

14th July 2017
Item No 8b

Council of Governors: Summary Sheet

Title of Paper:

Presented By:

Action Required:

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

To which duty does this refer:

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

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

In receiving the report Governors will be exercising its duties under paragraph 43 of the Trust’s Constitution. Auditors will present the report to governors and members at the AMM on 26/9/17.

Author of Report:	Elizabeth Wharton
Designation of Author:	KPMG
Date:	July 2017



External Audit Report

I confirm that this is the final version of our ISA 260 Audit Memorandum relating to our audit of the 2016/17 financial statements for Sheffield Health and Social Care NHS Foundation Trust. This document was discussed and approved by the Trust's Audit Committee on 26 May 2017.

A handwritten signature in black ink, appearing to read 'R. K. Khangura', with a checkmark at the end.

Rashpal Khangura

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

26 May 2017

Our audit opinions and conclusions:

Financial Statements: unqualified	Use of resource: clean
Quality Accounts (content): clean	Quality Report (indicators): clean

Content

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Important notice

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2. Financial Statements Audit

3. Value for Money

4. Quality Report

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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 is addressed to Sheffield Health and Social Care NHS Foundation Trust (the Trust) and has been prepared for your use only. We accept no responsibility towards any member of staff acting on their own, or to any third parties. 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

Basis of preparation: We have prepared this External Audit Report (Report) in accordance with our engagement letter dated 23 March 2016.

Purpose of this report: This Report is made to the Trust's Audit Committee (and for the quality report work we will share the findings with governors) in order to communicate matters as required by International Audit Standards (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.

Restrictions on distribution: This Report is subject to disclosure restrictions as set out in our Engagement Letter.

Limitations on work performed: This Report is separate from our long form 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.



Summary

Financial Statements Audit

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

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

- There are no unadjusted audit differences, explained in section 2 and appendix 2.
- We have agreed presentational changes to the accounts with Finance, mainly related to compliance with the Group Accounting Manual (GAM).
- We have not requested any specific management representations in addition to our routine requests.
- We will review the final version of the annual report and raise any additional matters with you as required.

Value for money and audit certificate

We are required to report to you if we are not satisfied that that the CCG/Trust has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Based on the findings of our work, we have nothing to report.

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

Quality Accounts

We have completed our audit of the Trust's Quality Accounts:

- You have achieved a clean limited assurance opinion on the content of your Quality Report which could be referenced to supporting information and evidence provided. This represents an unmodified audit opinion on the Quality Report.
- This year we have also tested '7 day follow-up' and 'Gatekeeping' as the two mandated indicators. Our detailed testing on the indicators has concluded that we are able to give a clean limited assurance opinion on the presentation and recording of these.
- Our work on the local indicator 'incidences of restraint' as selected by Governors has indicated that this indicator is not subject to a limited assurance opinion.

Other Matters

We intend to issue an unqualified Group Audit Assurance Certificate to the NAO regarding the Whole of Government Accounts submission, made through the submission of the summarisation schedules to NHS Improvement (NHSI).

We have identified one prior year recommendation that requires further action by management. We have made 6 recommendations as a result of our 2016/17 work. They key recommendations relate to improving the understanding between Finance and Contracting staff of how income from non-NHS contracts is fed from contract documents in to the general ledger and financial statements and regular review of national guidance which supports indicators reported in the Quality Report. All recommendations are shown in appendix 1.

In auditing the accounts of an NHS body auditors must consider whether, in the public interest, they should make a report on any matters coming to their notice in the course of the audit, in order for it to be considered by Trust members or brought to the attention of the public; and whether the public interest requires any such matter to be made the subject of an immediate report rather than at completion of the audit. There are no matters that we wish to report.



Financial Statements Audit

Section Two

Financial Statements Audit

We audit your financial statements by undertaking the following tasks:

Work Performed	Accounts production stage		
	Before	During	After
1. Business Understanding: review your operations	✓	✓	–
2. Controls: assess the control framework	✓	–	–
3. Prepared by Client Request (PBC): issue our prepared by client request	✓	–	–
4. Accounting standards: agree the impact of any new accounting standards	✓	✓	–
5. Accounts Production: review the accounts production process	✓	✓	✓
6. Testing: test and confirm material or significant balances and disclosures	–	✓	✓
7. Representations and opinions: seek and provide representations before issuing our opinions	✓	✓	✓

We have completed the first six stages shown above and report our key findings below:

1. Business Understanding	In our 2016/17 audit plan we assessed your operations to identify significant issues that might have a financial statements consequence. We confirmed this risk assessment as part of our audit work. We have provided an update on each of the risks identified later in this section.
2. Assessment of the control environment	<p>We have assessed the effectiveness of your key financial system controls that prevent and detect material fraud and error. We found that the financial controls on which we seek to place reliance are operating effectively. We have made 5 recommendations which relate to:</p> <ul style="list-style-type: none"> • Reconciling contract and ledger information for non-NHS contract income; • Timely completion of bank reconciliations; • Obtaining regular information in relation to the investment bank account; • Clearing and closing of bank accounts which are no longer needed; and • Reviewing older items included in accrued income to ensure they are still valid. <p>We believe that these recommendations (which are shown in appendix 1) will strengthen your control environment. We have reviewed the work undertaken by 360 Assurance, your internal auditors, in accordance with ISA 610 and used the findings to inform our planning and audit approach.</p>

Section Two

Financial Statements Audit

3. Prepared by client request	We produced this document to summarise the working papers and evidence we ask you to collate as part of the preparation of the financial statements. We discussed and tailored our request with Interim Planning Accountant and Head of Corporate Finance and this was issued as a final document to the finance team via the Sharepoint site. Through discussions with staff, we believe the Sharepoint site has been a useful addition to the audit process as it means working papers can be provided centrally. However we did note that a number of items requested as part of the prepared by client list were not provided up front and had to be requested as part of the fieldwork.
4. Accounting standards	We work with you to understand the changes to accounting standard and other technical issues. We have discussed with the Trust the changes to the GAM and the FT ARM in 2016/17. There are no matters arising from these changes to the relevant accounting standards.
5. Accounts Production	<p>We received complete draft accounts by 26 April 2017 in accordance with NHSI's deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of ARM and GAM. We will debrief with the Finance team to share views on the final accounts audit. Hopefully this will lead to further efficiencies in the 2017/18 audit process.</p> <p>Staff turnover and illness meant that the audit process did not run as smoothly in 2016/17 as it has in previous years and this again highlights the need for resilience in the finance team in terms of staffing and processes which we reported in our Interim Report to Audit Committee in April 2017. Despite the challenges, the interim finance staff, with support from the Deputy Director of Finance, were able to respond to all audit queries and the audit was able to progress and complete within the allocated timeframe. We would like to thank Trust finance staff for their co-operation throughout the visit which allowed the audit to progress and complete within the allocated timeframe.</p>

Section Two

Financial Statements Audit

6. Testing	<p>We have summarised the findings from our testing of significant risks and areas of judgement within the financial statements on the following pages. During the audit we identified only presentational issues which have been adjusted for – the key areas are:</p> <ul style="list-style-type: none">• Audit Fee: the audit fee shown per the draft accounts did not split out the statutory audit fee and the Quality Accounts fee;• As part of the Statement of Cash Flows, £280k loss on disposal of assets has been included in the operating surplus figure for cash flows from operating activities and then deducted under non-cash income and expense. The disposal of assets is not an operating activity of the Trust and therefore this amount should not be included in the operating surplus figure. (The Trust's treatment of the loss was consistent with previous years.)• The bandings in the pension section of the Remuneration Report were incorrect and a note was added to explain that one Director had retired and returned and therefore no pension disclosure was required; and• A comment was missing for one member of staff in the Remuneration Report to explain which months of the year they were in post. <p>As in 2015/16, we found it more difficult than expected to obtain assurances in the area of non-NHS contract income:</p> <ul style="list-style-type: none">• Signed contracts were not in place during 2016/17 in relation to services delivered for Sheffield City Council and the two local Housing Associations and it was challenging to obtain other evidence of agreement.• There was a lack of coordination between Finance and Contracting which made it challenging to gain an understanding of how agreed contract income could be traced through to recognised income in the ledger and the financial statements. <p>These issues were resolved before the end of the audit visit and appropriate evidence was provided to support the non-NHS income recognised in the financial statements.</p>
7. Representations	<p>You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Director of Finance on 18 May 2017. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We are asking management to provide specific representations on the valuation of land and buildings.</p>

Section Two

Financial Statements Audit

We are required under ISA 260 to communicate to you any matters specifically required by other auditing standards to be communicated to those charged with governance; and any other audit matters of governance interest. As the Trust is required to comply with elements of the UK Corporate Governance Code through the Foundation Trust Code of Governance, ISA 260 also requires us to communicate to you any information that we believe is relevant to understanding our rationale and the supporting evidence for the exercise of our professional judgement. This includes our view of: Business risks relevant to the financial reporting objectives, the application of materiality and the impact of our judgements on these areas for the overall audit strategy and audit plan; significant accounting policies; management's valuations of the Trust's material asset and liabilities and the related disclosures; the quality of management's assessment of the effectiveness of the system of internal control included in the AGS; and any other matters identified during the course of the audit. We have not identified any other matters to specifically report.

To ensure that we have provided a comprehensive summary of our work, we have over the next pages set out:

- The results of the procedures we performed over NHS income and Land and Buildings which were identified as significant risks within our audit plan and which will form a part of our audit opinion;
- The results of our procedures to review the required risks of the fraudulent risk of revenue recognition and management override of control; and
- Our view of the level of prudence you have applied to key balances within your financial statement

Section Two

Financial Statements Audit

SIGNIFICANT audit risk	Account balances affected	Summary of findings
Valuation of NHS income	NHS income 2016/17 £105,234k PY £105,228k NHS receivables 2016/17 £4,384k PY £3,060k	Our testing considered the completeness, existence and accuracy of the balances recorded within the financial statements: <ul style="list-style-type: none"> • For the two largest NHS commissioners, we agreed the income recorded in the financial statements to contracts and contract variations with commissioners. • Using the results of the AoB exercise to match the Trust's NHS income with counterparty expenditure. We investigated differences greater than £100,000 by reconciling the initial contract value with the counterparty to the final income reported in the financial statements, determining the reasons for any differences and critically assessing the validity of recognising reconciling income items in the Trust's financial statements. <p>Our work on this significant risk provides assurance that the figures reported in the accounts are materially correct.</p>
Valuation of land and buildings	Property, plant and equipment £58,626k PY £59,388k	We undertook the following work over the valuation, existence, ownership, completeness and accuracy of a sample of PPE assets. <ul style="list-style-type: none"> • We assessed the competence, capability, objectivity and independence of the Trust's external valuer and considered the information provided to the Trust in 2016/17, to inform its assessment of market value movements, for consistency with the requirements of the NHS Foundation Trust Annual Reporting Manual and to external sources of evidence. • We critically assessed the calculation of market value indices movements completed by the Trust, including a re-performance of this calculation to confirm that no material movement in the value of land and building assets is indicated. • We critically assessing the Trust's formal consideration of indications of impairment and surplus assets within its estate, including the process undertaken and the adequacy of the formal, written decision document used in the process. • We substantiated additions to PPE. • We assessed the accuracy of the depreciation charge. <p>Our work on this significant risk provides assurance that the figures reported in the accounts are materially correct.</p>

Section Two

Financial Statements Audit

Risks that ISAs require us to assess in all cases	Why	Our findings from the audit
<p>Fraud risk from revenue recognition</p>	<p>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. . We do not plan to rebut this risk.</p> <p>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.</p> <p>These incentives in the NHS include the regulatory pressure to meet agreed control totals as well as the incentive to report the delivery of specific targets which enable the Trust to secure Sustainability and Transformation funding or CQUIN monies.</p>	<p>Our work on NHS Income and Receivables, as set out above, addressed the risk of fraudulent revenue recognition in relation to this income.</p> <p>In relation to non-NHS income,</p> <ul style="list-style-type: none"> • For the three largest non-NHS commissioners, we agreed the income recorded in the financial statements to signed contracts and contract variations with commissioners. • For a sample of invoices raised immediately before and after the balance sheet date, we checked that income had been recognised in the correct financial period.
<p>Fraud risk from management override of controls</p>	<p>Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>We have not identified any specific additional risks of management override relating to this audit.</p>	<p>Our procedures included testing of journal entries, accounting estimates and significant transaction outside the normal course of business.</p> <p>No instances of fraud were identified.</p>

Section Two

Financial Statements Audit

Judgements in your financial statements

We consider the level of prudence within key judgements in your financial statements. We have summarised our view below using the following range of judgement:



Assessment of subjective areas				
Asset/liability class	Current year	Prior year	Balance (£m)	KPMG comment
Provisions	3	3	£3.7 (PY:£1.5m)	We have undertaken audit procedures to support the value of provisions held within the balance sheet as at 31 March 2017. There have been new provisions in 2016/17 relating to redundancy costs. The Trust's approach to provisions appears balanced.
Accruals	3	3	£3.7 (PY:£3.4m)	We have performed an analytical review and sample testing over accruals and we consider the related disclosures to be proportionate.
Assets (lives, VAT and valuations)	2	3	£55 (PY:£56m)	We have performed specific procedures to support the value of fixed assets held within the balance sheet at 31 March 2017 and consider the related disclosures to be cautious. Based on the cost indices provided by the Trust's valuer, the Trust could have increased the value of its assets by approximately £2m. There is no requirement for the Trust to perform a revaluation every year and the amount was just below the Trust's threshold for a change in value that would trigger a revaluation. We are comfortable with the approach the Trust has taken and that the assets balance remains materially correct. However, we do consider that the Trust has been cautious in its estimate in this area.

Section Two

Financial Statements Audit

Annual report

We have read the contents of the Annual Report (including the Accountability Report, Performance Report and AGS) and audited the relevant parts of the Remuneration Report. We have checked compliance with the NHS Foundation Trust Annual Reporting Manual (ARM) issued by NHSI. Based on the work performed:

- We have not identified any inconsistencies between the contents of the Accountability, Performance and Director's Reports and the financial statements.
- We have not identified any material inconsistencies between the knowledge acquired during our audit and the director's statements. As Directors you confirm that you consider that the annual report and accounts taken as a whole are fair, balanced and understandable and provides the information necessary for patients, regulators and other stakeholders to assess the Trust's performance, business model and strategy.
- The parts of the Remuneration Report that is required to be audited were all found to be materially accurate except for the pension disclosure where the bandings for pension figures in 2016/17 need to be updated;
- The AGS is consistent with the financial statements and complies with relevant guidance subject to updates as outlined within section three; and
- The report of the Audit Committee included in the Annual Report is currently being reviewed by management to ensure that it appropriately addresses matters communicated by us to the Audit Committee, and meets guidance as set out in the ARM.

Independence and Objectivity

ISA 260 also requires us to make an annual declaration that we are in a position of sufficient independence and objectivity to act as your auditors, which we completed at planning and no further work or matters have arisen since then.

Audit Fees

Our fee for the audit was £48,800 plus VAT (£48,800 in 2015/16). This fee was in line with that highlighted within our audit plan agreed by the Audit Committee in January 2017. Our fee for the external assurance on the quality report was £9,000 plus VAT (£9,000 in 2015/16).

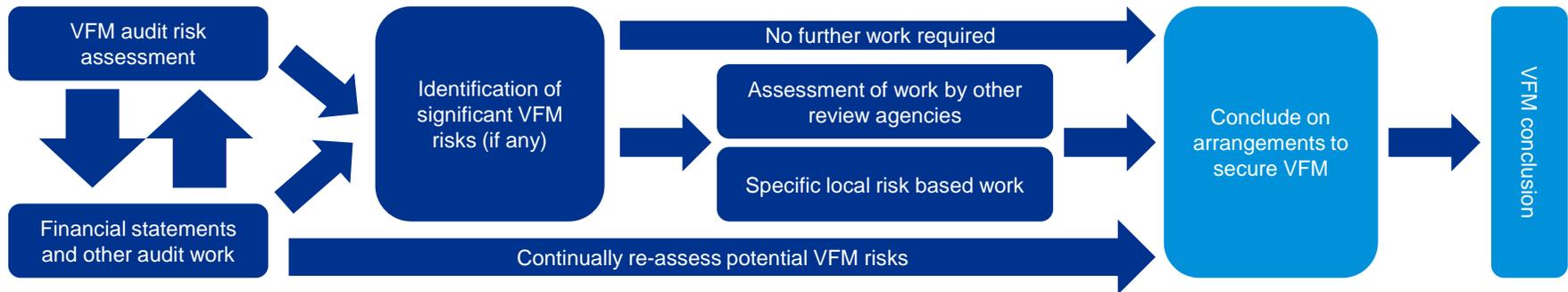


Value for Money

Section Three

Value for Money

For 2016/17 our value for money (VFM) work follows the NAO's guidance. It is risk based and targets audit effort on the areas of greatest audit risk. Our methodology is summarised below. We identified two significant VFM risks which are reported overleaf. We provide a summary below of the routine work required to issue our VFM conclusion, which is that we are satisfied that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017, based upon the criteria of informed decision making, sustainable resource deployment and working with partners and third parties.



AGS review	Regulatory review	Other matters considered in risk assessment
<p>We reviewed the 2016/17 AGS and took into consideration the work of internal audit.</p> <p>We confirm that the AGS reflects our understanding of the Trust's operations and risk management arrangements.</p>	<p>We considered the outcomes of relevant regulatory reviews (NHS Improvement, CQC, etc.) in reaching our conclusion.</p> <p>The impact of the recent CQC inspection is reported overleaf.</p>	<p>As part of our risk assessment we reviewed various matters, including:</p> <ul style="list-style-type: none"> recurrent cost improvement schemes are identified and delivered; current operational performance and commissioner relationships; planned VS actual outturn; significant one-off items affecting the outturn position; management's assessment of the Trust's ability to continue as a going concern; and relationships with key third parties.

Section Three

Value for Money

Significant risk based VFM audit work

The table below sets out the detailed findings of our significant risk based VFM work. This work was completed to address the residual risks remaining after our assessment of the higher level controls in place to address the VFM risks identified in our planning and financial statements audit work.

Value for money risk	Why this risk is significant	Our audit response and findings
<p>Delivery of CIPs</p>	<p>NHS Trusts and Foundation Trusts submitted financial plans for 2016/17 that in aggregate totalled a £580 million deficit. The achievement of financial balance, whilst maintaining the quality of healthcare provision, is therefore a key objective for all organisations.</p> <p>The Trust has a CIP target of £4.4m for 2016/17. As at month 6, the Trust is on track having achieved 100% of the £1.9m planned to date but this has been largely achieved through the release of risk reserves set aside to mitigate the risk of the CIP gap.</p> <p>The Trust is forecasting an outturn position for full-year CIP delivery of 98%.</p>	<p>CIPs are reported to the Board on a monthly basis as part of the finance report with reasons for any variances.</p> <p>CIP delivery is 100% for 2016/17. This consists of an under-delivery of directorate savings of £50,000 offset by £50,000 of contingency reserves. This level of reserves use is less than the amount set aside in the 2016/17 plan (£500k).</p>
<p>Response to CQC inspection report</p>	<p>In 2014/15 the Trust was subject to a full inspection from the Care Quality Commission (CQC) under its new regime. The final report was received in June 2015 and the Trust was assessed as 'Requires improvement'.</p> <p>In November 2016 the Trust was subject to a further inspection from the CQC. The report from this inspection had not been published when we issued our Audit Plan.</p>	<p>The results of the inspection in November were published on 30 March 2017. The overall rating of the Trust has improved from 'requires improvement' to 'good'. The Trust is rated 'good' for four of the five criteria but the rating of Safe remains unchanged and the Trust still 'requires improvement' in this area.</p> <p>The Trust has put in place clear arrangements in place to address areas for improvement identified in CQC report with individual accountabilities and specified reporting lines.</p>



Quality Report

Section Four

Quality Report

Conclusion on content of quality report

Subject to carrying out our final checks to ensure you have reflected our comments in the quality report and reviewing changes made by the Trust after the date of this report, we are satisfied that there is sufficient evidence to provide a limited assurance opinion on the content of the quality report.

Work performed and findings

We consider two criteria:

- Review of content to ensure it addresses the requirements set out in the Detailed Requirements for Quality Reports for Foundation Trusts in 2016/17 issued by NHSI; and
- Review of content in the quality report for consistency with other information specified by NHSI.

Our findings are set out below:

Issue considered	Findings
Inclusion of all mandated content	The content of the quality report presented for audit was accurately reported in line with the quality report regulations.
Are significant matters in the specified information sources reflected in the quality report and significant assertions in the quality report supported by the specified information sources?	<p>We identified that the Trust's quality report reflected its significant matters, relevant to the selected priorities from the specified information sources.</p> <ul style="list-style-type: none">• Significant assertions in the quality report are supported by the relevant information sources; and• Significant assertions in the draft of the quality report were supported by the specified information sources, although at the time of drafting this report we are awaiting the following information:<ul style="list-style-type: none">• feedback from commissioners;• feedback from governors; and• the final Head of Internal Audit opinion.

Audit of indicators within the quality account

We carried out work on two mandated indicators, which require a public opinion, chosen by the Trust from a list of three available indicators as specified by NHSI in its guidance:

- '7 day follow-up' - 100% enhanced Care Programme Approach patients receiving follow-up contact within seven days of discharge from hospital; and
- 'Gatekeeping' - admissions to inpatient services had access to crisis resolution home treatment teams.

In addition, we carried out work on a locally selected indicator chosen by your Council of Governors. The indicator selected was the 'incidences of restraint'. This indicator is not subject to a limited assurance opinion.

Conclusion

Our work on the two mandated indicators has concluded that there is sufficient evidence to provide a limited assurance opinion in respect of '7 day follow-up' and 'Gatekeeping'. For the local indicator, 'incidences of restraint', we have concluded that if required we would be in a position to provide a limited assurance opinion.

Please note that the extent of the procedures performed is reduced for limited assurance. The nature of the procedures may be different and less challenging than those used for reasonable assurance. Therefore, our work was not a reasonable assurance audit of either the performance indicators or the processes used to collate and report them.

Results of our work

We have set out overleaf the key findings from our work as described above in relation to the two mandated indicators and the locally selected indicator. In reaching our conclusions we required to have assessed the design and operational of the systems of control over the data against the six data quality dimensions defined by the NAO. In reaching our conclusion we have assessed these arrangements to consider whether they can be graded as:

- **Green:** No improvement to achieve compliance with the dimensions of data quality noted.
- **Amber:** Opportunities to achieve great efficiency or better control in compliance with the dimensions of data quality noted.
- **Red:** Concern that systems will not achieve compliance with one or more aspects of the dimensions of data quality and therefore a limited assurance opinion cannot be provided.

Section Four

Quality Report

Design of system and processes and operation				Results of our sample testing	Conclusion reached
Data quality dimension	Design	Operation	Commentary on ratings		
Mandated Indicator: 100% enhanced Care Programme Approach (CPA) patients receiving follow-up contact within seven days of discharge from hospital					
Performance target: 95%					
Performance recorded in Quality Account: 94.3%					
Accuracy	●	●	The testing indicated that the calculation of the number of days from discharge to follow-up was correct. The calculation of the performance reported in the Quality Report was correct.	We reviewed a sample of 27 cases from across 2016/17. There were no matters arising from the sample testing. There were no matters arising from verifying the figure reported in the Quality Report.	We have not comes across any indications that data for this indicator is not produced in line with national guidance.
Completeness	●	●	Reporting to the Board included those on CPA and those not on CPA separately. The guidance requires Trusts to treat all inpatient stays as being on CPA. In prior years the Trust reported only those on CPA in the Quality Report. The Quality Report was amended to include all inpatient stays. Reporting was complete in the final Quality Report.		
Relevance	●	●	No issues in relation to relevance were identified during the testing and the review of the systems in place		
Reliability	●	●	No issues in relation to reliability were identified during the testing and the review of the systems in place.		
Timeliness	●	●	Reporting was timely.		
Validity	●	●	No issues were identified in relation to the validity of the data tested.		
Overall	●	●	Overall we can provide limited assurance that the system design and operation leads to accurate reporting of this indicator.		

Section Four

Quality Report

Design of system and processes and operation				Results of our sample testing	Conclusion reached
Data quality dimension	Design	Operation	Commentary on ratings		
Mandated Indicator: Admissions to inpatient services had access to crisis resolution home treatment teams					
Performance target: 95%					
Performance recorded in Quality Account: 99.8%					
Accuracy	●	●	We confirmed the accuracy of the figures reported in your Quality Report to underlying evidence.	We tested a sample of 27 cases from across 2016/17. There were no matters arising from the sample testing. There were no matters arising from verifying the figure reported in the Quality Report.	We have not comes across any indications that data for this indicator is not produced in line with national guidance.
Completeness	●	●	Testing indicated that all admissions were included in the data reported.		
Relevance	●	●	No issues in relation to relevance were identified during the testing and the review of the systems in place		
Reliability	●	●	No issues in relation to reliability were identified during the testing and the review of the systems in place.		
Timeliness	●	●	Reporting was timely.		
Validity	●	●	No issues were identified in relation to the validity of the data tested.		
Overall	●	●	Overall we can provide limited assurance that the system design and operation leads to accurate reporting of this indicator.		

Section Four

Quality Report

Design of system and processes and operation				Results of our sample testing	Conclusion reached
Data quality dimension	Design	Operation	Commentary on ratings		
Local Indicator: Incidences of restraint					
Performance target: N/A					
Performance recorded in Quality Account: 701					
Accuracy	●	●	We confirmed the accuracy of the figures reported in your Quality Report detailed incident records.	We tested a sample of 27 incidents from across 2016/17. For all incidents tested, the underlying record included details of the restraint. There were no matters arising from the sample testing. There were no matters arising from verifying the figure reported in the Quality Report.	While we not required to give an opinion on this indicator, we have not comes across any indications that data for this indicator is not produced in line with national guidance.
Completeness	●	●	Testing indicated that all restraint incidents included in the electronic reporting system have been included in reporting to the Board and in the Quality Report.		
Relevance	●	●	Detailed incident records for all incidents tested confirmed that a restraint had taken place so the data was relevant.		
Reliability	●	●	Detailed incident records for all incidents tested confirmed that a restraint had taken place so the data was reliable.		
Timeliness	●	●	Incident data is reported regularly in the performance dashboard on a timely basis.		
Validity	●	●	No issues were identified in relation to the validity of the data tested.		
Overall	●	●	Overall the system design and operation leads to accurate reporting of this indicator.		



Appendices

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		
1	Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	2
		Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.
		3
		Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
Financial Statements			
1	2	<p>As in 2015/16, we found it more difficult than expected to obtain assurances in the area of non-NHS contract income. There was a lack of coordination between Finance and Contracting which made it challenging to gain an understanding of how agreed contract income could be traced through to recognised income in the ledger and the financial statements.</p> <p>The Trust should ensure that Finance and Contracting staff have a clear understanding of the relationship between the income recorded in the ledger and reported in the financial statements and the agreed contracts with commissioners.</p>	<p>We recognise that this was previously raised by the External Auditors in the interim audit report and accept the findings. I can provide assurance this is being addressed with an action plan being drafted to ensure this situation is not duplicated in 2017/18 and beyond. We agree there has been disjointed working between the two sections but believe this to be a process / system issue rather than a lack of assurance surrounding the income due into the organisation or any potential risk posed as a result of a contract remaining unsigned. Both Contracting and Management Accounts have a presence at Contract Management meetings and both have good relationships with internal Directorate colleagues, however we acknowledge that the recording and reconciliation of associated financial and contractual information, via different local systems, has caused problems and lack of continuity and ownership at times.</p> <p>This is planned to be addressed as part of the Directorate business plan for 2017/18, the wider directorate restructure, including consideration of a dedicated income lead and single database for ease of reconciling income and contract variations. A reduction in amendments, outside of formal contract variations will also be pursued.</p> <p>Lead – Head of Contracting and Tender management, in conjunction with the Head of Management Accounts.</p> <p>31st July 2017 – In time for quarter one reporting and on-going.</p>

Appendix 1

Recommendations raised and followed up

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
Financial Statements			
2	3	<p>As part of our testing of bank reconciliations, we noted that for our sample of two reconciliations they had been prepared and reviewed over a month after the period to which they related (i.e. the September reconciliation was prepared and reviewed in November). Also in one of the cases, the bank balance per the reconciliation did not match the bank statement as at the same date.</p> <p>Bank reconciliations should be prepared and reviewed on a timely basis after each month end to ensure any discrepancies are highlighted and resolved promptly.</p>	<p>This has been previously raised and accepted in the interim audit report and the issue of timeliness of control accounts and resiliency is being addressed. The proposal is to ensure all control accounts are classified in terms of risk and reconciled within 1 - 5 working days routinely based on the level of risk.</p> <p>Lead Director - Deputy Director of Finance, in conjunction with the Head of Financial Accounts.</p> <p>30th June 2017</p>
3	3	<p>The investment bank account figure shown on the bank reconciliations is sourced from bank statements the Trust receives every 6 months. The finance team creating the reconciliations do not have access to the online investment banking account. Therefore changes in the investment bank account balance would not be reflected in a timely manner.</p> <p>The Trust should investigate a way to gain access to more relevant account information for the investment account for reconciliation and monitoring purposes.</p>	<p>The recommendation is acknowledged. This has not been previously requested as these accounts are dormant with balances of <£100. These accounts along with a few others are being reviewed and letters/mandates issued to commence closure where appropriate. This ties in to a wider review of the bank mandates.</p> <p>A quarterly review of all bank accounts and the authorisation signatories has been instigated to ensure amendments, additions and/or deletions are implemented timely.</p> <p>In terms of access and resilience, a number of posts (four in total) have been identified for at least viewing access to all bank accounts to ensure cover is in place, even where these accounts are dormant.</p> <p>Lead Director - James Sabin, Deputy Director of Finance, in conjunction with the Head of Financial Accounts.</p> <p>30th June 2017.</p>

Appendix 1

Recommendations raised and followed up

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
Financial Statements			
4	3	<p>As part of our cash testing we noted that the Trust has two bank accounts with very small balances in. We were informed that these related to learning disability services which have been divested in and that the accounts used to contain a petty cash float. These accounts are no longer required by the Trust.</p> <p>Any bank accounts which are no longer required should be cleared and closed.</p>	<p>Management acknowledges it has a few dormant yet active accounts with balances of <£1. One was in relation to the disinvested services in LD. Mansfield View and another in relation to a business reserve account. There have been no transaction during 2016/17.</p> <p>These accounts along with a few others are being reviewed and letters/mandates issued to commence closure where appropriate.</p> <p>This ties in to a wider review of the bank mandates where a quarterly review of all bank accounts and the authorisation signatories has been instigated to ensure amendments, additions and/or deletions are actioned timely.</p> <p>Lead Director - James Sabin, Deputy Director of Finance, in conjunction with the Head of Financial Accounts.</p> <p>30th June 2017.</p>
5	3	<p>As part of our testing of accrued income in the receivables note, no supporting information could be provided for one accrued item due to its age (it was over 2 years old). The value of this accrual is not significant and it was the only item older than a few months therefore we have not reported this matter as an audit misstatement.</p> <p>However, going forward, management should periodically review all accrued income to ensure items remain valid and to reverse any items which are no longer required.</p>	<p>All year end accruals are reviewed periodically and reversed primary in a timely manner. The bulk being actioned in quarter one, shortly after the anticipated charges being received, including any variation in charge. Those that remain on the SOFP are genuinely believed to be outstanding and still valid. As part of the review for the year end 2016/17, these were requested to be reversed. The subsequent action appears to have not been implemented but is not considered material (£25k across 3 transactions).</p>

Appendix 1

Recommendations raised and followed up

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
Quality Accounts			
6	3	<p>The guidance requires Trusts to treat all inpatient stays as being on CPA. In prior years the Trust reported only those on CPA in the Quality Report. The Quality Report was amended to include all inpatient stays.</p> <p>The Trust should ensure that it reviews the guidance underpinning the data reported in the Quality Report regularly to ensure that it is reporting on the correct basis.</p>	<p>The point raised is accepted. The Quality Account guidance states that all discharges from inpatient areas should be classified as being on CPA. Therefore all discharges have been included for calculating 7 day follow-up. This has previously only been reported for those people on CPA. This guidance and change will be adhered to going forward. We have kept the results separate otherwise the historic comparison won't work. A note in the QAs has been added to explain why the additional data is being reported this year.</p> <p>Lead – Head of Clinical Governance</p> <p>30th June 2017</p>

Appendix 1

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):
2	1	1

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date	Current Status (May 2017)
Financial Statements				
1	2	<p>We have agreed material non-patient care income to contracts and contract variations. In a number of cases signed contracts were not in place and only draft finance schedules were provided as evidence. For Learning Disabilities income from Sheffield City Council, the income could not be agreed to the contract as income is volume based. We have obtained other assurances over this figure.</p> <p>There are opportunities for the Trust to improve the processes in relation to non-patient care income by ensuring contracts are agreed and signed in a timely manner and by having a single point of contact with oversight of the agreed contract and income recognised in relation to the Sheffield City Council Learning Disabilities contracts.</p>	<p>The current contract arrangements with SCC are a known problem area at present and a number of negotiations are currently on-going. A number of services continue to operate during transitional times during which contracts (or the financial agreement element) are not formally in place. However, the general recommendation in relation to this example is accepted.</p> <p>Contracting has recently been moved into the Finance Directorate portfolio under the management of the Deputy Director of Finance and under the portfolio of Executive Director of Finance.</p> <p>A finance and contracting lead are assigned to each contract but this will be re-affirmed for all contracts going forward.</p> <p>The finance report that goes to Board and Finance and Investment Committee also details the contracts and associated income and highlights the status of on-going negotiations. In addition we will continue to roll out the use of a new contract management database to capture the centralisation of documentation to support contracts.</p> <p>James Sabin, Deputy Director of Finance Immediate Effect from 2016/17</p>	See page 26 for updated recommendation

Appendix 1

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:
2	1	1

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date	Current Status (May 2017)
Quality accounts				
1	3	<p>Completion of Friends and Family returns is voluntary and, in common with other mental health trusts, responses vary considerably by client group.</p> <p>We recommend that the Trust targets client group departments where a low proportion of returns are received to improve the culture of reporting.</p>	<p>Agreed</p> <p>Tania Baxter, Head of Clinical Governance</p> <p>September 2016</p>	<p>We are working with teams to better understand the issues around low take up and to support them in improving this. We are also working on developing alternative methods of collecting FFT data that is more user-friendly (for example texting), in collaboration with services.</p> <p>This is an ongoing, iterative process that we will continue to improve and develop as we work with more teams where take-up is low, and share learning with those teams who do well in this area.</p>

Appendix 2

Audit Differences

We are required to report any inconsistencies greater than £250,000 between the signed audited accounts and the consolidation data and details of any unadjusted errors or uncertainties in the data provided for intra-group and intra-government balances and transactions regardless of whether a Trust is a sampled or non-sampled component. We have provided details of the inconsistencies that we are reporting to the NAO as follows:

Counter party	Type of balance/ transaction	Balance as per Trust (£'000)	Balance as per counter party (£'000)	Difference (£'000)	Comments on Difference
FRW3-Central Manchester University Hospitals NHS Foundation Trust	Income	£0	£260	£260	The Trust has confirmed with the counterparty in writing that this is an error on their part.
Q72-Yorkshire and the Humber Local Office (Merger of Q50, Q51, Q52)	Income	£768	£(355)	£1,123	<p>This difference remains after the Trust has adjusted the £720,000 received relating to STF funding to show against CBA033-NHS England instead of Q72-Yorkshire and the Humber Local Office.</p> <p>The Trust has confirmed with the counterparty in writing that the correct balance is £726,000. The remaining difference is below the reporting threshold.</p>

Appendix 2

Audit Independence

The purpose of this Appendix is to communicate all significant facts and matters that bear on KPMG LLP's independence and objectivity and to inform you of the requirements of *ISA 260 (UK and Ireland) Communication of Audit Matters to Those Charged with Governance*.

Integrity, objectivity and independence

We are required to communicate to you in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

We have considered the fees paid to us by the Trust for professional services provided by us during the reporting period. We are satisfied that our general procedures support our independence and objectivity.

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 Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail. There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to the Board of Governors.

Audit matters

We are required to comply with *ISA (UK and Ireland) 260 Communication of Audit Matters to Those Charged with Governance* when carrying out the audit of the accounts.

ISA 260 requires that we consider the following audit matters and formally communicate them to those charged with governance:

- Relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement lead and audit staff.
- The general approach and overall scope of the audit, including any expected limitations thereon, or any additional requirements.
- The selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the Trust's financial statements.
- The potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements.
- Audit adjustments, whether or not recorded by the entity that have, or could have, a material effect on the Trust's financial statements.

Appendix 2

Audit Independence

- Material uncertainties related to event and conditions that may cast significant doubt on the Trust's ability to continue as a going concern.
- Disagreements with management about matters that, individually or in aggregate, could be significant to the Trust's financial statements or the auditor's report. These communications include consideration of whether the matter has, or has not, been resolved and the significance of the matter.
- Expected modifications to the auditor's report.
- Other matters warranting attention by those charged with governance, such as material weaknesses in internal control, questions regarding management integrity, and fraud involving management.
- Any other matters agreed upon in the terms of the audit engagement.

We continue to discharge these responsibilities through our attendance at Audit Committees, commentary and reporting and, in the case of uncorrected misstatements, through our request for management representations.

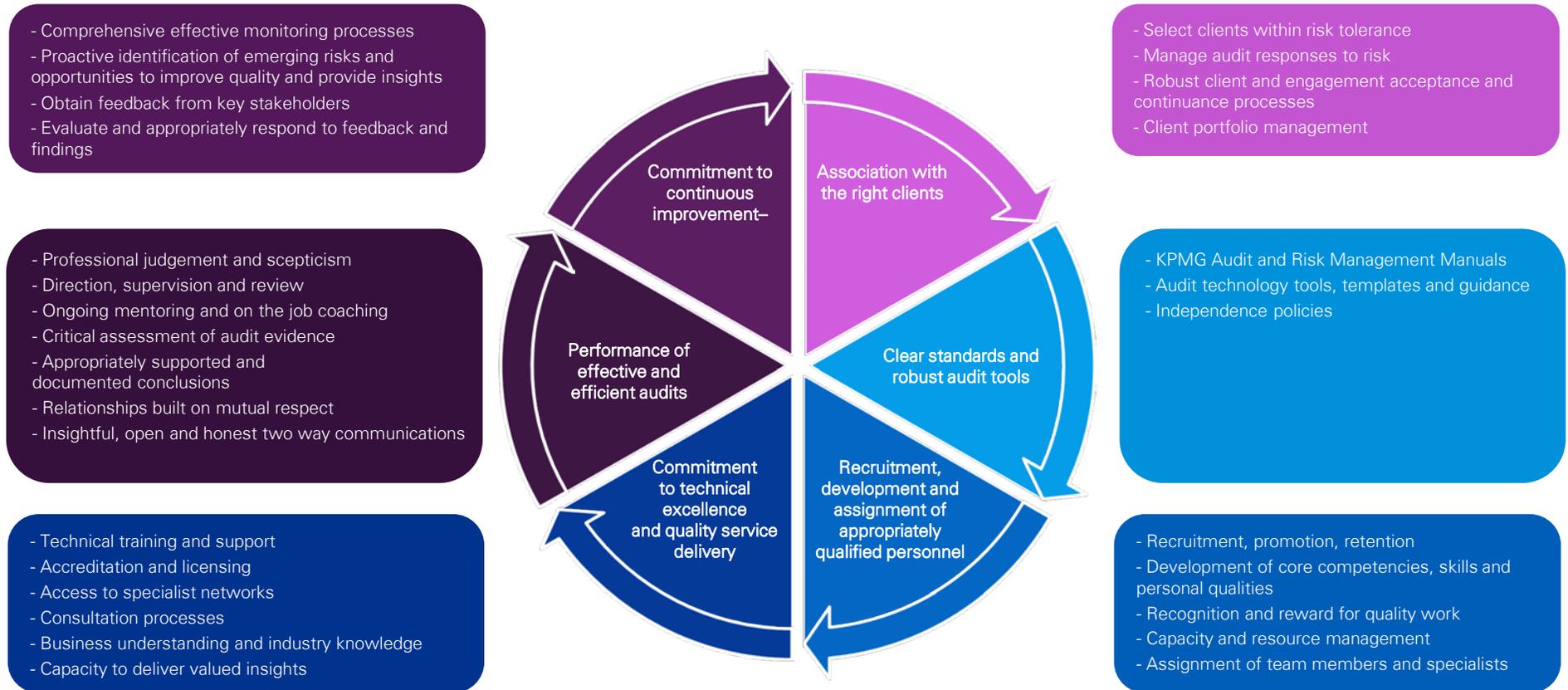
Auditor Declaration

In relation to the audit of the financial statements of the Trust for the financial year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and the Trust, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards in relation to independence and objectivity.

Appendix 3

KPMG's Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework





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