March 2020;
- We will inspect 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 will compare 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 are identified;
- We will critically assess the controls in place for management to review the valuation and the appropriateness of assumptions used;
- We will consider the carrying value of the land and buildings; including any material movements from the previous revaluations. We will challenge 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 will perform 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 will agree the calculations performed of the movements in value of land and buildings and verify that these have been accurately accounted for in line with the requirements of the GAM;
- We will assess the decisions taken and legal documents signed in respect of the sale of Fulwood House, alongside the ongoing occupancy agreement to ensure that the substance of the arrangement is reflected in the Financial statements in line with the requirements of the GAM.
- We will critically assess the valuation and classification of any AHFS at the year end; and
- Disclosures: We will consider the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.

Our findings

- Our findings have not identified any significant issues in relation to the valuation of land and buildings.

Audit risks - significant risks

2 **Fraud risk from expenditure recognition**

Fraud risk related to misstatement of expenditure

Significant audit risk

The risk

Due to ongoing Covid19 pandemic the financial regime has changed during 2020/21 with the need to meet an agreed control total being removed from the Trust, however they are now expected as part of the local NHS system to show an overall system break even position.

Each body within the system will be expected to play their part in the system position, and negotiations are continuing to understand the final position for Sheffield Health and Social Care.

We consider this requirement 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 manipulating accruals and prepayments at the end of the year to manipulate the required financial position.

Our response

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

- We will assess the design and operation of process level controls for the purchase ordering of goods and services and the accrual of information at the end of the year based on those that have been receipted;
- We will assess the design of controls for developing manual expenditure accruals at the end of the year to verify that they have been completely and accurately recorded;
- We will inspect invoices for material expenditure, in the period following 31 March 2021, to determine whether expenditure has been recognised in the correct accounting period;
- We will select a sample of year end accruals and inspect evidence of the actual amount paid after year end in order to assess whether the accrual had been accurately recorded.
- Agreement of Balances: We will assess the outcome of the agreement of balances exercise with other NHS organisations and compared the values reported to the value of expenditure captured in the financial statements. We will seek explanations for any variances over £130,000, and all balances in dispute.
- We will also compare the items that were accrued at 31 March 2020 to those accrued at 31 March 2021 in order to assess whether any items of expenditure have been accrued for at the year end require recording and are not omitted.

Our findings

- We found purchase orders with inappropriate approval in our three way match expenditure controls testing. A recommendation has been raised on page 24.
- Our findings have not identified any other significant issues in relation to the recognition of expenditure in the correct accounting period.

Audit risks - significant risks

3 **Fraud risk from revenue recognition**

Fraud risk related to misstatement of revenue (NHS + Non NHS Income and receivables)

Significant audit risk

The risk

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

We recognise that the incentives in the NHS differ significantly to those in the private sector which have driven the requirement to make a rebuttable presumption that this is a significant risk. These incentives in the NHS include the requirement to meet regulatory and financial covenants, rather than broader share based management concerns.

As the Trust is required to play its part in balancing the local system at the end of the year this may create an incentive for revenue to be manipulated in order to achieve budgeted financial performance. We anticipate that this would occur through manipulation of year end income accruals. As much of the Trust's income for 2020-21 has been contracted on a block basis our risk will be focused on the variable elements of income the Trust has received during the year.

Our response

- We will evaluate the design of controls in place for the Trust to engage in the agreement of balances exercise with other NHS providers and commissioners and follow up variances arising from the exercise. We will verify whether they have operated as expected for the Month 9 and Month 12 returns;
- We will evaluate the design of controls and test the operation of contract monitoring.
- Contract agreement: We will agree commissioner income to the agreed block contracts for the second half of the year and select a sample of the largest balances to agree that they have been invoiced in line with the contract agreement and payment has been received. We will agree that the levels of over and underperformance reported are consistent with contract variations;
- Income recognition: We will carry out sample testing of invoices for material income in the period prior to and following 31 March 2021 to determine whether income is recognised in the correct accounting period, in accordance with the amounts billed to the corresponding parties;
- Agreement of Balances: We will assess the outcome of the agreement of balances exercise with CCGs and other NHS providers and confirm the values they are disclosing within their financial statements to the value of income captured in the financial statements. We will seek explanations for any variances over £130,000, and all balances in dispute, and will challenge the Trust's assessment of the level of income they are entitled to and receipts that can be collected;
- Transformation funding: We will agree any additional funding (MRET, PSF and FRF) due at the year end to the confirmation received from NHSI and agree that this was appropriately recorded in the financial statements; and
- Other income: We will test material other income balances by agreeing a sample of income transactions through to supporting documentation and bank balances.
- We will carry out sample testing of year end income accruals in order to assess whether the actual value of income billed and received following 31 March 2021 agree to the amounts accrued.

Our findings

- Our findings have not identified any significant issues in relation to the recognition of revenue in the correct accounting period.

Audit risks - significant risks

4 **Management override of controls**[a]

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

Significant audit risk

The 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 incorporates the risk of management override as a default significant risk. In line with our methodology, we will test the operating effectiveness of controls over journal entries and post closing adjustments.

- We will assess the controls in place for the approval of manual journals posted to the general ledger to ensure that they are appropriate.
- We will analyse all journals through the year using data and analytics and focus our testing on those with a higher risk, such as journals impacting revenue recognition.
- We will assess the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.
- We will review the appropriateness of the accounting for significant transactions that are outside the Trust's normal course of business, or are otherwise unusual.
- We will assess the controls in place for the identification of related party relationships and test the completeness of the related parties identified. We will verify that these have been appropriately disclosed within the financial statements.

Our findings

- We identified 68 journal entries and other adjustments meeting our high-risk criteria – our examination did not identify any inappropriate entries.
- We did not identify any significant unusual transactions.

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

Audit risks - area of audit focus

4 **Going Concern**

Risk relating to disclosures related to going concern including the judgement of whether there is material uncertainty

Other area of audit 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.

Management are also required to assess if there are material uncertainties in respect of events or conditions that cast significant doubt upon the ability to continue meeting the Trust's liabilities.

As at Month 9 the Trust is reporting a £2.1m deficit projection for the year to 31 March 2021. The Trust will need to work through plans to ensure that underlying recurring budget can return to break even which will include both additional income and savings plans. The Trust is carrying sufficient cash to meet current obligations.

(cont on page 13)

Our response

- A review of the overall financial position at the year end as part of our review of the financial statements. We will consider the final outturn compared to the forecast position to assess the cause of any significant variances and the accuracy of management's financial planning in previous periods;
- In line with the requirements of ISA570 introduced for this year we will review management's assessment of the Trust's status as a going concern, the risks that have been identified to this status and any actions planned to be taken in response. We have provided further details of the revised requirements in Appendix One;
- We will assess the need for additional funding to be obtained in order to support the Trust in meeting its working capital obligations;
- 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 critically assess the level of disclosure provided within the basis of preparation accounting policy to consider whether sufficient information has been provided to enable readers to understand the risks and forecast financial performance for the following 12 months.
- (cont on page 13)

Audit risks - area of audit focus

4 **Going Concern**

Risk relating to disclosures related to going concern including the judgement of whether there is material uncertainty

Other area of audit focus

The risk.(cont)

Risks to your financial position are expressed through disclosure in the financial statements (which need to be complete and balanced) and consideration in our value for money 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.

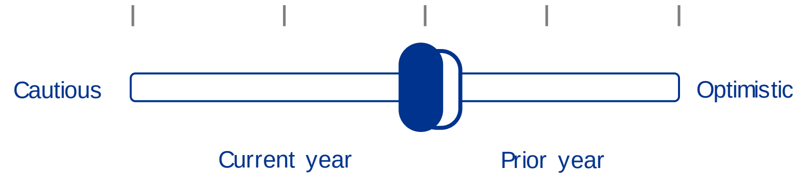
Our findings

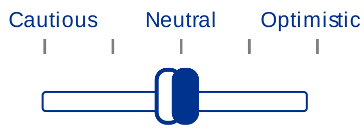
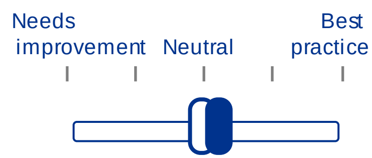
- We considered that management's assessment of its going concern included the required analysis to assess whether the going concern assumption was appropriate
- We identified that the content of the Trust's strategic plan is consistent with the application of the continuation of services principal.
- The use of the going concern assumption was appropriate in the preparation and presentation of the financial statements.
- The related disclosures in the financial statements were adequate.

Key accounting estimates - 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
Valuation of land and buildings		52	9.5		The Trust has used the services of a professionally qualified valuation expert to complete a desktop valuation of its land and buildings as at 31 March 2021. The valuation has been carried out in line with the DHSC Group Accounting Manual (GAM). The valuation is an estimate and involves various assumptions. We reviewed the assumptions used by the valuation expert and the valuation report for the year ended 31 March 2021. We compared that with the applicable accounting standards and consistent application of assumptions in relation to the Trust as well as the wider NHS sector. We also obtained assurance in relation to the competency and experience of the valuer to conduct such a valuation. We can confirm that the assumptions used by the valuer are reasonable and appropriate. We can also confirm that the valuer is professionally qualified and has the relevant expertise to carry out such a valuation on Trust's land and buildings as at 31 March 2021. We have not identified any issues to suggest that this judgement is materially misstated. Assumptions were found to be balanced.

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 NHS Group Accounting Manual (GAM) issued by Department of Health and Social Care and Foundation Trust Annual Reporting Manual (the ARM). Based on the work performed:

- We have not identified any inconsistencies between the contents of the Accountability, Performance and Director's Reports and the financial statements.
- We have not identified any material inconsistencies between the knowledge acquired during our audit and the director's statements. As Directors you confirm that you consider that the annual report and accounts taken as a whole are fair, balanced and understandable and provide the information necessary for patients, regulators and other stakeholders to assess the Trust's performance, business model and strategy.
- The 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; and
- The report of the Audit & Risk Committee included in the Annual Report includes the content expected to be disclosed as set out in the GAM and 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.

Materiality

We can confirm that we have completed all our audit work to a materiality of £2,600k with a performance materiality of £1,950k and an audit differences posting threshold of £130k. This has increased from the values proposed at the planning stage of the audit, we have taken the 2019-20 Gross income as the benchmark, this increased the benchmark from the planning stage. We are using the 2019-20 value to minimise the impact of Covid19 on the materiality calculation.

Audit Fees

Our fee for the audit was £78,785 plus VAT (£49,250 in 2019/20). We have not completed any non-audit work at the Trust during the year.

Value for money

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

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

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.

Commentary on arrangements

In addition to this report we have prepared our Auditor's Annual Report which contains a narrative summary of our findings to be published on the Trust's website. This is included in the papers for this meeting.

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. We have no recommendations to report.

Summary of findings

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

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

We identified a significant risk relating that the Trust does not have sufficient arrangements in place to ensure governance and Improving economy, efficiency and effectiveness. The significant risk related to the failure to implement or achieve progress on recommendations raised by CQC to the degree that statutory/regularity requirements are not met for the year 2020/21. We have set out on the following page the work performed in response to this risk and a summary of our findings.

Value for money - risk of significant weakness in arrangements

Domain – Governance & Improving economy, efficiency and effectiveness	
Description of risk	**Our response**
We identified a significant risk relating that the Trust does not have sufficient arrangements in place to ensure governances and Improving economy, efficiency and effectiveness. The significant risk is that there has been failure to implement or achieve progress on recommendations raised by CQC to the degree that statutory/regularity requirements are not met for the year 2020/21.	• Understand the FT's response to the weaknesses identified; • Test the design of the response including whether by design it addresses the issues raised; and • Consider whether the FT have assurance over the effectiveness of the arrangements in place. • Conclude on whether there is a significant weakness. **Our findings** **Significant weakness** In April 2020 the Trust received an overall inadequate rating by CQC. The Well-Led domain was rated inadequate as part of this inspection and as a basis of the report, the Chief inspector of Hospitals recommended that the Trust be placed into special measures. The CQC issued one warning notice and eight requirement notices to the Trust. The action related to 47 breaches of legal requirements in five core services and in relation to the overall governance of the Trust. At the time writing this report Trust has not been re-inspected by CQC. In response to these issues, the Trust took a series of actions including developing a Well Led Development Plan and Back to Good Programme to address the issues. Each of the actions plans has been regularly reviewed by the Trust's Board and Back to Good Board to ensure appropriate oversight of the progress and issues identified. We note that by reference to the Trust's Back to Good Programme and Well Led Development Plan that progress has been made on actions on both areas however a number of actions remain outstanding and/or still to be quality assured and not embedded into the Trust's arrangements. While it is clear that progress has been made there are significant weaknesses that existed in the Trust's arrangements that have persisted into 2020/21 and we note that as a result of this the Trust will be unable to confirm compliance with its Provider Licence conditions relating to governance and systems for compliance for the year 2020/21. Consequently our judgement is that during the course of the 2020/21, the Trust had significant weaknesses in its governance arrangements for overseeing the achievement for value for money and significant weaknesses in its arrangements for improving economy, efficiency and effectiveness in respect of ensuring statutory and regularity requirements were met.

Value for money - risk of significant weakness in arrangements

Domain - Governance & Improving economy, efficiency and effectiveness	
Description of risk	**Our findings**
	Recommendation: The Trust needs to continue to ensure: - the significant outstanding issues raised by the CQC are addressed; and - progress is monitored and scrutinised by the appropriate project groups and the Trust's Board to ensure the actions taken to address the issues raised are effective. Management responses: The Back to Good programme has overseen delivery of significant improvements during 2020/21 and will continue to do so during 2021/22. The programme board has undertaken a learning exercise to ensure it is best placed to build on what we learned last year to best support this. This has received oversight from Quality Committee, Board and the Council of Governors. In the context of the Covid pandemic, as well as essential changes in leadership as we sought to address wider cultural organisational issues, any improvement plan was bound to be challenging but we risk assessed any areas where slippage was anticipated and this was closely monitored through the Back to Good Board. Immediate concerns raised by the CQC have prompted the development of an action plan to address new 'must do' activity in relation to Firshill Rise specifically by the end of September. More broadly, any new actions arising from the most recent CQC programme will be absorbed into the Back to Good programme to monitor delivery as we saw in 2020/21. Key areas of progress in 2020/21 were in relation to our governance systems. An action plan for delivery of further embedding of risk arrangements has been set out and reported to Board. It will be monitored by Audit and Risk Committee. Further internal audits have been programmed to assist the monitoring of the embedding that is required for delivery. Progress against delivery is now better enabled through the refreshed governance structure we have put in place during 2020/21. **Responsible for Back to Good programme oversight:** Dr Mike Hunter, Executive Medical Director **Responsible for Well-Led Development Plan:** David Walsh, Director of Corporate Governance **Due date:** As there are interdependencies between actions these will be programmed into completion as part of Back to Good 2021/22 by the end of March 2022.

Appendix

Contents

Revision to the Going Concern auditing standard

The revision of International Standard on Auditing (ISA) 570 relating to going concern applies for audits of the year ending 31 March 2021 and subsequent years. The revised standard introduces a requirement for all entities to complete a formal assessment of their status as a going concern and recommends that this is presented to the entity's Audit & Risk Committee.

Going concern is a fundamental concept to the preparation of the accounts for all entities, however it is interpreted separately in the public sector. While the risk associated with going concern is lower for NHS providers and commissioners care should be taken to ensure appropriate consideration is given to assessing whether there is a risk that the going concern status might not be appropriate.

Practice Note 10

The expectations for content to be included within a going concern assessment are set out in Audit Practice Note 10, which provides guidance for completing audits in the public sector in the UK. This sets out that a risk assessment for an entity in the public sector must at a minimum consider the following factors:

- What are the requirements of the reporting framework with regards to going concern; and
- Complete a risk assessment to consider whether there are any factors that would call into doubt the going concern status.

Requirements of the reporting framework

The definition of going concern is set out in the Financial Reporting Manual published by HM Treasury and supported by the DHSC Group Accounting Manual. These set out that:

"*For non-trading entities, the anticipated continuation of the provision of a service in the future, as evidenced by inclusion of financial provision for that service in published documents, is normally sufficient evidence of going concern.*"

HM Treasury Financial Reporting Manual

The above therefore means that the assurance over the continued provision of services comes primarily from the publication of documents that set out that the services the organisation provides will continue to be provided. This means even if it is expected that the organisation will merge it is still considered to be a going concern.

In forming the going concern assessment providers and CCGs are required to consider whether there is a documented expectation for the services they provide to continue. This can consider factors such as:

- The requirement for health services to be provided is set out in legislation, such as the Health Act and Health and Social Care Act.
- The presence of published allocations, such as resource limits for CCGs, that confirm they will continue to receive funding.
- The presence of strategies, such as ICS long term plans, that plan for the continued provision of the services provided by the entity.

Revision to the Going Concern auditing standard

Risk assessment

The assessment of going concern should consider whether any risks have been identified that may mean the going concern assumption is not appropriate. As the key sources of assurance that services will provide are based on legislation and published strategies this should focus on whether there are any factors published that could lead to the services provided ending.

This assessment should consider the impact of the white paper that is currently being consulted on, particularly for the establishment of integrated care systems as legal entities.

Assessing financial performance

While the focus of the going concern assessment does not need to be on financial performance it is important that there is an understanding of the expected future financial performance, particularly if it is expected there may be deficits or gaps in funding available.

While deficits or gaps in funding may not lead to a modification of the going concern status they may still require disclosure within the going concern accounting policy so that users of the accounts can understand why the accounts are prepared on a going concern basis.

Demising entities

Where a CCG or provider is due to demise, for example due to merger with another entity, then they are still considered to be a going concern. The risk assessment will need to give the same consideration as set out above for the new merged entity to confirm that it is appropriate for it to be considered a going concern.

Conclusion

Following our consideration of the above we have concluded that management's decision, based on the continuation of services principle, to prepare the financial statements on a going concern basis is a reasonable one.

Changes to our audit reports as a result of ISA (UK) changes

Going concern

Our conclusion on going concern has been updated to provide a positive confirmation that we have not identified any factors that would cause us to consider there is a material uncertainty over the Trust's status as a going concern.

Irregularities and fraud

In all audit reports, we are now required to **explain to what extent the audit was considered capable of detecting irregularities, including fraud.**

This is tailored to each audit. We include a summary of what risks we identified relating to fraud and what procedures we have performed in response to these.

Laws and Regulations

For audits of financial periods commencing on or after 15 December 2019, auditors are required to explain in the auditor's report to what extent the audit was considered capable of detecting irregularities, including fraud.

This was already a requirement for auditors of public interest entities (PIEs) in ISA (UK) 700 (Revised June 2016).

We also set out as part of the report the laws and regulations that we have identified that have a direct impact on the preparation of the Trust's accounts.

Appendix Three

Required communications with the Audit & Risk Committee

Type		Response
Our draft management representation letter	OK	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 2021.
Adjusted audit differences	OK	There were no adjusted audit differences identified..
Unadjusted audit differences	OK	There we no unadjusted audit differences identified.
Related parties	OK	There were no significant matters that arose during the audit in connection with the entity's related parties. We have identified a control recommendation in relation to this area. Please see page 26 for further details.
Other matters warranting attention by the Audit & Risk Committee	OK	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	OK	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. Please see page 26 for further details.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	OK	No actual or suspected fraud involving organisational management, employees with significant roles in organisational internal control, or where fraud results in a material misstatement in the financial statements was identified during the audit.
Make a referral to the regulator	OK	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	OK	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.

Required communications with the Audit Committee

Type	Response
Significant difficulties (OK)	No significant difficulties were encountered during the audit.
Modifications to auditor's report (OK)	None. We have complied with the new requirements of AGN07 which removes the need for Foundation Trusts to have audit findings reported via a long for audit report.
Disagreements with management or scope limitations (OK)	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information (OK)	No material inconsistencies were identified related to other information in the annual report, Strategic and Directors' reports. The Annual report is fair, balanced and comprehensive, and complies with the revised guidance issued during March 2021.
Breaches of independence (OK)	No matters to report. The engagement team have complied with relevant ethical requirements regarding independence.
Accounting practices (OK)	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 (OK)	There were no significant matters arising from the audit requiring to be discussed, or subject to correspondence, with management.
Certify the audit as complete (OK)	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.
Standard representations requested (OK)	We have requested the standard letter of management representation.

Appendix Four

Recommendations raised and followed up

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

Priority rating for recommendations					
❶	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.	❷	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.	❸	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
Financial Statements			
1	❶	**Purchase order authorisation** Through our expenditure three way match controls testing we found 5 samples out of our total sample of 40, whereby inappropriate approval was given for the purchase order/requisitions as the amount was above the approvers authorisation levels. The correct process of gaining appropriate approval was therefore not followed. We recommend that the Trust looks into this control failure and implements processes to ensure that appropriate approval takes place.	**Management Response:** This finding was disappointing but is considered linked to two slightly separate issues. These breaches are considered exceptional and impacted by some of the transition during Covid and home working. The actions have already been implemented and thus this issue should not re-occur. Authorised Database Procurement staff are now working off the correct live Authorised Signature Database. There was an IMST access issue impacted by home working during Covid, which meant they were looking at a static version of the source data and this has been resolved already. Appropriate Authorisation It is also our belief, a number of these high value requisitions (3/5 breaches) had been appropriately signed by the DDOF (as Procurement staff are aware of the long standing processes for Out of Area approvals). However, the correct post authorisation signed versions of the requisitions were not appropriate scanned into the system (potential impacted by Covid and home working) and couldn't be located or evidence to KPMG. This omission has been raised and addressed with the team. All temporary agency and bank staff have also been reminded of the current policy and procedures. Finance are also issuing all new ASD forms with the approval limits pre populated so manager don't try to create ad hoc thresholds not consistent and aligned to our Scheme of Delegation. **Accountable Officer:** Head of Procurement with input and support from the Head of Financial Accounts. **Due Date:** Actions considered complete June 2021.

Appendix Four

Recommendations raised and followed up

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

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
Financial Statements			
2	❸	**Valuation of land and buildings – enhancement of controls** Auditing standards require Auditors to identify a management control where there is a significant audit risk. In the case of the valuation of land and buildings risk we have not been able to identify a management control. We recommend that should Management wish to meet this requirement they will need to carry out a predictive review of the methodology and assumptions that are being proposed to calculate the valuation of land and buildings held by the Trust.	**Management Response:** We will review the detail of the findings in more detail with KPMG and agree any action to be taken internally via Audit Committee before the end of September. On first review, we understand and appreciate the need for this to be flagged as a potential risks and weakness linked to new audit standards and requirements. Nothing has changed from a Trust perspective with regards to our use of valuers and valuation approach and processes. Without paying for a secondary valuation to independently check the work of the first, we are not sure how we could address the perceived risk. We are flagging this might be a long term risk (or non-best practise) that remains on the ISO 260 report going forward, as there is currently no planned actions but ARC members will need to review and understand this further before agreeing this is an appropriate response. Longer term, if KPMG have views or intel from any other clients with regards to how this could be addressed, we will clearly listen and explore options. **Accountable Officer:** Head of Financial Accounts. **Due Date:** Prior to the end of September 2021.

Recommendations raised and followed up

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

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
Financial Statements			
3	❸	**Accruals – enhancement of controls** Auditing standards require Auditors to identify a management control where there is a significant audit risk. In the case of the accruals process we have not been able to identify a management control. We recommend that should Management wish to meet this requirement they will need to implement controls for developing manual expenditure accruals at the end of the year to verify that they have been completely and accurately recorded.	**Management Response:** This is an issue we have debated with Internal audit previously. Under some duress and ahead of our neighbouring Trusts, we have implemented and moved to a fully electronic authorisation process re journals and this offers an enhanced level of control and is audited within the system. Journal can't be posted prior to authorisation or approved retrospectively like in the previous paper process. We consider this to be already be at an enhanced level and appropriate control level. All journals sit pending until reviewed and authorised by an appropriate authoriser and higher level employee. These authorisation groups have been set at a level we are comfortable with as a Trust whilst recognising the difficulties in only having small teams and various levels. We also have to ensure the system is flexible enough to ensure leave or unplanned absence doesn't restrict our ability to progress and complete the required actions to time. Whilst we could always do more, given resources and risk, we are not currently planning much further in terms of specific actions. The detailed findings though will be reviewed and an appropriate action taken via ARC for approval. **Accountable Officer:** Head of Management Accounts. **Due Date:** Prior to the end of September 2021.

Appendix Four

Recommendations raised and 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 2021)
Financial Statements				
1	2	**2017/18 Audit** **Documenting Authorisation of New Starters** 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. We recommend that all summary of selection forms are signed as authorised by managers and kept on file.	**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. 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. **Responsible officer**: Dean Wilson **Implementation date**: 30 June 2018 **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. **Responsible officer**: Dean Wilson **Implementation date**: 30/09/2019 **Following our 2019/20 audit we considered this recommendation to be outstanding.**	We selected a sample of 25 new starters in the year as part of our 2020/21 payroll controls testing. For six out of 25 new starters, we were unable to obtain a Summary Selection form. We therefore consider this recommendation to be outstanding and have reiterated it here. We recommend that all summary of selection forms are signed as authorised by managers and kept on file. **Management response:** TBC

Appendix Five

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 (both adjusted and unadjusted) greater than £130K are shown below.

Unadjusted Audit Differences

We have not identified any unadjusted audit differences as part of our work.

Adjusted Audit Differences

We have not identified any adjusted audit differences as part of our work.

Adjusted Presentational Differences

We have agreed a small number of presentational changes with management which will be incorporated into the final version of the accounts, including splitting out surplus land and depreciation eliminated on revaluation within the fixed assets note, amendment to the capital commitments note, honorary posts being excluded from staff numbers, one salary banding in the remuneration report and two organisations with transactions to include in the disclosure for related parties.

Unadjusted Presentational Differences

We have not identified any unadjusted presentational differences as part of our work.

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 Director and audit staff is not impaired.

To the Audit Committee members

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

Professional ethical standards require us to provide to you at the planning stage 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 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

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

	2020/21	2019/20
	£'000	£'000
Audit of Trust	78.8	49.3
Total audit	**78.8**	**49.3**
Audit related assurance services	0	0
All other non-audit services	0	0
Total non-audit services	**0**	**0**
Total Fees	**78.8**	**49.3**

Fee ratio

There are no non-audit fees charged in the year. We do not consider that the total audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

Appendix Six

Confirmation of Independence

Application of the FRC Ethical Standard 2019

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

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

Confirmation of audit independence

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

This report is intended solely for the information of the Audit & Risk 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

KPMG | 150 years supporting the UK