

SHEFFIELD TEACHING HOSPITALS NHS FOUNDATION TRUST

EXECUTIVE SUMMARY

REPORT TO THE COUNCIL OF GOVERNORS

HELD ON 30TH JUNE 2020

Subject	External Auditor's Report to the Council of Governors on the 2019/20 Financial Statements
Supporting TEG Member	Neil Priestley
Author	Mark Dalton, Mazars LLP
Status¹	N

PURPOSE OF THE REPORT

To report the External Auditor's opinion and conclusions regarding the audit of the 2019/20 Financial Statements.

KEY POINTS

1. The External Auditor's opinion is that the financial statements give a true and fair view of the financial position of the Trust as at 31 March 2020 and of the Trust's income and expenditure for the year then ended.
2. The External Auditor's opinion is that financial statements have been properly prepared.
3. There are no other issues which the External Auditor needs to report on.

IMPLICATIONS²

AIM OF THE STHFT CORPORATE STRATEGY 2017-2020		TICK AS APPROPRIATE
1	Deliver the Best Clinical Outcomes	
2	Provide Patient Centred Services	
3	Employ Caring and Cared for Staff	
4	Spend Public Money Wisely	√
5	Deliver Excellent Research, Education & Innovation	

RECOMMENDATIONS

The Council of Governors is asked to note the satisfactory External Auditor report on the 2019/20 Financial Statements.

APPROVAL PROCESS

Meeting	Date	Approved Y/N

¹ Status: A = Approval
D = Debate
N = Note

² Against the five aims of the STHFT Corporate Strategy 2017-2020



Annual Audit Letter

Sheffield Teaching Hospitals NHS Foundation
Trust

Year ending 31 March 2020



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Reports and letters prepared by the auditor and addressed to the Sheffield Teaching Hospitals NHS Foundation Trust are prepared for the sole use of the Sheffield Teaching Hospitals NHS Foundation Trust and we take no responsibility to any member or officer in their individual capacity or to any third party.

1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Sheffield Teaching Hospitals NHS Foundation Trust (the Trust) for the year ended 31 March 2020. Although this letter is addressed to the Trust, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the NHS Act 2006 (the 2006 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	Our auditor's report issued on 16 June 2020 included our opinion that: <ul style="list-style-type: none">the financial statements give a true and fair view of the Trust's financial position as at 31 March 2020 and of its financial performance for the year then ended.
Value for Money conclusion	Our auditor's report stated that we had no matters to report in respect of the Trust's arrangements to secure economy, efficiency and effectiveness in its use of resources.
Reporting to the group auditor	In line with group audit instructions issued by the NAO, on 16 June 2020 we reported that the Trust's consolidation schedules were consistent with the audited financial statements.
Statutory reporting	Our auditor's report confirmed that we did not use our powers under schedule 10 of the 2006 Act to issue a report in the public interest.

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

Unqualified

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Trust and whether they give a true and fair view of the Trust's financial position as at 31 March 2020 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Trust's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, issued to the Trust on 16 June 2020, stated that, in our view, the financial statements give a true and fair view of the Trust's financial position as at 31 March 2020 and of its financial performance for the year then ended.

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2020:

Financial statement materiality	Our financial statement materiality is based on circa 1.8% of gross operating expenditure.	£20m
Trivial threshold	Our trivial threshold is set in accord with the National Audit Office's reporting requirement.	£0.3m
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts: - Related Party Transactions - Officer Remuneration	£50k £5k

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2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks and key audit matters

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Trust's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report.

Key audit matters are defined as those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

The table below outlines the identified significant risks and key audit matters, the work we carried out on these, and our conclusions.

Identified significant risk	Key audit matter?	Our response	Our findings and conclusions
<p>Management override of controls</p> <p>In all entities, management at various levels within an organisation are 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. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>	No	<p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> Accounting estimates impacting on amounts included in the financial statements; Consideration of identified significant transactions outside the normal course of business; and Journals recorded in the general ledger and other adjustments made in preparation of the financial statements. 	<p>Our work has provided the assurance we sought in each of these areas and has not highlighted any material issues to bring to your attention.</p>
<p>Land and building valuations</p> <p>Note 9 to the financial statements discloses information on the Trust's holding of property, plant and equipment (PPE) which includes £313m of land and buildings held at current value at 31 March 2020. Land and buildings are the Trust's highest value assets accounting for £313m of the Trust's £390m PPE balance. These assets are subject to periodic revaluation in line with the requirements of the Group Accounting Manual (GAM). Note 1.11 to the financial statements describes the Trust's accounting policy with respect to the valuation of land and buildings and note 9 discloses further information on the balance. Management engages Cushman and Wakefield as an expert to assist in determining the current value of land and buildings to be included in the financial statements. Such valuations are subject to a significant degree of estimation and judgement.</p> <p>(continued overleaf)</p>	Yes	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> assessing the scope and terms of engagement with Cushman and Wakefield; assessing how management use Cushman and Wakefield's report to value land and buildings in the financial statements; reviewing the valuation methodology used, including testing the underlying data and assumptions; assessing the competence, skills and objectivity of Cushman and Wakefield; and considering the reasonableness of the valuation by comparing the valuation output with market intelligence and challenging the Trust and the valuer where required; and assessing the effect of the valuation uncertainty disclosed by the Trust's valuer and the adequacy of disclosure in Note 9.7 of the financial statements. 	<p>Our work has provided the assurance we sought in these areas and has not highlighted any material issues to bring to your attention.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

Identified significant risk	Key audit matter?	Our response	Our findings and conclusions
<p>Land and building valuations (continued)</p> <p>Changes in the value of land and buildings may impact on the Statement of Comprehensive Income depending on the circumstances and the specific accounting requirements of the Group Accounting Manual.</p> <p>The significant risk of material misstatement is further increased due to the additional estimation uncertainty arising from the Covid-19 pandemic and Note 9.7 of the Trust's financial statements discloses a 'material valuation uncertainty' in relation to this uncertainty.</p>	Yes	(see previous page)	(see previous page)
<p>Revenue recognition</p> <p>The Trust recognised £1,197m of revenue from activities in the Statement of Comprehensive Income. The Trust's primary source of revenue is through contracts with commissioning bodies in respect of the provision of acute and community healthcare services. Notes 3.1 and 3.4 provide further information on the nature and source of the Trust's revenue. Auditing standards include a rebuttable presumption that there is a significant risk in relation to the timing of income recognition, and in relation to judgements made by management as to when income has been earned.</p> <p>The pressure to manage income to deliver forecast performance in a challenging financial environment increases the risk of fraudulent financial reporting leading to material misstatement and means we are unable to rebut the presumption.</p> <p>We consider specific risks in relation to income recognition to be in the following areas:</p> <ul style="list-style-type: none"> recognition of income and receivables around the year end; and recognition of Provider Sustainability Fund (PSF) income during the year. <p>(continued overleaf)</p>	Yes	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> evaluating the design and implementation of controls in place to mitigate the risk of income being recognised in the wrong year; testing of a sample of income and year end receivables for accuracy and occurrence; testing a sample of receipts in the pre and post year end period to ensure they have been recognised in the correct financial year; reviewing intra-NHS reconciliations and data matches provided by the DHSC and challenging management and seeking direct confirmation from third parties as required; testing of PSF income to year end confirmation from NHS Improvement ; and testing a sample of expenditure items for which the Trust has recognised additional funding from the DHSC to obtain assurance that these were correctly recorded as Covid-19-related expenditure items. 	Our work has provided the assurance we sought in these areas and has not highlighted any material issues to bring to your attention.

2. AUDIT OF THE FINANCIAL STATEMENTS

Identified significant risk	Key audit matter?	Our response	Our findings and conclusions
<p>Revenue recognition (continued)</p> <p>Furthermore, the Trust recognised additional income of circa £2m from the Department of Health and Social Care (DHSC), to fund the Trust’s expenditure incurred to respond to the Covid-19 pandemic in 2019/20. We consider there to be a further specific risk in relation to this funding because of the incentive and opportunity to claim for the reimbursement of expenditure that is not Covid-19-related.</p>	Yes	(see previous page)	(see previous page)

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls.

We identified one low risk deficiency in internal control as part of our audit - relating to journal authorisation. Management has highlighted a number of compensating controls to mitigate the associated risks and agreed to seek to address the recommendation when practicable. We are content with Management’s response.



3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion

Unqualified

Our approach to Value for Money

We are required to consider whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider. We are only required to report if we conclude that the Trust has not made proper arrangements.

The overall criterion is that, 'in all significant respects, the Trust had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Our auditor's report, issued to the Trust on 16 June 2020, confirmed that we had no matters to report in respect of the Trust's arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2020.

Sub-criteria	Commentary	Matters to report
Informed decision making	Our work has identified the Trust's arrangements include: <ul style="list-style-type: none"> • established strategic and operational plans; • integrated performance, risk and assurance reporting; • an established governance structure and systems of internal control; and • a risk management policy and arrangements for risk identification, validation, mitigation, monitoring and reporting. 	None
Sustainable resource deployment	Our work has identified the Trust's arrangements include: <ul style="list-style-type: none"> • budget setting, monitoring and reporting; • productivity and efficiency plans; • medium term financial modelling linked to service plans. 	None
Working with partners and other third parties	Our work has identified the Trust's arrangements include: <ul style="list-style-type: none"> • strong engagement in the South Yorkshire and Bassetlaw Integrated Care System and the Sheffield Accountable Care Partnership; • active membership of the Acute Federation to secure shared improvements to patient care and efficiency across the South Yorkshire and Bassetlaw; and • significant research partnerships and working with many public, private and community partners, to take forward the vision for the Sheffield City region. 	None

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3. VALUE FOR MONEY CONCLUSION

Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Trust being inadequate. In our Audit Strategy Memorandum, we reported that we had identified one significant Value for Money risk. The work we carried out in relation to significant risks is outlined below.

Risk	Work undertaken	Conclusion
<p>Achievement of planned control total / cost improvement plans</p> <p>For 2019/20 the Trust agreed a control total surplus of £0.5m with NHS Improvement. As in previous years, the achievement of the planned financial performance was dependent on delivering significant CIPs. In addition the Trust needed to achieve agreed trajectories for operational performance to access the Provider Sustainability Fund (PSF).</p> <p>As at Month 7 the Trust was reporting under delivery against some CIPs and a year to date deficit of £2.9m against plan.</p> <p>While the Trust was highly focused on improving its financial performance there remained a risk that the Trust's arrangements were insufficient to achieve its financial plans for 2019/20 and the medium term.</p>	<p>To evaluate the Trust's arrangements for securing value for money in its use of resources we:</p> <ul style="list-style-type: none"> reviewed the arrangements for delivering recurrent cost improvement schemes; selected a sample of directorates to test the robustness of their efficiency plans for 2019/20 including seeking to identify the reasons for under and over delivery during the year; and challenged the underlying assumptions and rationale supporting the Trust's 2020/21 financial plan. 	<p>Despite facing significant financial challenges during 2019/20, the Trust managed its resources to achieve a surplus against its control total for the year of £4.5m (once technical adjustments are taken into account). This is a £4.2m improvement on the Trust's financial plan. The Trust received funding of £13.9m in 2019/20 from the National Provider Sustainability Fund (in part in recognition of the Trust's successful achievement of its Control Total set by NHS Improvement).</p> <p>The Trust planned to achieve recurrent efficiency savings of £20.6m in 2019/20 and achieved £25.6m (124%) including some non-recurrent gains. This is against the background of significant service and demand pressures which materialised as increased patient activity levels in the year. Our sample testing of directorates found that whilst most delivered their budgets / CIPs, these demand pressures impacted some directorates ability to deliver their budgets/CIPs as planned.</p> <p>The Trust's agency spend, at £11.2m, was just below its agency spending cap of £11.3m as set by NHS Improvement.</p> <p>Revised NHS financial arrangements are being put in place to cope with the consequences of Covid-19, but these are still evolving. The Trust's 2020/21 Financial Plan therefore still includes a number of assumptions, estimates and risks. However, this is a position faced by all trusts and the Trust has put an interim financial plan in place to enable the monitoring of financial performance. The overall objective of the Trust's evolving 2020/21 Financial Plan is to achieve financial balance and discipline whilst supporting efforts to manage the Covid-19 outbreak and, ultimately, the restarting and maximising of non Covid-19 services.</p> <p>If and when revised 2020/21 financial trajectories are agreed, the Trust may need to deliver further productivity and efficiency gains. The Trust has made good progress in identifying plans to deliver such savings and continues to plan further efficiency savings for 2021/22 and future years through its Making It Better Programme. The Trust recognises the significant risks and challenges in delivering these savings in 2020/21 and beyond.</p> <p>Through this work, whilst we recognise the challenges going forward, we identified no residual risks that affected our ability to form our VFM conclusion.</p>

4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Governance Statement	No matters to report
Consistency of consolidation data with the audited financial statements	Consistent
Other information published alongside the audited financial statements	Consistent

The NAO's Code of Audit Practice and the 2006 Act place wider reporting responsibilities on us, as the Trust's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters which we report by exception

The 2006 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest; and
- make a referral to the regulator where we believe that a decision has led to, or would lead to, unlawful expenditure, or an action has been, or would be unlawful and likely to cause a loss or deficiency.

We have not exercised any of these statutory reporting powers.

We are also required to report if, in our opinion, the governance statement does not comply with the guidance issued by NHS Improvement or is inconsistent with our knowledge and understanding of the Trust. We did not identify any matters to report in this regard.

Reporting to the NAO in respect of consolidation data

The NAO, as group auditor, requires us to report to them whether consolidation data that the Trust has submitted is consistent with the audited financial statements. We have concluded and reported that the consolidation data is consistent with the audited financial statements.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Trust. In our opinion, the information in the Annual Report is consistent with the audited financial statements.

5. OUR FEES

Fees for work as the Trust's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Audit Committee in January 2020.

Having completed our work for the 2019/20 financial year, we can confirm that our final fees are as follows:

Area of work	2019/20 proposed fee	2019/20 final fee
Delivery of audit work under the NAO Code of Audit Practice	£45,130 excluding VAT	TBC*

*Discussion remains in progress regarding potential additional audit fees of £3,000 in relation to additional work undertaken on Property, Plant and Equipment testing against the backdrop of the valuation uncertainty resulting from Covid-19.

Fees for other work

We commenced our assurance work in relation the Trust's Quality Report, however we ceased our work on 20 March 2020 when NHS England and NHS Improvement wrote to all NHS Trusts and Foundation Trusts to outline the next steps on the NHS Response to COVID-19 Financial Arrangements. In this communication, it was made clear that "auditor assurance work on quality accounts/reports should cease for 2019/20".

A fee of £7,870 (excluding VAT) was originally envisaged for our assurance work in relation the Trust's Quality Report. At the end of March 2020 we had completed the planning phase of our work, undertaken early testing of the selected performance indicators and liaised with key officers. We are therefore charging a reduced fee for the work completed of £1,875 (excluding VAT).

6. FORWARD LOOK

Financial outlook

The Trust continues to face significant financial pressures for 2020/21 reflecting the impact of Covid-19 and the continued national drive to re-establish financial control over the NHS provider sector. The current NHS financial regime offers block contract payments for April-July based on the 2019/20 cost base + inflation (no efficiency requirement, but no growth). The arrangements post July are less certain and block contracting arrangements may continue for a period of time. To summarise the Trust faces uncertainty in 2020/21 as a result of the national NHS resourcing arrangements, however there is understood to be a commitment within the system to support all trusts to break even in 2020/21.

At the same time the Trust must cope with national cost pressures and the impact of the rise in the Retail Price Index which determines the annual price uplift on many external contracts.

The Trust has made good progress in putting plans in place to help to meet the uncertainty faced through its 2020/21 Financial Plan and continues to plan efficiency savings for 2020/21 and future years through its Making It Better Programme. The Trust recognises the significant risks and challenges in delivering these savings in 2020/21 and beyond.

Operational challenges

The Trust continues to modernise and develop its services and estate to best meet the needs of patients. This includes

- continuing to address the operational, workforce and financial risks associated with the temporary closure of the Robert Hadfield building;
- pursuing the refreshed corporate strategy 'Making a Difference' to respond to the current and potential future challenges in the health and social care sector as new partnerships, structures and accountability arrangements continue to emerge and become business as usual.

The reduction in central government funding to local authorities in recent years and the impact of Covid-19 creates significant challenges for the provision of robust social care services and can adversely impact on the NHS. The Trust is working hard with social care sector partners to ensure that vulnerable patients can be discharged to appropriate care settings on a timely basis.

How we can work with the Trust

In the coming year we can continue to support the Trust by:

- attending Audit Committee meetings and presenting Audit Progress Report including updates on regional and national developments;
- attending Council of Governors' meetings to present the findings from our work;
- continued liaison with 360 Assurance (the Trust's Internal Auditors) to minimise duplication of work; and
- hosting events for staff, such as our NHS Accounts workshop.

The Trust has taken a positive and constructive approach to our audit and we wish to thank the Board, Audit Committee, and Trust staff for their support and co-operation during our audit in the past year.

We are committed to supporting the Trust as its external auditor. We will meet with the Trust to identify any learning from the 2019/20 audit and will share our insights from across the NHS and relevant knowledge from the wider public and private sector.

CONTACT

Mark Dalton

Director

Phone: 0113 394 5316

Mobile: 0779 550 6766

Email: mark.dalton@mazars.co.uk

John Pressley

Manager

Phone: 0115 964 4795

Mobile: 0790 998 0880

Email: john.pressley@mazars.co.uk