



Annual Audit Letter 2018-19

Leeds Community Healthcare NHS Trust

1 August 2019

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This report is addressed to Leeds Community Healthcare NHS 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

Introduction

Background

This Annual Audit Letter (the letter) summarises the key issues arising from our 2018-19 audit at Leeds Community Healthcare NHS 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 included a summary of our key recommendations in Appendix A. 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 B.

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	<p>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.</p> <p>We confirm that the Trust has complied with the Department of Health (DoH) requirements in the preparation of its Annual Governance Statement.</p> <p>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.</p>
Value for Money arrangements	<p>We conclude on the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the Trust's use of resources.</p>

Introduction (cont.)

Adding value from the External Audit service

We have added value to the Trust from our service throughout the year through our:

- attendance at meetings with members of the Audit Committee to present our audit findings, broaden our knowledge of the Trust and provide insight into sector developments and examples of best practice;
- proactive and pragmatic approach to issues arising in the production of the financial statements to ensure that our opinion is delivered on time;
- incorporation of data analytics into our programme of work to, for example, identify high risk journals and payroll transactions for testing;
- review of general IT controls in place at the Trust highlighting any control weaknesses and areas for improvement; and
- strong and effective working relationship with Internal Audit to maximise assurance to the Audit Committee, avoid duplication and provide value for money.

Fees

Our fee for 2018-19 was £40,000 (2017-18: £39,500) excluding VAT. This fee was in line with the fee agreed with the Trust's Audit Committee.

Acknowledgement

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



Headlines

Headlines

This section summarises the key messages from our work during 2018-19.

Financial Statements audit opinion	<p>We issued an unqualified opinion on the Trust's accounts on 24 May 2019. 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.</p> <p>There were no significant adjusted or unadjusted audit differences that were identified as part of the audit.</p> <p>There were no significant matters which we were required to report to 'those charged with governance'.</p> <p>The recommendation from 2017-18 was fully implemented in year – Appendix A</p>
Financial statements audit work undertaken	<p>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 £2.2m (2017-18: £2.1m).</p> <p>As part of our External Audit Plan 2018-19 we identified four significant risks of material misstatements and we carried out sufficient work to gain sufficient assurance to enable us to provide the unqualified opinion. The four risks are detailed below along with the work we have done and the conclusions reached.</p> <p>1. Valuation of Land and Buildings :</p> <p>Property, Plant and Equipment and impairments There is significant judgement involved in determine the appropriate basis (Existing Use Value (EUV) or Depreciated Replacement Cost (DRC) for each asset according to the degree of specialization, as well as over the assumptions made in arriving at the valuation.</p> <p>We understand that there are no plans for the Trust to carry out any external valuations during 2018/19 as the majority of the Estate was valued in 2017/18, however the Trust needs to be able to demonstrate that there is no material movement in the valuation of Property, plant and equipment, from price movements, and also impairments.</p> <p>We have:</p> <ul style="list-style-type: none">• critically assessed the decision of the Trust not to revalue their Land and Buildings;• considered the accuracy of the information supplied to the Trust from the District Valuer;• assessed the competence, capability, objectivity and independence of the District Valuer; and• considered the management assessment of impairment indicators. <p>The overall conclusion is that the valuation of material land and buildings included in the financial statements represent a balanced valuation.</p>

This section summarises the key messages from our work during 2018-19.

Financial statements audit work undertaken

2. Revenue Recognition :

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

We recognise that the incentives in the NHS differ significantly to those in the private sector which have driven the requirement to make a rebuttable presumption that this is a significant risk. These incentives in the NHS include the requirement to meet regulatory and financial covenants, rather than broader share based management concerns. We have classified Operating income from Patient Care Activities and Other Income as a significant risk to respond to this requirement;

We have:

- reviewed the information provided by the Trust as part of the Agreement of Balances (AoB) exercise to ensure it is consistent with the information in the accounts;
- Identified any mismatches with other NHS organisations and sought explanations for mismatches over £110,000 or significant cumulative mismatches;
- Agreed any disputed income or receivables over £110,000 to documentation which supports the Trust's estimates;
- Ensured significant adjustments to balances agreed with other NHS organisations are reflected in the accounts;
- Agreed any individually significant accrued or deferred income balances to documentation to confirm they are recorded appropriately;
- We have confirmed that for Non-NHS patient care, income has been fully received in cash;
- We have sample tested other income to cash; and
- We have ensured that the Provider Sustainability Fund (PSF) funding conditions have been met.

No issues have been identified.

3. Management override of controls :

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. We have not identified any specific additional risks of management override relating to this audit.

We have:

- Assessed the operating effectiveness of controls over journal entries in year, identified and assessed the appropriateness of specific high risk journals related to assessed high risk criteria, and reviewed any significant post closing adjustments made.
- Assessed the appropriateness of any changes made compared to the prior year with regards to underlying methods and assumptions used to prepare accounting estimates. Most notably this has been carried out in our assessment of the valuation methodologies and estimates utilised with regards to land and buildings. See Significant Risk Valuation of Land and Buildings.
- We did not identify any specific significant transactions that were outside the Trust's normal course of business.
- Understood management's judgements in relation to PSF funding, agreeing the PSF funding recognised to confirmation from NHS Improvement.
- Reviewed accounting judgements which impact the reported outturn position, including provisions and accruals;
- Reviewed a sample of transactions posted around year end to ensure that revenue and expenditure items have been reflected in the correct period.

No instances of fraud were identified.

Headlines (cont..)

<p>Financial statements audit work undertaken</p>	<p>4. Fraudulent Expenditure Recognition :</p> <p>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. We have rebutted this for payroll costs, so only applies to non-pay expenditure.</p> <p>We have:</p> <ul style="list-style-type: none"> • tested the design and operation of process level controls over purchases; • inspected a sample of invoices and expenditure transactions from both the ledger and the Trust's banking transactions in the period prior to and following 31 March 2019 to determine whether expenditure was recognised in the correct accounting period; • considered the completeness of the accrued expenditure balance at year end and tested a sample of accrued expenditure to ensure accounted for in the 2018/19 period appropriately; • assessed a sample of journal entries related to expenditure where the account combinations appeared unusual or a possible manipulation of year end position. These included journals moving expenditure items between expenditure codes and journals related to the year end; • sample tested a number of expenditure transactions and agreed to supporting documentation, including those journal entries noted above; • reviewed the information provided by the Trust as part of the Agreement of Balances (AoB) exercise to ensure it is consistent with the information in the accounts; • identified any mismatches with other NHS organisations and sought explanations for mismatches over £110,000 or significant cumulative mismatches; and • agreed any disputed expenditure or payables over £110,000 to documentation which supports the Trust's estimates. <p>No issues of fraud were identified.</p>
<p>Governance Statement</p>	<p>We confirmed that the Trust complied with the Department of Health requirements in the preparation of the Trust's Annual Governance Statement.</p>
<p>Whole of Government Accounts</p>	<p>We issued an unqualified Auditor Statement on the Consolidation Schedules prepared by the Trust for consolidation into the Whole of Government Accounts with no exceptions.</p>
<p>Value for Money (VFM) conclusion</p>	<p>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.</p>
<p>VFM conclusion risk areas</p>	<p>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.</p> <p>No significant risks were identified.</p>

Headlines (cont.)

Recommendations	We are pleased to report that there are no recommendations arising from our 2018-19 audit work The Trust has implemented the agreed audit recommendation from prior year.
Public Interest Reporting	There were no matters in the public interest that we needed to report or refer to the Secretary of State in 2018-19.



Appendices

Appendix A

Key recommendations

Recommendations raised in 2018-19

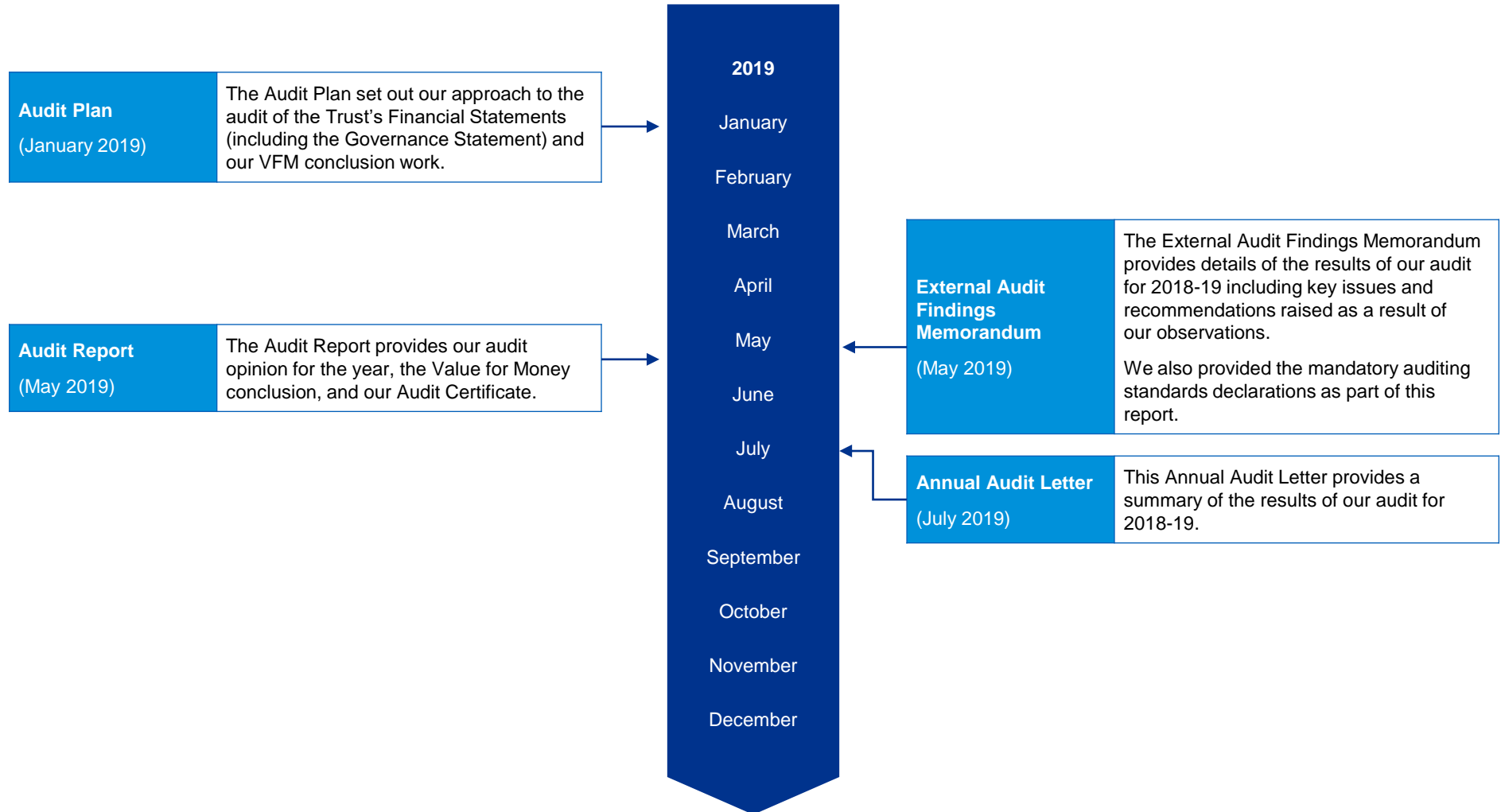
There were no recommendations in Current year

Recommendations from previous years

The recommendation in 2017-18 was fully implemented.

Appendix B

Summary of our reports issued





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.

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