

Council of Governors: Summary Sheet

Title of Paper: Auditor's Annual Report on the Financial & Quality Accounts

Presented By: Harriet Fisher, KPMG

Action Required:

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

To which duty does this refer:

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

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

Governors will be fulfilling their statutory responsibility to receive the Trust's annual report in line with paragraph 2.1.5 of Annex 7 of the Constitution (Council of Governors Standing Orders)

Author of Report: Rashpal Khangura

Designation: Director, KPMG

Date: July 2019



Year end report 2018/19

Sheffield Health and Social Care NHS
Foundation Trust

23 May 2019

I confirm that this is the final version of our ISA 260 Audit Memorandum relating to our audit of the 2018/19 financial statements for Sheffield Health and Social Care NHS Foundation Trust. This document was discussed and approved by the Trust's Audit Committee on 23 May 2019.

Rashpal Khangura

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

29 May 2019

Our audit opinions and conclusions:

Financial Statements: unqualified

Use of resources: clean

Quality Reports (content): clean

Quality Report (indicators): clean

Introduction

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

We are pleased to have the opportunity to meet with you on 23 May 2019 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 2019.

We are providing this report in advance of our meeting to enable you to consider our findings and hence enhance the quality of our discussions. This report should be read in conjunction with our audit plan and strategy report, presented on 22 January 2019. We will be pleased to elaborate on the matters covered in this report when we meet.

Our audit is substantially complete. There have been no significant changes to our audit plan and strategy. Subject to your approval of the financial statements, we expect to be in a position to sign our audit opinion on 29 May 2019, provided that the outstanding matters noted on page 7 of this report are satisfactorily resolved.

We expect to issue an unmodified Auditor's Report on the financial statements, an unqualified Value for Money Conclusion, and a unqualified opinion on the Trust's Quality Accounts content and indicators.

We draw your attention to the important notice on page 3 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

29 May 2019

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. Some of the ways in which we drive audit quality are demonstrated throughout our report and include:



The National Audit Office (NAO) has issued a document entitled Code of Audit Practice (the Code). This summarises where the responsibilities of auditors begin and end and what is expected from the Trust. External auditors do not act as a substitute for the Trust's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

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

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

This Report has been prepared for the Trust's Audit 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 2019. 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 not yet complete and matters communicated in this Report may change pending signature of our audit report. We will provide an oral update on the status of our audit at the Audit Committee meeting but would highlight the following work is still outstanding:

- Financial Statements audit: completion of the final elements of our pensions audit programme after receipt of information from the Pension Fund, completion of our payroll data and analytics analysis once we receive responses from the payroll department, review of final versions of the accounts and annual report.
- Quality Report: review of the final version of the quality report.

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.



Summary



Financial Statements Audit

We intend to issue an unqualified audit opinion on the accounts following the Board 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 reviewed the annual report and have no matters to raise with you.

Quality Report

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

- 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 Early Intervention in Psychosis (EIP) and Improving Access to Psychological Therapies (IAPT) 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 Mortality as selected by Governors is not subject to our limited assurance opinion, however we did not note any issues in trying to agree back the indicator as reported to the Board in the supporting documentation.

Value for Money

Based on the findings of our work, we have concluded that the Trust has adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

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 recommendations that requires further action by management. We have made any recommendations as a result of our 2018/19 work. All recommendations are shown in appendix 1.

Audit Certificate

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

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



Financial Statements Audit

Section one

Financial statements audit – our summary findings



Scepticism Challenge

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

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

Type	Status	Response
Our declaration of independence		No matters to report. The engagement team and others in the firm, as appropriate, have complied with relevant ethical requirements regarding independence.
Make a referral to your regulator		If we identify that potential unlawful expenditure might be incurred then we are required to make a referral to your regulator. We have not identified any such matters.
Issue a report in the public interest		We are required to consider if we should issue a public interest report on any matters which come to our attention during the audit. We have not identified any such matters.
Provide a statement to the NAO on your consolidation schedule		This “Whole of Government Accounts” requirement is fulfilled when we check your summarisation scheduled are consistent with your annual accounts. We have completed that work and found no matters to report.
Provide a summary of our key use of resources risks		We are required to reach a conclusion on your use of resources. We have identified the significant risks which are outlines on pages 23-24 which we will comment on in our long form audit report.
Certify the audit as complete		We are required to certify the audit as complete when we have fulfilled all of our responsibilities relating to the accounts and use of resources as well as those other matters highlighted above. We have completed our audit.

Financial statements audit – significant risks



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

Significant audit risk

The risk

Professional standards communicate the fraud risk from management override of controls as significant.

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Planned response

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

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

Outcome from audit work

- As part of our interim audit, we tested journals controls and found them to be operating effectively. As part of our year end audit we have gained evidence to support post closing adjustments.
- We confirmed there have been not significant changes to the methods and assumptions used in preparing accounting estimates.
- We have not identified any significant unusual transactions as part of our work.
- We have considered key accounting judgement from the year end and have not noted any issues with the judgements applied by management. See p19 for further details.
- There has been no divergence from in year reported performance that we have noted as part of our testing.
- We performed cut off testing at the year end and confirmed that items tested had been accounted for the in the correct period.



2 and 3 NHS and Non-NHS Income Receivables

Significant audit risk

The risk

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

Income from NHS England and CCGs is captured through the Agreement of Balances (AoB) exercises performed at months 6, 9 and 12 to confirm amounts received and owed. Mismatches in income and expenditure, and receivables and payables are recognised by the Trust and its counterparties to be resolved. Where mismatches cannot be resolved they can be reclassified as formal disputes.

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

Planned response

- We will inspect the information provided by the Trust as part of the 2018/19 AoB exercise to agree that it is consistent with the information in the accounts covering both NHS income and NHS receivables;
- We will identify any mismatches (both income and receivables) with Commissioners and obtain explanations for the mismatches;
- We will agree any disputed NHS income or receivables to documentation supporting the Trust's estimates, including contract documentation and evidence of the achievement of required activity levels or performance measures;
- We will assess whether any adjustments to balances agreed with other NHS organisations has been appropriately reflected in the accounts;
- We will agree any accrued or deferred income balances to supporting documentation to confirm they have been recorded appropriately;
- We will agree the receipt the Provider Sustainability Fund (PSF) monies, including the basis for agreement of Quarter 4 funding based on relevant financial and performance measures, and confirmed the treatment is in line with guidance from NHS Improvement.
- We will agree income recorded in the financial statements to signed contracts and contract variations with Local Authorities and non-government bodies; and
- For a sample of invoices raised immediately before and after the balance sheet date, we will check that income had been recognised in the correct financial period.

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

Financial statements audit – significant risks



2 and 3 NHS and Non-NHS Income Receivables

Outcome from audit work

- We have reconciled the amounts submitted by the Trust as part of the AoB exercise to the amounts included in the accounts and NHS income and NHS receivables. No issues have been noted as a result of this work.
- We have investigated all mismatches shown by the AoB exercise and have received satisfactory explanations and supporting evidence in all cases. As part of this process we have obtained evidence to support the Trust's position.
- There has not been a requirement to amend the accounts as a result of the AoB process.
- We have undertaken testing and gained assurance over accrued income (deferred income was not material).
- We have agreed receipt of PSF monies and confirmed this has been treated in line with guidance.
- We have agreed non-NHS income to contracts and contract variations to gain comfort over the amount of non-NHS income received in year.
- We performed cut off testing at the year end and confirmed that items tested had been accounted for the in the correct period.



4 Valuation of Land and Buildings

Significant audit risk

The risk

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

Land and buildings are required to be maintained at up to date estimates of year-end market value in existing use (EUV) for non-specialised property assets in operational use, and, for specialised assets where no market value is readily ascertainable, the depreciated replacement cost (DRC) of a modern equivalent asset that has the same service potential as the existing property. There is a significant judgement involved in determining the appropriate basis (EUV or DRC) for each asset according to the degree of specialisation, as well as over the assumptions made in arriving at the valuation of the asset.

In particular the DRC basis of valuation requires an assumption as to whether the replacement asset would be situated on the existing site or, if more appropriate, on an alternative site. Furthermore, DRC is decreased if VAT on replacement costs is deemed to be recoverable. Both of these assumptions can have potentially significant effects on the valuation.

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

Planned response

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

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



4 Valuation of Land and Buildings

Outcome from audit work

- We assessed the competence, capability, objectivity and independence of the Trust's external valuer and considered the terms of engagement of, and the instructions issued to the valuer for consistency with the requirements of the Department of Health Group Accounting Manual 2018/19;
- In 2018/19, the Trust requested that their valuer undertake a desktop exercise using relevant indices. As such, no data was provided to the valuer for us to agree back to records and the valuer used their previous knowledge of the Trust and its land and buildings to provide information on expected changes in values. We tested the data provided to the valuer in 2017/18 when a full revaluation was undertaken. We have confirmed that there have been no material changes to land and buildings since then.
- We assessed and recalculated the impact of the indices used by the valuer on the value of the Trust's land and buildings. We also obtained alternative valuation indices to consider whether there would have been a material change in the value of the Trust's land and buildings had a different method of valuation been used. We did not note any issues as a result of this work.
- We tested material additions which this year related to assets under construction. We were able to agree back the amounts capitalised to invoices from the contractors for the works.
- We confirmed via testing that transactions relating to impairments and revaluations have been appropriately applied in the year end accounts.
- We have gained assurance that management have adequately disclosed key judgements and estimations involved in arriving at the valuation and the related sensitivities.

Financial statements audit – significant risks



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

Significant audit risk

The risk

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

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

Planned response

- We will assess the pressure upon the Trust to achieve a particular year end outturn position and if it is normal for expenditure to exceed income for the year;
- We will consider the extent to which budgetary controls have been in operation throughout the year and have been found to operate effectively;
- We will consider the application of appropriate segregation of duties between those responsible for monitoring budgets (e.g. general managers) and those preparing the financial statements (Finance Team) which helps to prevent fraudulent manipulation of expenditure;
- We will test that senior staff are not remunerated based upon financial results, nor is the funding made available to the Trust based upon the results presented in the financial statements;

Outcome from audit work

- We have considered the Trust's financial position both during the year and at the year end. We do not believe the Trust's current financial position leads there to be any undue pressure on its year end outturn.
- We have reviewed the functioning of budgetary controls during the year and have no concerns to raise as a result of our work.
- We are comfortable as a result of our work that there is appropriate segregation of duties in place between budget holders who are responsible for monitoring and achievement of their own budgets and members of the Finance Team who are responsible for preparing the accounts.
- We have confirmed via our testing of the Remuneration Report that staff do not receive performance related pay. We have also confirmed that PSF is the only element of the Trust's income which is specifically related to financial performance.
- We have performed testing over accruals and the cut-off of expenditure to gain evidence that expenditure has been recorded in the correct period.



6 New accounting standards

Other area of focus

The risk

- The GAM requires you to apply two new accounting standards in 2018/19:
 - IFRS 9 Financial Instruments.
 - IFRS 15 Revenue from Contracts with Customers.
- While the GAM has provided some interpretation of how these will apply to the NHS further guidance is expected. This will require the Trust to complete additional work in advance of the year end accounting preparation to ensure that balances are correctly recorded.
- IFRS 16 Accounting for Leases, will apply from 1 April 2020 so work needs to commence to assess its impact

Planned response

IFRS 9 – Financial Instruments

- The main impact to be considered is the level of provision held against debts from non-NHS bodies. This may not result in amendments to your provision policy you will need to demonstrate the impact has been considered.

IFRS 15 Revenue from Contracts with Customers

- The DHSC, NHSI and NHSE are currently working on a review to assess the impact for bodies who have signed the standard NHS contract. The Trust will need to consider the results of this when they are available. It will also need to consider whether any contracts for income which are not subject to NHS standard terms are correctly recognising revenue in line with this standard.

IFRS 16 Accounting for Leases

- HM Treasury is to consider how this standard should be applied to the public sector. Initially it was thought this would be required from 01 April 2019, however this has been deferred until 01 April 2020. However, the Trust will still need to commence its impact assessment. We are still in the process of understanding the disclosure impact on the 2018/19 accounts, given the deferral.
- Actions required are potentially time consuming with the need to ensure that all leases have been identified and reviewed, including those which are not governed by a contract. Most likely focus will be on service contract and arrangements with NHS Property Services for Trusts. We will aim to review this work, if available, as part of both our interim and final audit.

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

Financial statements audit – other matters



⑥ New accounting standards

Outcome from audit work

We confirmed that the new standard which potentially has an impact on the Trust for 2018/19 was IFRS 15 Revenue from Contracts with Customers. We have discussed with management the Trust's material revenue streams and whether there is any impact on the income recognised. We are satisfied that these discussions and our wider audit work provide an appropriate platform upon which to conclude that there are no changes to income recognition for 2018/19.



7 Going concern

Other area of focus

The risk

- The GAM directs that your financial statements will be prepared on a going concern basis unless services are being transferred outside of the public sector or being discontinued.
- Risks to your financial position are expressed through disclosure in the financial statements (which need to be complete and balanced) and consideration in our use of resources responsibilities.
- Key analysis of your future financial performance is contained in your submissions to NHSI which forecast both current and future years expected financial performance.

Planned response

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

We will link the work we perform on this element of our financial statements audit with the work we complete on use of resources where we will challenge and review in more detail the assumption and forecasts you make about your future financial performance.

Outcome from audit work

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

Section one

Financial statements audit - mandated risks



Scepticism Challenge

Risk	Why	Finding from the audit
Fraud risk from revenue recognition	Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.	This risk has been considered as part of our NHS and non-NHS Income and Receivables significant risk.
Fraudulent expenditure recognition	Practice Note 10 suggests that auditors in the public sector should consider whether there is a fraud risk arising from the recognition of expenditure.	This risk has been considered as part of our Fraudulent Expenditure Recognition significant risk.
Fraud risk from management override of controls	<p>Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>We have not identified any specific additional risks of management override relating to this audit</p>	Our procedures, including testing of journal entries, accounting estimates and significant transaction outside the normal course of business, no instances of fraud were identified.

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

Section one

Financial statements audit - judgements

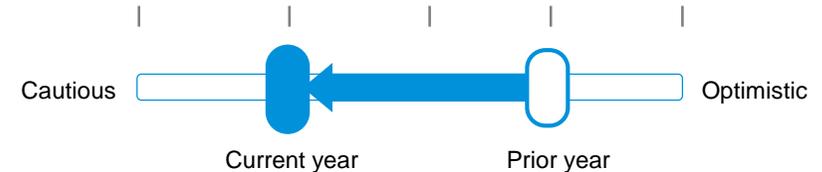


Scepticism Challenge

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.

Cautious means a smaller asset or bigger liability; optimistic is the reverse. We have only considered material judgements for the purpose of our reporting here.



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		54,235	1.9		We have reviewed the desktop valuation of land and buildings in the year undertaken by an independent third party. We have assessed the assumptions used by the valuer and the basis for valuation and are comfortable that the valuation appears balanced.
Provisions		1.8	(0.6)		We have reviewed the provisions included in the accounts and undertaken audit procedures on movements in provisions. The Trust's approach to provisions appears balanced.
Accruals		3.6	(0.4)		We have reviewed the accruals included in the accounts and undertaken relevant audit procedures. The Trust's approach to accruals appears balanced.

Section one

Financial statements audit - other matters



Scepticism Challenge

Annual report

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

- We have not identified any inconsistencies between the contents of the Accountability, Performance and Director's Reports and the financial statements.
- We have not identified any material inconsistencies between the knowledge acquired during our audit and the director's statements. As Directors you confirm that you consider that the annual report and accounts taken as a whole are fair, balanced and understandable and provides the information necessary for patients, regulators and other stakeholders to assess the Trust's performance, business model and strategy.
- The part of the Remuneration Report that is required to be audited were all found to be materially accurate;
- The AGS is consistent with the financial statements and complies with relevant guidance subject to updates as outlined within section three; and
- The report of the Audit 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 £49,250 plus VAT (£48,800 in 2017/18). This fee was in line with that highlighted within our audit plan agreed by the Audit Committee in January 2019. Our fee for the external assurance on the quality report was £9,100 plus VAT (£9,000 in 2017/18). We have also completed non audit work at the Trust during the year to pension guidance sessions to Trust staff enrolled in the NHS Pension Scheme. We have included in appendix 3 confirmation of safeguards that have been put in place to preserve our independence.



Value for Money

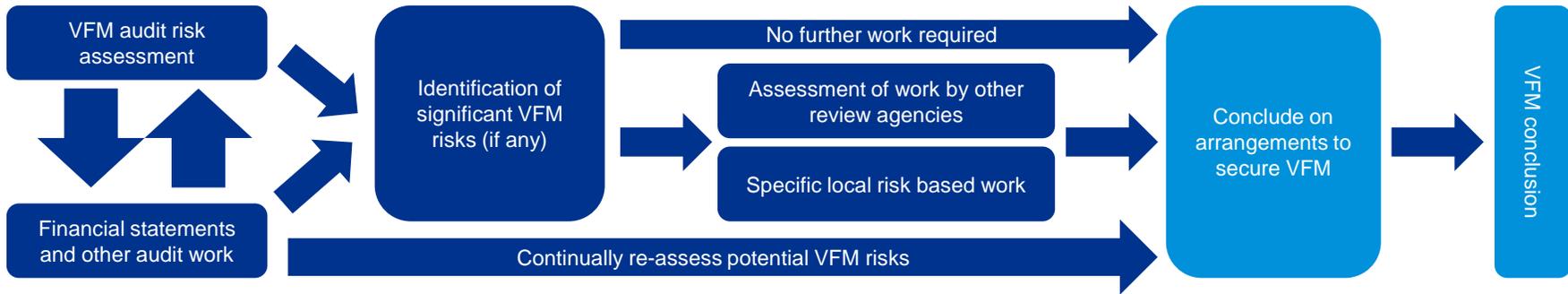
Section two

Value for Money



Scepticism Challenge

For 2018/19 our value for money (VFM) work follows the NAO’s guidance. It is risk based and targets audit effort on the areas of greatest audit risk. Our methodology is summarised below. We identified two significant VFM risks which are reported overleaf.



Risk	Why	Finding from the audit
<p>We reviewed the 2018/19 AGS and took into consideration the work of internal audit.</p> <p>We confirm that the AGS reflects our understanding of the Trust’s operations and risk management arrangements.</p>	<p>We considered the outcomes of relevant regulatory reviews (NHS Improvement, CQC, etc.) in reaching our conclusion.</p> <p>We reviewed the Trust’s latest Single Oversight Framework support level, which as of May 2019 was level 2.</p> <p>We reviewed the latest CQC inspection report dated October 2018 which provided an overall rating of Requires Improvement.</p>	<p>As part of our risk assessment we reviewed various matters, including:</p> <ul style="list-style-type: none"> • The findings of the Trust’s Internal Auditors throughout 2018/19, and the work of other external inspectorates and agencies; • The Trust’s financial performance during 2018/19, including the achievement of CIP targets; • Operational performance during 2018/19; • The Trust’s latest CQC inspection report; • The Trust’s 2019/20 financial plan and future strategy; and • All applicable correspondence with NHS Improvement and other regulators during 2018/19.



1 Delivery of CIPs

Related BAF risks

A401i – The Trust will not continue to be financially sustainable and that plans will not deliver the required financial savings.

Significant vfm risk

The risk

NHS Trusts and Foundation Trusts submitted financial plans for 2018/19 that in aggregate totalled a £496 million deficit. The achievement of financial balance, whilst maintaining the quality of healthcare provision, is therefore a key objective for all organisations.

Forecasts in quarter two suggest a full year NHS provider deficit of £623m, £127m (25%) worse than planned. The Trust has a CIP target of £4.2m for 2018/19. As at Month 7, the Trust is on track having achieved £2.4m of the £2.5m planned to date. The Trust is forecasting a £140k underachievement for the full year. The main reason behind slippage is the timing of schemes starting. The Trust continues to perform well in both the delivery of its CIP targets and control total on an ongoing basis.

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

Planned response

- Our work will focus on the arrangements in place to deliver recurrent cost improvements. We will also review how the shortfall in the planned CIP is managed by the Trust; and
- We will seek evidence that the Trust has in place a process to identifying further CIP schemes to meet future savings targets, including for the 2019/20 year.

Outcome from audit work

We have performed testing which showed that the Trust had appropriate arrangements in place throughout the year to manage and monitor its CIP delivery. For 2018/19, the Trust achieved its CIP target of £4,239k although we note that £500k of this was achieved through a release of reserves (but we acknowledge this was always the plan and the amount released is exactly the amount which had been budgeted for). The Trust has worked throughout the year to identify any additional areas of saving and keep remaining schemes on track in order to delivery 100% of its CIP target at year end.

We have also obtained evidence that the Trust has in place an appropriate process for identifying and transactions the required savings schemes for 2019/20. The CIP target for 19/20 is £2,762k. From the most recent CIP tracker dated 1st May, £655,128 of schemes were still be identified. We also note that £823,346 had already been transacted at by 1st May which is a positive start to the year. Management will continue to work to identify schemes to address the remainder of the CIP target for 2019/20.



2 CQC action plan

Related risk

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

Significant vfm risk

The risk

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

The Trust is looking at investment required to address the major concerns as well as implementing an overall action plan to respond to the findings of the CQC.

Planned response

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

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

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

Outcome from audit work

We have reviewed the Trust's CQC report to understand the key issues being raised with the Trust. The Trust has created a CQC action plan in response to the findings of the CQC report. This action plan is being monitored on an ongoing basis by the Quality Assurance Committee. The Trust received its CQC report in October 2018 and created the action plan off the back of this. In reality, there have only been 5 months of the year when this has been in place so whilst it has been taken seriously by the Trust the monitoring of the action plan only takes place in the latter part of the year.

We can see evidence through review of the QAC minutes and papers of the action plan being presented and discussed. We note that there are a number of instances of actions going beyond their due date. We can see from review of minutes that there is concern raised by the NEDs on the committee and that management are challenged to prioritise implementation of these actions as well as other improvements to the action plan process being requested. We take this as positive evidence of the robustness of the Trust's oversight of the action plan. We can also see through review of Board minutes that the CQC action plan and progress against this are challenged by the Board and assurance received as to the process in place to monitor this.

We also met with the Chief Executive as part of our normal audit procedures and obtained a further update on CQC progress and the Trust's interaction with key stakeholders.



Quality Report

Section three

Quality Report



Scepticism Challenge

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 2018/19 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?	We identified that the Trust's quality report reflected its significant matters, relevant to the selected priorities from the specified information sources. <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.



Audit of indicators within the quality report

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

- Early intervention in psychosis (EIP); and
- Improving access to psychological therapies (IAPT)

In addition, we carried out work on a locally selected indicator chosen by your Council of Governors. The indicator selected was the Mortality indicator. 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 EIP and IAPT. For the local indicators, Mortality, 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 three

Quality Report



Scepticism Challenge

		DESIGN OF SYSTEM		OPERATION OF SYSTEM			
Dimension	Rating	Description of system		Rating	Results of testing	Conclusion	
		Mandated Indicator: Early Intervention in Psychosis (EIP)		Performance target: 53%		Performance recorded in Quality Report: 74.6%	
Accuracy	●	<p>Is accurate data used and reported?</p> <p>The indicator was recalculated and it was confirmed that the correct numerator and denominator had been used.</p>		●	<p>We reviewed a sample of 25 cases from across 2018/19. There were no matters arising from the sample testing.</p> <p>There were no matters arising from verifying the figure reported in the Quality Report.</p>	<p>We have not come across any indications that data for this indicator is not produced in line with national guidance.</p>	
Completeness	●	<p>How is completeness ensured?</p> <p>All patients with a clock stop in 2018/19 were included in the indicator, as there are no allowable exclusions.</p>		●			
Relevance	●	<p>Is the information relevant for the reported purpose?</p> <p>The records of all referrals were agreed to the number of referrals included in the indicator</p>		●			
Reliability	●	<p>Is the information reported reliable insofar as it agrees to data source(s)?</p> <p>There were no significant changes to the process</p>		●			
Timeliness	●	<p>Is real-time data used and is it reported on a timely basis?</p> <p>The system used to record the data used in the indicator is updated for new referrals and completed pathways on a timely basis.</p>		●			
Validity	●	<p>What checks are performed to ensure that the data is valid?</p> <p>Details from a sample of patients were agreed back to patient records.</p>		●			

Section three

Quality Report



Scepticism Challenge

		DESIGN OF SYSTEM		OPERATION OF SYSTEM			
Dimension	Rating	Description of system		Rating	Results of testing	Conclusion	
		Mandated Indicator: Improving Access to Psychological Services (IAPT)		Performance target: 75%		Performance recorded in Quality Report: 90.3%	
Accuracy	●	<p>Is accurate data used and reported?</p> <p>The indicator was recalculated and confirmed that the correct numerator and denominator were used.</p>		●	<p>We reviewed a sample of 25 cases from across 2018/19. There were no matters arising from the sample testing.</p> <p>There were no matters arising from verifying the figure reported in the Quality Report.</p>	<p>We have not come across any indications that data for this indicator is not produced in line with national guidance.</p>	
Completeness	●	<p>How is completeness ensured?</p> <p>A sample of 10 allowable exclusions from the indicator were tested to confirm that the exclusions were valid.</p>		●			
Relevance	●	<p>Is the information relevant for the reported purpose?</p> <p>The records of all referrals was reconciled to the number of referrals used in the indicator</p>		●			
Reliability	●	<p>Is the information reported reliable insofar as it agrees to data source(s)?</p> <p>There were no significant changes to the process</p>		●			
Timeliness	●	<p>Is real-time data used and is it reported on a timely basis?</p> <p>The system used to record the data used in the indicator is updated for new referrals and completed pathways on a timely basis.</p>		●			
Validity	●	<p>What checks are performed to ensure that the data is valid?</p> <p>Details from a sample of referrals were agreed back to patient data, confirming that cases were included or excluded from the indicator in line with guidance.</p>		●			

Section three

Quality Report



Scepticism Challenge

		DESIGN OF SYSTEM		OPERATION OF SYSTEM		
Dimension	Rating	Description of system		Rating	Results of testing	Conclusion
Local Indicator (Selected by Governors): Mortality.		Performance target: Due to the nature of this indicator, the Trust does not have a target for performance.				
		Performance recorded in Quality Report: Q1 177 deaths, Q2 144 deaths, Q3 172 deaths, Q4 177 deaths				
Accuracy	●	Is accurate data used and reported? The indicator was recalculated, and confirmed that the calculation of the number of days between date of death and date of last contact was correct.		●	We reviewed a sample of 25 cases from across 2018/19. 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 come across any indications that data for this indicator is not produced in line with national guidance.
Completeness	●	How is completeness ensured? All patients in the sample had a date of last contact within the 6 month limit for the mortality indicator, and so it was correct to include them in the indicator.		●		
Relevance	●	Is the information relevant for the reported purpose? The appropriateness of the inclusion of individuals was reconciled to their patient data in the system.		●		
Reliability	●	Is the information reported reliable insofar as it agrees to data source(s)? The last date of contact and the date of death were consistent with patient records in the system.		●		
Timeliness	●	Is real-time data used and is it reported on a timely basis? The system which records the data used in the indicator is updated in a timely manner.		●		
Validity	●	What checks are performed to ensure that the data is valid? Details from a sample of patients was agreed to patient records		●		



Appendix

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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 2019)
Financial Statements				
1	2	<p>Documenting Authorisation of New Starters</p> <p>During our audit there were difficulties in evidencing appropriate authorisation for new starters sampled. For three new starters, the manager authorisation was not evidenced with a signature on the summary of selection form. For four new starters the summary of selection form was not available.</p> <p>We recommend that all summary of selection forms are signed as authorised by managers and kept on file.</p>	<p>All recruitment activities should have a completed Summary of Selection Form which is signed by the Recruiting Manager. If we receive the Summary of Selection unsigned then Recruitment Officer would email the form back to the Recruiting Manager asking for them to return a signed copy. There is a checklist in each recruitment file which is completed by the Recruitment Officer/HR Assistant.</p> <p>In order to improve the recruitment process for both external and internal recruitments we are currently in the process of producing an electronic Summary of Selection Form. This is currently in the testing phase and will hopefully be implemented by 30 June 2018. Processes that fall outside of the routine process will be documented, to ensure clarity is available in relation to exceptions or unusual recruitment processes. (e.g. bank and Deanery employed medics which were the source of some of the sample testing issues found.) These processes will be developed during quarter 2 for exceptions that remain following the introduction of the electronic form under development and planned for the end of quarter one. This new process is expected to cover bank and thus exceptions should be significantly fewer going forward.</p> <p>Responsible officer: Dean Wilson</p> <p>Implementation date: 30 June 2018</p>	<p>We selected a sample of 25 new starts in the year as part of our 2018/19 payroll controls testing. For 15 out of 25 new starters, we were unable to obtain a Summary Selection form.</p> <p>For the 10 cases where these forms were available, we confirmed that these had been signed as authorised by managers.</p> <p>We therefore consider this recommendation to be outstanding and have reiterated it here.</p> <p>We recommend that all summary of selection forms are signed as authorised by managers and kept on file.</p> <p>Revised management response: Electronic summary of selection has been tested, and we await a go live date from IMST. The outstanding 15 cases within the sample are being actively chased.</p> <p>Responsible officer: Dean Wilson</p> <p>Implementation date: 30/09/2019</p>

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 2019)
Financial Statements				
2	3	<p>Password Parameters</p> <p>When testing password parameters on the Integra2 general ledger system, we found that complexity requirements were not enforced. The password is required to be 7 characters with at least 1 digit, 1 lower case and 1 upper case character. However, upon testing the system allowed the password to be changed to passwords not meeting any of the requirements.</p> <p>We recommend that password parameters are enforced.</p>	<p>This issue was raised with Capita and they did acknowledge there had been some problems with password parameter changes on Integra 2. This issue has now been corrected and tested ensuring the Trusts Integra password parameters are enforced.</p> <p>Responsible officer: Kevin Formstone</p> <p>Implementation date: Already implemented</p>	<p>As part of our IT controls testing in 2018/19, we confirmed that password complexity requirements are enforced by the Integra2 system. This recommendation is considered to have been implemented.</p>

Audit Differences



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

There are no unadjusted audit differences above £100k.

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

We have also agreed a small number of presentational changes with management which will be incorporated into the final version of the accounts, the most notable of which relates to the profiling of future lease payments.

Audit Differences



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

Counter party	Type of balance/ transaction	Balance as per Trust (£'000)	Balance as per counter party (£'000)	Difference (£'000)	Comments on Difference
Yorkshire and the Humber Local Officer	Income / Expenditure	£1,188	£622	£566	The difference mainly relates to a £500k invoice that the Trust recognised as income but the counter party recognised as an asset on their balance sheet as it relates to a capital item. We are comfortable that the Trust has recorded this income correctly based on available information.

Audit Independence



We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Rashpal Khangura and audit staff is not impaired.

To the Board of Directors/Audit Committee members

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

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values

- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

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

Summary of fees

We have considered the fees charged by us to the Trust and its affiliates for professional services provided by us during the reporting period. We have detailed the fees charged by us to the company and its related entities for significant professional services provided by us during the reporting period below, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2019 can be analysed as follows:

Audit Independence



Component of audit (all fees exclude VAT)	2018/19	2017/18
Audit services – statutory audit		
Financial Statements Audit	£49,250	£48,800
<i>Sub-total</i>	£49,250	£48,800
Non audit fees		
Audit related assurance services	£9,100	£9,000
All other non-audit services	£5,000	-
Total fee for Trust	£63,250	£57,800

The ratio of non-audit fees to audit fees for the year was 0.29 : 1. We do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole. Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in the following table.

Description of scope of services	Principal threats to Independence	Safeguards Applied	Basis of fee	Value of Services Delivered in the YE 31.03.2019
Pensions tax seminars	Self interest Self review	The pensions tax advice was provided by our Pensions team which is completely separate to the audit team and is not involved in the audit. The team have not prepared any documents or figures as a result of this work that have been used as part of the accounts or the audit. We also consider the level of this fee to be trivial in relation to the overall audit fee and so we are have avoided the self interest threat.	Fixed fee	£5,000

Audit Independence



Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

Confirmation of audit independence

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

This report is intended solely for the information of the Audit Committee of the Trust and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

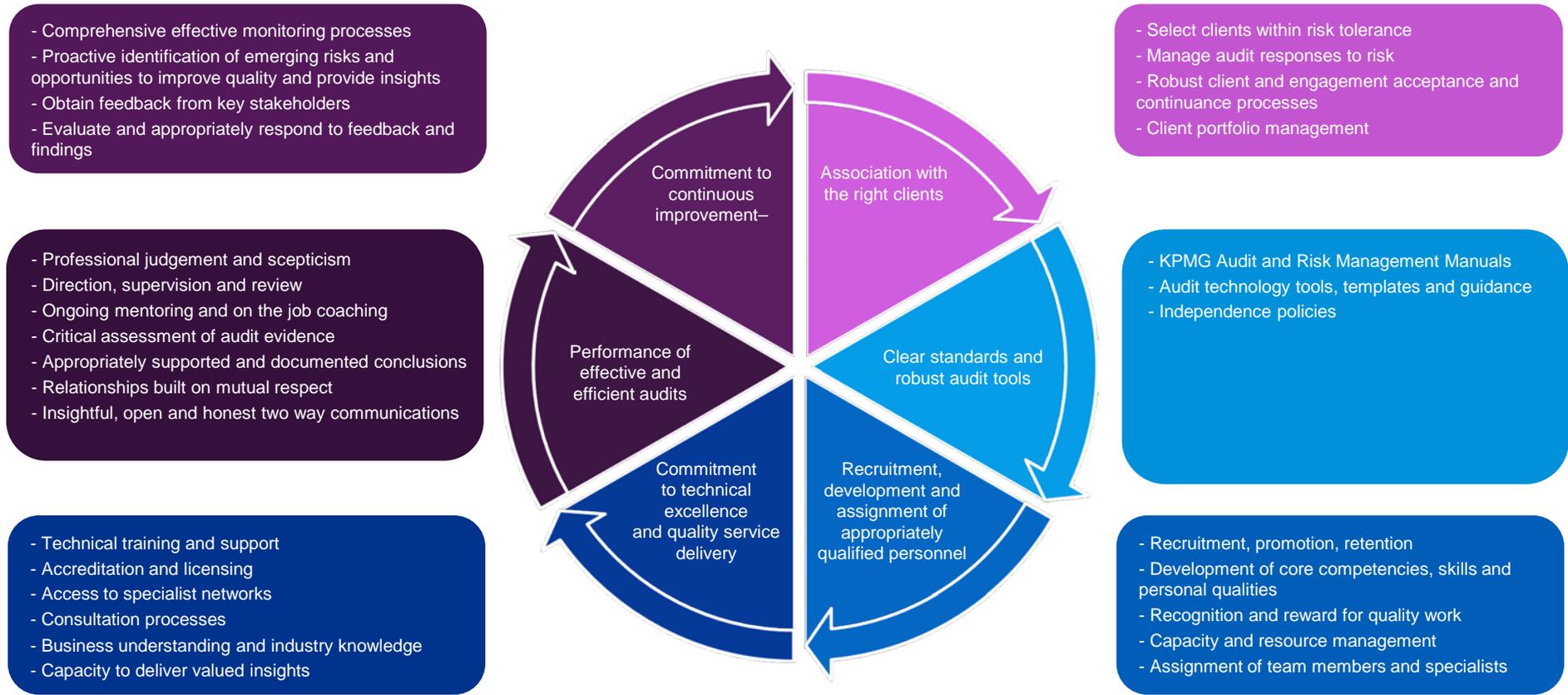
KPMG LLP

KPMG LLP

KPMG's Audit quality framework



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





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