



Annual Audit Letter 2019-20

Whittington Health NHS Trust

July 2020

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The contacts at KPMG in connection with this report are:

Neil Hewitson
Engagement Lead
KPMG LLP (UK)

Mob: 07810 404843
neil.hewitson@kpmg.co.uk

Steve Lucas
Senior Manager
KPMG LLP (UK)

Mob: 07468 008824
stephen.lucas@kpmg.co.uk

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This report is addressed to Whittington Health 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 Whittington Health NHS Trust (the Trust). Although this letter is addressed to the Directors of the Trust, it is 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 its website. In the letter we highlight areas of good performance and provide recommendations to help 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 provide 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	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 the audit is £56,075 plus VAT (£56,075 in 2018/19). Our fee for the external assurance on the quality account was £1,000 plus VAT (£10,000 in 2018/19).

The original fee in our audit plan agreed by the Audit and Risk Committee in January 2020 was £51,075 plus an additional fee for work required on implementing IFRS 16. We have charged £1,000 for time spent on the work completed in respect of IFRS 16 until DHSC determined it did not need to be implemented this year. We agreed an additional fee of £4,000 in respect of unplanned work required on the full valuation needed to address the qualification on the valuer's report relating to material valuation uncertainty on land and buildings.

The agreed fee for our assurance on the quality account was £10,000. The requirement to have the quality account audited was removed in April 2020 and our fee for the work completed up to when it was cancelled was £1,000.

We have not completed any non-audit work at the Trust during the year.

Acknowledgement

We thank the officers of the Trust for their continued support throughout the year.

Headlines

Financial Statements audit opinion

We issued an unqualified opinion on the Trust's 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.

We reported one unadjusted audit difference that was identified as part of the audit relating to the depreciation charge on buildings. The Trust used asset lives to calculate the depreciation charge in line with those used in previous years rather than those provided by its valuer following changes in Royal Institute of Chartered Surveyors (RICS) guidance. If the asset lives provided by the valuer was used, there would be an additional £1.3m depreciation charge. There is no impact on fixed assets as they were valued at 31 March 2020.

There were no adjusted audit differences to the figures in the primary financial statements, although there were adjustments to the notes.

There were no significant matters which we were required to report to the Audit and Risk Committee.

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 £6.5 million (2018-19: £6.5 million).

We identified the following significant risks of material misstatement in the financial statements as part of our External Audit Plan 2019-20::

- **Valuation of land and buildings.** The valuation of land and buildings is complex and judgemental. The Trust engaged a professional valuer to value its land and buildings and in line with a majority of valuations at 31 March 2020, a material valuation uncertainty paragraph was included in the valuation report. This is in line with guidance issued by RICS as a result of Covid-19 and possible impacts on valuations of land and buildings. We worked with the Trust and the valuer to understand any potential impact on the financial statements and gained assurance over the valuation through our audit procedures.
- **Revenue recognition.** Professional standards require us to make a rebuttal presumption that there is a fraud risk from recognition of revenue, we recognise this in relation to patient care and other operating income. We tested the processes, controls and completed substantive audit testing, including the agreement of balances exercise between NHS bodies, and found no exceptions.
- **Management override of control.** Professional standards communicate the fraud risk from management override of controls as significant. We reviewed controls and the underlying data and assumptions used in significant estimates used in the valuation of plant property and equipment and found no exceptions. We performed testing of controls and substantive testing of journals posted and found no exceptions.
- **Expenditure recognition.** In the public sector, auditors also consider the risk that material misstatements may arise from the manipulation of expenditure recognition. We tested year end prepayments and accruals and found these to be appropriate.

Headlines

Governance Statement	We confirmed that the Trust complied with the DHSC requirements in the preparation of the Trust's Annual Governance Statement
Whole of Government Accounts	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.
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 that the Trust has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
VFM conclusion risk areas	<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 to mitigate these risks. Our work identified financial resilience as an area of audit focus.</p> <p>The Trust achieved its control total for the year and recorded a surplus of £121,000. This surplus included surplus Provider Sustainability Funds monies of £1.155m notified in April 2020..</p> <p>Despite achieving the overall control total, the Cost Improvement Programme (CIP) delivered £8.7m of savings against a target of £12.3m. Of the £8.7m delivered, £5.3m were recurrent savings. This under delivery puts pressure on future years. The estimated underlying deficit at the year end was around £10m.</p> <p>For 2020/21 an initial budget was set and a Financial Improvement Trajectory agreed with NHSI/E at a deficit of £2.9m. This requires a CIP target of £15.1m to deliver this. Following the outbreak of Covid-19, NHSI/E suspended the operational and financial planning process for 2020/21 and moved to block contract payments on account for four months to 31 July 2020.</p>
Recommendations	We made two recommendations including a high priority recommendation which relates to having land and buildings revalued when a valuer can issue a report without a material uncertainty clause included. There were two prior year recommendations that were not implemented and require further action by management. The high priority recommendation is shown in appendix 1.
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. We did not issue a report in the public interest or refer any matters to the Secretary of State in 2019/20.

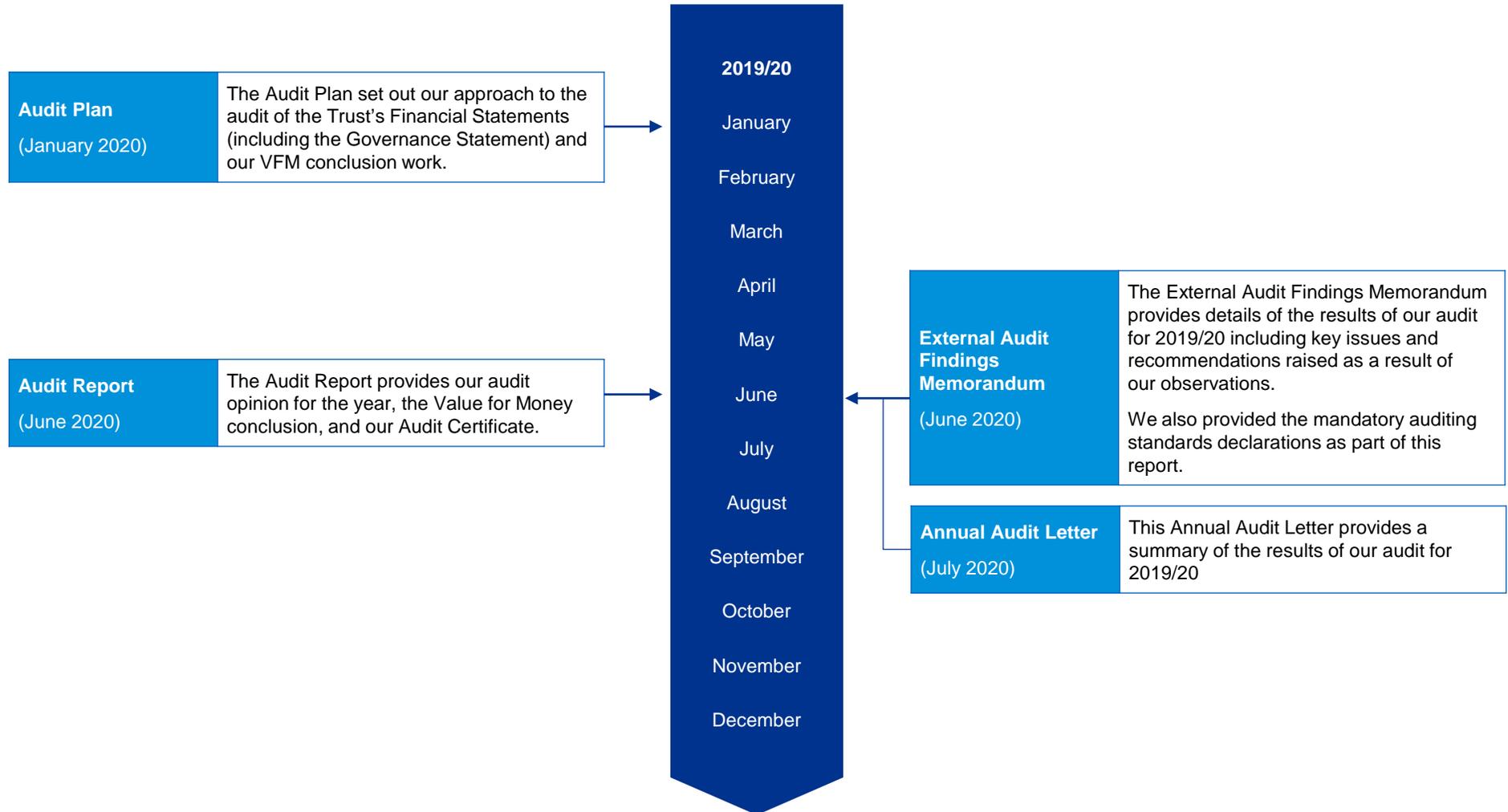
Key recommendations

Recommendations raised in 2019-20

No.	Risk	Issue, impact and recommendation	Management response/responsible officer/due date
1	<p>●</p> <p>High</p>	<p>Valuation of land and building assets</p> <p>The Trust's valuer included a material uncertainty regarding the valuation of the Trust's land and buildings at 31 March 2020.</p> <p>This is driven by the uncertain impact of Covid-19 on the market indices and other factors which may impact the valuation of land and building assets. At the time of our audit, there was limited further information available to be able to assess the impact of Covid-19 on the value of the Trust's assets.</p> <p>The valuer has recommended that the Trust undertakes a future impairment review to reassess the valuation of its land and building assets ahead of the next valuation date of 31 March 2021.</p> <p>As a result of this material uncertainty we recommend that the Trust address the recommendation raised by the valuer and undertake a review of the land and building valuation during 2020-21. The timing of such a review should be discussed and agreed with the valuer such that appropriate information will be available and at a time when the impact of Covid-19 may be more easily quantifiable.</p>	<p>Agreed</p> <p>The Trust will work with its valuers to agree an appropriate date to review the valuations.</p> <p>31 March 2021</p>

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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