The Annual Audit Letter For St Helens and Knowsley Teaching Hospitals NHS Trust

Year ended 31 March 2020

25 August 2020

Contents

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at St Helens and Knowsley Teaching Hospitals NHS Trust (the Trust) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Trust and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Trust's Audit Committee as those charged with governance in our Audit Findings Report on 16th June 2020.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Trust financial statements
- assess the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion).

In our audit of the Trust financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the Trust's financial statements to be £7.806m, which is 2% of the Trust’s forecasted gross operating expenses.
Financial Statements opinion	We gave an unqualified opinion on the Trust's financial statements on 24th June 2020.
NHS Group consolidation template (WGA)	We also reported on the consistency of the financial statements consolidation template provided to the National Audit Office with the audited financial statements. We concluded that these were consistent.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the Trust put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Directors of the Trust on 24th June 2020.
Quality Accounts	Due to the Covid-19 pandemic, the Department of Health and Social Care suspended the requirement for the Trust's Quality Accounts to be certified.
Certificate	We certified that we have completed the audit of the financial statements of St Helens and Knowsley Teaching Hospitals NHS Trust in accordance with the requirements of the Code of Audit Practice on 24th June 2020.

Working with the Trust

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Trust's staff during these extraordinary times.

Grant Thornton UK LLP
July 2020

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Trust's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Trust's financial statements to be £7.806m, which is 2% of the Trust's forecasted gross operating expenses. We used this benchmark as, in our view, users of the Trust's financial statements are most interested in where the Trust has spent its revenue in the year.

In accordance with ISA320 we considered the need to set lower levels of materiality for sensitive balances, transactions or disclosures in the accounts. We considered the disclosures of senior manager's remuneration (£25,000) and the cash equivalent transfer value (CETV) element (£250,000) of the Remuneration Report to be sensitive as we believed these disclosures were of specific interest to the reader of the accounts.

We set a lower threshold of £300,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Annual Report to check it is consistent with our understanding of the Trust and with the financial statements included in the Annual Report on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Trust's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	Findings	Conclusion
Covid – 19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. These circumstances impacted on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to: • Remote working arrangements and redeployment of staff to critical front line duties potentially impacting on the quality and timing of the production of the financial statements, and the evidence we obtain through physical observation; • Volatility of financial and property markets increases the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates; • Financial uncertainty requires management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties have arisen; and • Disclosures within the financial statements require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1.	We worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. We also: • Liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose. • Evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic. • Evaluated whether sufficient audit evidence could be obtained in the absence of physical verification of assets through remote technology. • Evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances. • Evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment. • Discussed with management any potential implications for our audit report if we had been unable to obtain sufficient audit evidence.	The results of our work concluded that the Trust had put in place arrangements to manage the COVID 19 situation, including the creation of a COVID-19 Gold Command Incident Management Team (COVID Gold Command) which is formally constituted as a sub group of the Executive Committee. The COVID Gold Command monitors the effectiveness of the Trust response to COVID-19 pandemic. Additional governance processes have been put in place to support and approve Covid-19 expenditure both revenue and capital. Our audit report included an Emphasis of Matter relating to the disclosure included in the financial statements describing the effect of the Covid-19 pandemic on the valuation of land and buildings as at 31 March 2020.

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	Finding	Conclusion
Valuation of land and buildings The Trust revalues its land and buildings on a five-yearly basis to ensure the carrying value in the Trust financial statements is not materially different from current value at the financial statements date. The Trust requested a full valuation as at 31 March 2020 from its valuation expert. This valuation represents a significant estimate by management in the financial statements. Management engaged the services of a qualified valuer, who is a Regulated Member of the Royal Institute of Chartered Surveyors (RICS), to estimate the current value of its land and buildings. The effects of the COVID-19 virus impacts the work carried out by the Trust's valuer in a variety of ways, including access to evidential data, such as values of comparable assets being less freely available. RICS Regulated Members therefore considered whether a material uncertainty declaration was appropriate in their reports. Its purpose is to ensure that any client relying upon the valuation report understands that it had been prepared under extraordinary circumstances. In their 2019/20 valuation report the Trust's valuer, Cushman and Wakefield included a valuation uncertainty in their valuation report, this was disclosed in Note 1.3.2 to the financial statements as a key source of estimation uncertainty. We therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.	We: • Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • Evaluated the competence, capabilities and objectivity of the valuation expert; • Wrote to the valuer to confirm the basis on which the valuation was carried out; • Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; and • Tested revaluations made during the year to see if they had been input correctly into the Trust's asset register. The Trust's accounting policy on valuation of land and buildings is included in Notes 1.3.2, and 1.8 to the financial statements and related disclosures are included in Note 13. Management identified the material uncertainty regarding the valuation of land and buildings due to market uncertainty arising from the Covid-19 pandemic reported by their expert valuer as a significant issue in Note 1.3.2 to the financial statements, and also described the context which it related to the Trust. The Trust's valuer prepared their valuations in accordance with the RICS Valuation – Global Standards using the information that was available to them at the valuation date in deriving their estimates.	We obtained sufficient audit assurance to conclude that: • the basis of the valuation of land and buildings was appropriate; • the assumptions and processes used by management in determining the estimate of valuation of property were reasonable; and • the valuation of land and buildings disclosed in the financial statements is reasonable.

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	Finding	Conclusion
Revenue recognition Trusts are facing significant pressure to contain expenditure and meet externally set financial targets, coupled with increasing patient demand and cost pressures. In this environment, we considered the rebuttable presumed risk under ISA (UK) 240 that revenue may be misstated due to the improper recognition of revenue. We have rebutted this presumed risk for the revenue streams of the Trust that are principally derived from contracts that are agreed in advance at a fixed price. We determined these to be income from: • Block contract income element of patient care revenues • Education & Training income We did not deemed it appropriate to rebut this presumed risk for all other material streams of patient care income and other operating revenue. We therefore identified the occurrence and accuracy of these income streams of the Trust and the existence of associated receivable balances as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Auditor commentary** We: • Evaluated the Trust's accounting policy for recognition income from patient care activities and other operating revenue for appropriateness and compliance with the DHSC Group Accounting Manual 2019/20; and • Updated our understanding of the Trust's system for accounting for income from patient care activities and other operating revenue, and evaluated the design of the associated controls. Patient Care Income • Using the DHSC mismatch report, we investigated unmatched revenue and receivable balances over the NAO £300,000 threshold, corroborating the unmatched balances used by the Trust to supporting evidence; and • We agreed, on a sample basis, income from contract variations and year end receivables to signed contract variations, invoices or other supporting evidence such as correspondence from the Trust's commissioners. Other Operating Revenue • We agreed, on a sample basis, income and year end receivables from other operating to invoices and cash payment or other supporting evidence; and • Agreed PSF income recognised to NHS Improvement notifications.	Our audit work did not identify any issues in respect of revenue recognition.
Management over-ride of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Trust faces external pressures to meet agreed targets, and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We: • Evaluated the design effectiveness of management controls over journals; • Analysed the journals listing and determine the criteria for selecting high risk unusual journals; • Tested unusual journals made during the year and after the draft accounts stage for appropriateness and corroboration; and • Gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness.	Our audit work did not identify any issues in respect of management override of controls

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Trust's financial statements on 24th June 2020.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Trust's Audit Committee on 16th June 2020.

Annual Report, including the Annual Governance Statement

We are also required to review the Trust's Annual Report, including the Annual Governance Statement.

Whole of Government Accounts (WGA)

We issued a group return to the National Audit Office in respect of Whole of Government Accounts, which did not identify any issues for the group auditor to consider.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of St Helens and Knowsley Teaching Hospitals NHS Trust in accordance with the requirements of the Code of Audit Practice on 24th June 2020.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Trust put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	Findings	Conclusion
Financial Reporting and Outturn Position The Trust's financial plans for 2019/20 focused on delivering a control total deficit of £2.6m excluding Provider Sustainability Funding (PSF) and Financial Recovery Funding (FRF) and meeting a cost improvement programme of £16.1m. If successful the Trust will receive £6.5m from NHS Improvement (NHSI) through PSF and FRF funding. We proposed to review the in year financial performance against control total and efficiency savings, and assess the monitoring arrangements in place to keep board members and NEDs informed of the progress against the control total and assess how the Trust managed the risk of non-delivery. We will also considered the Trust's arrangements for planning CIPs as part of the overall budget setting process.	The Trust this year has made progress in strengthening its financial position. During 2019/20 the Trust achieved its control total target and delivered a surplus of £8.542m (£3.836m after technical adjustments) and after the receipt of £7m Provider Sustainability Funding (PSF). The position includes £3m that relates to Covid19 revenue expenditure. During 2019/20 the Trust was successful in delivering 100% of its cost improvement programme compared to its target for the year of £16.1m. The response to the COVID-19 pandemic has impacted on the Trust both operationally and financially. The following were key developments announced in March and April: • The 2020/21 planning process was suspended. • All NHS trusts moved to block payments on account until 31 July 2020, suspending the PBR tariff architecture. The costs of responding to COVID-19 is fully funded. These arrangements have been extended to October 2020 and funding arrangements beyond that date are currently unconfirmed. • During 2020/21 existing DHSC interim revenue and capital loans as at 31st March 2020 will be extinguished and replaced with the issue of Public Dividend Capital (PDC). This will allow the repayment of loans totalling £18.8 million. Prior to the suspension of planning, the Trust was anticipating a £0.3m deficit which would allow the Trust to access to £0.3m Financial Recovery Fund monies. The Trust's Integrated Performance Reports (IPR) provide management and Non-Executive Directors with the in year financial reporting position of the Trust. These are presented and summarised at every Trust Board meeting and at each Finance and Performance Committee meeting. The reports are comprehensive and produced one month in arrears demonstrating that they are timely and up to date. They provide a clear analysis of the progress against the financial plan at income and expenditure levels, whilst also highlighting cost improvement programme (CIP) performance, capital programme and cash management information including cash flow forecasts and aged debtor and creditor information. The reports are supported by a useful RAG (red/amber/green) assessment of the risks of failing to deliver the control total and CIP target as well as including a summary of risk issues and the management responses taken to try to mitigate identified risks.	We concluded that the Trust had appropriate arrangements in place for reporting and monitoring its financial position and identification of future CIPs.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	Findings	Conclusion
Financial Reporting and Outturn Position	Where necessary the IPRs are supported by additional reports often presented by the Director of Finance which provide a detailed risk analysis of the forecast outturn position. Our review of the Trust's arrangements for identifying future CIPs showed they were well managed and coordinated and that here was a clear timetable for early consideration of potential schemes. To aid the annual planning process the Trust's Finance Management Team begin to request a list of CIP ideas during December 2019 from the Care Groups/Directorates with respect to the 2020/21 budget. Care Groups have regular CIP meetings set up at speciality level with the clinical director, operational manager and finance leads to look at ideas for savings. They use a variety of sources e.g. model hospital, SLR data, reference costs to come up with a list of ideas. These are then pulled together at Care Group level and reviewed by the Divisional Medical Director and finance business partner. This forms the basis of their CIP programme for the following year and at both stages schemes are given an indicative value and RAG rated. In March time a final list is then shared with the Service Improvement Analyst who will add them into the Trust wide CIP tracker to enable the reporting and monitoring of CIPs across the Trust to begin. Meetings are monthly so each month the list is reviewed, RAG ratings & values amended and new schemes where necessary. From a reporting point of view, CIP is reported Trust wide at CIP Council, Risk Council and Finance and Performance Committee, and at a Care Group level - the Care Group management meetings and Finance and Performance Meetings. At speciality level they are reported at speciality business meetings. The Care Group also present their CIP process and ideas quarterly at the Finance and Performance Committee. To provide assurance a CIP scheme is chosen and reviewed by the Committee each month with a report provided to the Committee on the scheme by the Head of Financial Management.. In April 2020 the NAO updated its VFM guidance to cover Covid-19, requiring auditors to consider whether the pandemic represented a VFM significant risk. We have considered the arrangements put in place at the Trust including the remit of the Gold Command Incident Management Team and concluded that the outbreak did not represent a significant risk in relation to our 2019/20 Value for Money audit at the Trust.	We concluded that the Trust had appropriate arrangements in place for reporting and monitoring its financial position and identification of future CIPs.

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit

Reports issued

Report	Date issued
Audit Plan	February 2020
Audit Findings Report	June 2020
Annual Audit Letter	July 2020

Fees

	Planned £	Actual fees £	2018/19 fees £
Statutory audit	47,900	47,900	40,500
Quality Account fee	6,200	0	6,200
Charitable fund independent examination	900	Tbc	900
Total fees	**55,000**	**Tbc**	**47,600**

Fees for non-audit services

Service	Fees £
Audit related services - None	Nil
Non-Audit related services - None	Nil

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Trust. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Trust's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Trust's policy on the allotment of non-audit work to your auditor.

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