Annual Audit Letter 2019/20

The Shrewsbury and Telford Hospital NHS Trust

June 2020

Contents

The contacts at KPMG in connection with this report are:

Andrew Cardoza
Engagement Lead
KPMG LLP (UK)

Mob: +44 (0) 7711 869957
Andrew.Cardoza@kpmg.co.uk

Simon Stanyer
Manager
KPMG LLP (UK)

Mob: +44 (0) 7747 565380
Simon.Stanyer@kpmg.co.uk

Liz Gardiner
Assistant Manager
KPMG LLP (UK)

Mob: +44 (0) 7391 731770
Liz.Gardiner@kpmg.co.uk

This report is addressed to The Shrewsbury and Telford NHS Trust](the Trust) and has been prepared for the sole use of the Trust. We take no responsibility to any member of staff acting in their individual capacities, or to third parties.

External auditors do not act as a substitute for the audited body'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.

Introduction

Background

This Annual Audit Letter (the letter) summarises the key issues arising from our 2019-20 audit at The Shrewsbury and Telford Hospital NHS Trust (the Trust). Although this letter is addressed to the Directors of the Trust, it is also intended to communicate these issues to external stakeholders, such as members of the public. It is the responsibility of the Trust to publish this letter on the Trust's website. In the letter we highlight areas of good performance and also provide recommendations to help the Trust improve performance where appropriate. We have reported all the issues in this letter to the Trust during the year and we have provided a list of our reports in Appendix A.

Scope of our audit

The statutory responsibilities and powers of appointed auditors are set out in the Local Audit and Accountability Act 2014. Our main responsibility is to carry out an audit that meets the requirements of the National Audit Office's Code of Audit Practice (the Code) which requires us to report on:

Financial Statements including the regularity opinion and Governance Statement	We provide an opinion on the Trust's accounts. That is whether we believe the accounts give a true and fair view of the financial affairs of the Trust and of the income and expenditure recorded during the year. We confirm that the Trust has complied with the Department of Health and Social Care (DoHSC) requirements in the preparation of its Annual Governance Statement. We also confirm that the balances you have prepared for consolidation into the Whole of Government Accounts (WGA) are not inconsistent with our other work.
Value for Money arrangements	We conclude on the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the Trust's use of resources.

Fees

Our fee for 2019/20 was **£71,500** (2018/19: £80,180) excluding VAT. This fee was below the fee agreed at the start of the year with the Trust's Audit Committee.

There was a fee variation due to the delay in IFRS 16 reporting which meant our original fee of £78,000 was reduced due to no longer requiring the IFRS 16 work to be undertaken.

We also billed £3,000 for our work on Quality Accounts. This original fee for this was £8,750 but again due to change in reporting requirements, we only billed for the work completed. There were no other non-audit services undertaken.

We have also billed an extra £1,500 this year for overruns relating to the 2019/20 audit, for delays in receiving the annual report and any additional work required due to Covid-19.

Acknowledgement

We would like to take this opportunity to thank the officers of the Trust for their continued support throughout the year.

Headlines

This section summarises the key messages from our work during 2019/20.

Financial Statements audit opinion	We **issued an unqualified opinion on the Trust's 2019/20 accounts on 25 June 2020**. This means that we believe the accounts give a true and fair view of the financial affairs of the Trust and of the income and expenditure recorded during the year. There were no significant matters which we were required to report to 'those charged with governance'.
Financial statements audit work undertaken	We are required to apply the concept of materiality in planning and performing our audit. We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. Our materiality for the audit was £7.2m (2018/19: £7.0m). We identified the following risks of material misstatement in the financial statements as part of our External Audit Plan 2019/20: — Valuation of land and buildings – The GAM requires all NHS Trusts to follow the revaluation model. The Trust undertook a desktop valuation in 2019/20 with the last full revaluation in 2015/16. As all valuation reports included a material uncertainty clause this year due to Covid-19, this posed an additional risk. We assessed the work of the valuer as well as the information provided to the valuer by the Trust. We also considered the appropriateness of any assumptions used by the valuer in reaching the final valuation figures, as well as any impact of Covid-19. We concluded that the valuation provided to the Trust was reasonable and not materially misstated in the accounts. — Fraudulent revenue recognition – Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. We tested that large contracts with commissioners were signed and the income had been received and recognised in the correct period. We reviewed the Agreement of Balances exercise ensuring that the figures that the Trust had reported were accurate where there were mismatches of more than £300k. We also agreed a sample of NHS income from patient care activities and other operating income back to remittances and bank statements where possible. There were no issues identified with revenue recognition from our audit work. — Management override of control – professional standards communicate the fraud risk from management override of controls as significant. We applied professional scepticism throughout the audit, particularly with a focus on the controls over the posting of journals in-year and post-closing adjustments. Additionally, we reviewed accounting policies and any assumptions management apply in making accounting estimates. We did not find any instances of unusual transactions or management override of control during our audit. — Fraudulent expenditure recognition – in the public sector, auditors consider a risk that material misstatements may arise from the manipulation of expenditure recognition to meet externally set targets. In response to this, we performed cut-off testing from post-year end bank statements and purchase invoice listings to ensure that any expenditure relating to 2019/20 has been correctly recognised in the period. We also inspected expenditure accruals, checking for accuracy and reasonableness as well as comparing to prior year accruals to ensure that current year is complete. There were no issues identified with expenditure recognition from our audit work. As mentioned in point 1, the only impact Covid-19 has had on our audit work is the considerations of the material uncertainty disclosed in the Valuation report. We conducted our audit remotely.

Headlines

Governance Statement	We confirmed that the Trust complied with the DHSC requirements in the preparation of the Trust's Annual Governance Statement No significant adjustments were required to the Governance Statement.
Whole of Government Accounts	We issued an **unqualified 2019/20 Auditor Statement on the Consolidation Schedules** prepared by the Trust for consolidation into the Whole of Government Accounts with no exceptions.
Value for Money (VFM) conclusion	We are required to report to you if we are not satisfied that the Trust has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. **We concluded on 25 June 2020 that the in 2019/20 the Trust has not put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources** for the following reasons: — The Trust budgeted for breakeven after the receipt of £17.351m of Provider Sustainability Funding (PSF), Financial Recovery Funding (FRF) and Marginal Rate Emergency Tariff Funding (MRET). The Trust has reported a year end deficit of £26.1m post PSF/FRF/MRET. Excluding PSF monies of £9.5m this would give a deficit of £35.6m against a planned pre PSF deficit of £17.351m. This is a resulting £18.3m adverse variance. — During 2019/20 the Trust had a CIP target of £18.9m (4.5% of income) and achieved only £10.8m (57%) of the initial CIP target. — The Trust spent £26.6m on agency staff in the year against an agency ceiling of £14.2m. — The Trust's accumulate deficit at 31 March 2019 is £116.216m which has resulted in a continued breach of the breakeven duty. As a result, we have issued a referral to the Secretary of State under section 30 of the Local Audit and Accountability Act 2014. This is consistent with prior years. — The Trust was reviewed by the Care Quality Commission (CQC) in August to September 2018 with the final report issued in November 2018. The outcome of the review by the CQC was an inadequate rating with two of the five areas assessed as inadequate, these being " are services safe" and "are services well led". The Trust was revisited by the CQC from November 2019 to January 2020. The report was issued in April 2020 and is again an inadequate rating. However the Trust now has four out of five areas assed as inadequate, these being Safe, Effective, Responsive and Well Led. — In April 2017 an investigation into a number of new born, infant and maternity deaths was commenced looking into a number of historical issues in this area. An independent review into maternity care at the Trust is being reviewed by an independent team chaired by Donna Ockenden. As at April 2020, the review involves 1170 families. A final report into maternity care is still to be released. — The Trust's performance against its mandated performance indicators is reported to each Board meeting as part of the Corporate Performance Report. The Trust continues to miss a number of these performance indicators including the four hour accident and emergency target and the 62 day cancer target.

Headlines (cont.)

VFM conclusion risk areas	We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks. Our work identified the following significant risks: — Sustainable Resource Deployment – significant issues and findings as above. — Working with partners and regulators – significant issues and findings as above Covid-19 has not had any impact on our VFM work. The Trust received additional revenue and capital support from NHSE for additional Covid-19 related costs.
Recommendations	We are pleased to report that there are no high risk recommendations arising from our 2019/20 audit work. The Trust has been good at implementing agreed audit recommendations from prior years. We have identified only one prior year recommendation that still requires further action by management which has been reiterated this year.
Public Interest Reporting	We have a responsibility to consider whether there is a need to issue a public interest report or whether there are any issues which require referral to the Secretary of State. However, we in 2019/20 did issue a section 30 referral to the Secretary of State as mentioned above and as in previous years.

Summary of our 2019/20 reports issued

2020

January

February

March

April

May

June

July

August

September

October

November

December

2019/20 Audit Plan

(December 2019)

The Audit Plan set out our approach to the audit of the Trust's Financial Statements (including the Governance Statement) and our VFM conclusion work.

Progress Report

(February 2020)

This gave an update of how the interim audit had gone and also plans for the final audit.

2019/20 Audit Report

(June 2020)

The Audit Report provides our audit opinion for the year, the Value for Money conclusion, and our Audit Certificate.

2019/20 External Audit Findings Memorandum

(June 2020)

The External Audit Findings Memorandum provides details of the results of our audit for 2019/20 including key issues and recommendations raised as a result of our observations.

We also provided the mandatory auditing standards declarations as part of this report.

2019/20 Annual Audit Letter

(June 2020)

This Annual Audit Letter provides a summary of the results of our audit for 2019/20

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.