Grant Thornton

The Audit Findings for University Hospitals of Leicester NHS Trust

Year ended 31 March 2019

May 2019

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of University Hospitals of Leicester NHS Trust ('the Trust') and the preparation of the group and Trust's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion: • the group and Trust's financial statements give a true and fair view of the financial position of the group and Trust and the group and Trust's income and expenditure for the year; and • The group and Trust's financial statements, and the parts of the Remuneration and Staff Report to be audited, have been properly prepared in accordance with International Financial Reporting Standards, as interpreted and adapted by the Department of Health and Social Care (DHSC) and the DHSC group accounting manual 2018/19 (GAM). We are also required to report whether other information published together with the audited financial statements in the Annual Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work was completed on site during April and May. Our findings are summarised on pages 6 to 27. We have identified 3 adjustments to the financial statements that have resulted in a £nil adjustment to the Trust's retained deficit position. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B. We have identified the following issues that we wish to draw to the Audit Committee's attention: **Adjusted errors** • PPE valuation – the accounts have been amended to correct errors in the accounting for the revaluation of the Trust's land and buildings. This has impacted Property, Plant and Equipment and the Revaluation Reserve. The volume of errors significantly delayed the audit **Unadjusted errors and uncertainties** • Sale of Glenfield 'Paddock' land – the Trust has provided for £500k with regard to s106 monies following the sale of the Paddocks land. The potential liability is £2.2 million. We have reviewed the evidence available and note that there is limited information available to determine whether the provision is correct or incorrect. We draw this potential liability to the Committee's attention • Agreement of Balances – there are a number of mismatches over £300k. We received assurances from the Trust that the residual risk was around £2.1m receivables relating to contract challenges with CCGs. On 22 May 2019 the Trust confirmed that the actual risk was much higher (c £8.6m). This necessitated significant extra audit work on 23 May to resolve these differences to ensure there was not a material misstatement. This work has now been completed and the remaining mismatches are immaterial to the Trust's accounts, but indicate a potential risk of error in these areas of £2.8m in receivables and £1.7m in payables. • Prepayments – we identified a number of issues in relation to prepayments. This included prepayments relating to the MES finance lease, the eQuip project, costs inappropriately deferred, and some errors in calculation of other prepayments. Our work on testing an extended sample of prepayments is still in progress but we estimate that expenditure is understated by at least £1.8m due to these errors • Asset lives – the Trust has made amendments to asset lives for equipment and has also made an in-year reversal of depreciation relating to fully depreciated assets which are still in use. The amendments reduced depreciation by £7.4m. The changes to asset lives were based on a review by the Medical Equipment Management Service, and all the assets we sampled were increased to the maximum total life of 15 years (less any life already used). By nature the asset lives are judgemental and any review may be subjective. Reversing depreciation previously charged is permitted under the accounting standards, but is not standard practice. We note that the amendments are non-cash releasing and only delay the depreciation costs into future years. We have reviewed the evidence available and are not able to corroborate the increase in asset lives, which has a total impact on depreciation charged of £2.9m. We have categorised this as an error • VAT - The Trust has made accruals for recovery of VAT in a number of areas following external advice. In some areas, this is against the advice of HMRC and therefore there are uncertainties around the receipt of this income. We estimate the potential error to be £1.3m Cumulatively along with other areas reported in Appendix C, the impact of these errors and uncertainties is £14.1m.

Headlines

Financial statements (continued)

Significant accounting judgements

- Accruals policy – the Trust has applied a de minimus policy of £15k to manual and automated accruals, which is an increase from £10k in 2017/18. The Trust has identified that this has led to £5.3m of expenditure not being accrued in 2018/19. We note that this policy is not commonly applied within the NHS and have asked for the accounting policies to be amended to reflect this policy and its impact. We have also requested representations that the Trust Board is in agreement with this policy (as we understand that this change has not previously been communicated and due to the significant amount that has not been accrued for). We consider that as a minimum £2.8m of expenditure should be accrued for in the 2018/19 financial statements (as this is the increase in unaccrued expenditure from last year). Note that this increase is made up of £0.7m relating to the change in de minimus, and £2.1m due to increases in the value of items under £10k.
- PPE valuation 2017/18 - we identified that land and buildings have increased on average by 11% since the 2017/18 valuation. Approximately 6% of this relates to local indices for building costs, but the remainder is due to the impact of 'smoothing' of indices used by the valuer in 2017/18 to avoid distortions due to assumed volatility. With hindsight, the trend has continued so the valuer has ceased the use of smoothing. Following discussions with the valuer and with management, we are satisfied with management's assertion that the assumptions used in 2017/18 were reasonable based on the information available at the time and that there is therefore no need to restate the valuation as at 31 March 2018. We draw these judgement's the Committee's attention, and have requested representations on this matter.

Audit process

The audit process has been delayed for a number of reasons including:

- Delay in the issue of working papers and the provision of evidence for key accounting treatments such as asset lives and prepayments
- Errors in PPE with a high number of differences between the accounts, fixed asset register, general ledger and valuation report, along with errors in the disclosure of additions and the accounting for the revaluation of land and buildings. The accounts, fixed asset register and general ledger have been amended but there are still differences which are unresolved. We are satisfied that we have gained sufficient assurance over the disclosures in the accounts.
- Errors in the notes for cash, payables, receivables, inventory, intangible assets, financial instruments and in the statement of cash flows
- Errors in the breakdowns provided for operating expenses, receivables and payables which delayed the selection of samples
- Completion of work on Agreement of balances.

Our work is substantially complete. Subject to the completion of the work set out below and on page 6 we plan to issue an unmodified opinion on the financial statements. Our audit report will make reference to a material uncertainty with regard to going concern. Other outstanding matters include;

- receipt of management representation letter – see separate committee item; and
- review of the final set of financial statements.
- outstanding areas of audit work as set out on page 4

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Headlines

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report by exception if, in our opinion, the Trust has not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Trust's value for money arrangements. We have concluded that University Hospitals of Leicester NHS Trust does not have proper arrangements to secure economy, efficiency and effectiveness in its use of resources in relation to sustainable resource deployment. **We therefore anticipate issuing a qualified adverse value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 28 to 32.**
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have issued a referral to the Secretary of State under section 30 of the Local Audit and Accountability Act 2014. Further details are set out on page 33. We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross operating costs to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that specified audit procedures for expenditure transactions of Trust Group Holdings Limited was required, which was completed by the group audit team; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you on 11 January 2019, except for the inclusion of an additional significant risk related to going concern as communicated to you on 8 March 2019.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 24 May 2019, as detailed in Appendix E. These outstanding items include:

- receipt of management representation letter; and
- review of the final set of financial statements.
- resolution of final queries relating to sample testing including income, expenditure, payables, receivables, journals
- completion of our review of agreement of balances mismatches
- completion of work relating to Property, Plant and Equipment including work on revaluation and depreciation
- testing of the updated versions of the statement of cash flows and the financial instrument note
- resolution of outstanding queries relating to prepayments (including eQuip) and testing of an additional sample of prepayments due to the need to extend our testing
- resolution of audit queries on the elements of the remuneration report that are subject to audit
- testing the consolidation of the group accounts
- completion of group procedures for the NAO as part of the DHSC consolidation

Materiality

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remain the same as reported in our audit plan, except for the decision to use a single materiality for the Group and Trust accounts as they are not significantly different. We detail in the table below our determination of materiality for University Hospitals of Leicester NHS Trust.

	Group Amount (£)	Trust Amount (£)	Qualitative factors considered
Materiality for the financial statements	16,755k	16,755k	• We considered the size and inherent complexity of the Trust, as well as the increasing level of public and national attention on the NHS during a period of significant cost cutting, efficiency requirements and increasing demand. • In our audit plan we reported a materiality of £16.8m for the Group and £16.75m for the Trust. We subsequently determined that we would not set a separate materiality for the University Hospitals of Leicester NHS Trust component as we do not consider that there is a material difference between the reported transactions and balances for 2018/19.
Performance materiality	11,729k	11,729k	• We considered the stability of the financial team preparing the financial statements, and also the level of errors and amendments reported in previous years. Performance materiality was set at 70% of materiality.
Trivial matters	300k	300k	• This is aligned to the NAO Whole of Government Accounts exercise which supports of the overall consolidation of the NHS accounts.
Materiality for senior officers' remuneration and CETV disclosures			• We applied a lower materiality due to the sensitive nature of these disclosures.
- Remuneration	100k	£100k	
- CETV values	250k	£250k	

Significant findings - Going concern

Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Going concern material uncertainty disclosures

The Trust is facing significant financial challenges and has reported a deficit position for 2018/19, with further budget deficits forecast for 2019/20 and 2020/21. The Trust will therefore require further cash support to pay its expenses in these years. The source and value of this support has yet to be confirmed.

We therefore identified the adequacy of disclosures relating to material uncertainties that may cast doubt on the group and Trust's ability to continue as a going concern in the financial statements as a significant risk. Given the sensitive nature of these disclosures, this is one of the most significant assessed risks of material misstatement.

Going concern commentary

Management's assessment process

Management have made an assessment of going concern including:

- previous and planned future deficits
- the Trust's cash position and cashflow forecasts to June 2020
- the Trust's Statement of Financial Position and the funding of its capital programme for 2019/20
- the impact of loans, both present and those anticipated for 2019/20 and beyond
- compliance with regulatory or statutory requirements during the financial year
- consideration of events and conditions relating to the Trust

A paper covering these points was presented to the Audit Committee for comment on 24 May 2019.

Auditor commentary

- Management's assessment is that the use of going concern basis of accounting is appropriate but that there are material uncertainties which have been disclosed in the draft accounts
- Management have prepared a report confirming their assessment of going concern and have presented this to the Audit Committee on 24 May 2019 for scrutiny
- We are satisfied that management has considered all pertinent areas relevant for consideration of the Trust's ability to continue as a going concern, as documented in the report.

Work performed

We have completed the following work:

- discussed the financial standing of the Trust with officers
- reviewed management's assessment of going concern assumptions and supporting information, e.g. 2019/20 budget and cash flow forecasts to ensure these concur with our knowledge of the Trust
- examined the terms of available cash support facilities
- evaluated the completeness and accuracy of disclosures on material uncertainties with regard to going concern in the financial statements.

Auditor commentary

- Based on our work our view is that there are material uncertainties relating to the Trust's ability to continue as a going concern due to the size and scale of the DHSC loans already obtained and forecast as part of the 2019/20 financial plans and the length of time until the Trust expects to return to financial balance
- We assessed that the disclosures in the draft accounts relating to going concern material uncertainties were adequate but that some minor improvements could be made. Management has agreed to make these amendments in the final version of the accounts.

Significant findings - Going concern

Going concern commentary	
Concluding comments	**Auditor commentary**
	We have based our assessment on the following key considerations: • There is a presumption under IAS1 that all public entities are a going concern. The GAM reiterates that 'for non-trading entities in the public sector, the anticipated continuation of the provision of a service in the future, as evidenced by inclusion of financial provision for that service in published documents, is normally sufficient evidence of going concern. DHSC group bodies must therefore prepare their accounts on a going concern basis unless informed by the relevant national body or DHSC sponsor of the intention for dissolution without transfer of services or function to another entity.' • We have reviewed management's assessment setting out why management consider the Trust to be a going concern • The Trust is reliant on cash support from the Department of Health and Social Care (DHSC). To date, such support has been forthcoming when required by the Trust, and loans which matured in 2018/19 were extended by DHSC for a further year. There is no indication that this will not be the case in the future • The Trust has confirmed its contracts with commissioners for 2019/20 • We are not aware of any indication from the Secretary of State that the Trust is likely to be dissolved or that services will not continue within the public sector We are satisfied that management's use of the going concern assumption is appropriate, but that there are material uncertainties. We will therefore include a paragraph within our audit report relating to going concern material uncertainties. We anticipate that our opinion on this matter will be unmodified.

Significant findings

Risks identified in our Audit Plan	Commentary
❶ **Improper revenue recognition** Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. Trusts are facing significant external pressure to restrain budget overspends and meet externally set financial targets, coupled with increasing patient demand and cost pressures. In this environment, we have considered the rebuttable presumed risk under ISA (UK) 240 that revenue may be misstated due to the improper recognition of revenue. We have not deemed it appropriate to rebut this presumed risk for streams of patient care income and other operating revenue. We have 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** For all income we have: • evaluated the trust's accounting policies for recognition of income from patient care activities and other operating revenue for appropriateness and compliance with the DHSC Group Accounting Manual 2018/19 • updated our understanding of the group's system for accounting for income from patient care and other operating revenue, and evaluate the design of the associated controls For patient care income we have: • using the DHSC mismatch report, investigated unmatched revenue and receivable balances over the NAO £0.3 million threshold, corroborating the unmatched balances used by the Trust to supporting evidence; • agreed income from significant contracts back to evidence of signed contracts with the Trust's commissioners • agreed, on a sample basis, the remaining balance of patient care income (outside the main contracts), and year end receivables, to signed contract variations, invoices or other supporting evidence such as correspondence from the Trust's commissioners • evaluated the Trust's estimates and the judgments made by management on patient care income For other operating income we have: • agreed, on a sample basis, income and year end receivables from other operating revenue to invoices and cash payment or other supporting evidence • agreed significant PSF income recognised to NHS Improvement notifications; • tested, on a sample basis, additions to deferred research and development income in the current year to ensure the accuracy of deferring the income. • If other income outside of the main contracts is above materiality, test an additional sample to supporting evidence. Our work in this area is still in progress. The Trust has recognised income from the sale of land during the year, with a put option which would require the Trust to repurchase the land at a future date if invoked by the purchaser. We have summarised our consideration of this transaction on page X. We identified a number of mismatches in the Agreement of Balances exercise, including within income and receivables. We are required to report all mismatches over £300k to the NAO. These are immaterial to the accounts, however they indication a potential risk of misstatement. We have summarised these mismatches on page 18. Our audit work has not identified any other issues in respect of revenue recognition.

Significant findings

	Risks identified in our Audit Plan	Commentary
2	**Management override 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 both internal and external pressures to meet agreed deficit targets, particularly in light of not having accepted the control total. This could potentially place management under undue pressure in terms of how they report performance, in processing of journals and in the determination of significant estimates and critical judgements. Management over-ride of controls is therefore a risk requiring special audit consideration.	**Auditor commentary** We have: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness Our work in this area is still in progress. We have reviewed the judgements management has made in relation to the sale of Glenfield land and the related put option. Our work is summarised at page 18. In our journals testing we identified one prepayment for £450k in our journals testing which related to consultancy advice received in 2018/19 and previous years. This has been deferred on the basis the benefits will be obtained in future years, but we do not agree with this treatment. We also identified accruals relating to VAT recovery where there is uncertainty around whether HMRC will accept the recovery. We have reviewed both of these areas in more detail and set out our conclusions on page 21. In our testing of journals, we identified that a number of the journals we tested had not been authorised in line with the Trust's approval policies. We tested the journals to supporting documentation with no issues noted but this indicates a control issue. Our audit work to date has not identified any other issues in respect of management override of controls.

Significant findings

Risks identified in our Audit Plan	Commentary
3 **Valuation of land and buildings** PPE valuation represents a significant estimate by management in the financial statements. 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. In intervening years, such as 2018/19, the Trust requests a desktop valuation from its valuation expert. We therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Auditor commentary** We have: • 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 and inquired with the valuers to confirm the basis on which the valuation was carried out • challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding • tested revaluations made during the year to see if they had been input correctly into the Trust's fixed asset register and the accounts • confirmed the basis for significant judgements e.g. use of 2-site model for MEA valuation. • evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. Our work in this area is still in progress. We challenged the basis of the MEA valuation and size of the MEA site that was valued, in order to compare this to the planned future estate size (as set out in the Trust's 5 Year Estates Strategy, June 2014, prepared by Capita). We noted that, as in 2017/18, the site valued by the valuer was approximately 2% smaller than the Capita report. We have reviewed this and are satisfied that this does not present a risk of material misstatement. We also noted that, as in 2017/18, the land area valued by the valuer was substantially larger than that in the Capita report. We queried this with the valuer in the prior year and obtained an explanation. However we have requested that the Trust confirm the basis of the site area valued within the letter of representation. We also challenged the movement in valuation by comparing to relevant indices. We have set out further detail on the work performed in this area on page X. We identified that the valuation of land and buildings increased by significantly more than our expectation. Following discussions with the valuer, we confirmed that approximately 6% of this relates to local indices for building costs, but the remainder is due to the impact of 'smoothing' of indices used by the valuer in 2017/18 to avoid distortions due to assumed volatility that with hindsight was not correct. Following further discussions with the valuer we are satisfied that the judgement made in 2017/18 was based on the best information available at the time, including historical experience of local volatility in indices. We are satisfied that the change in assumptions this year, to move away from smoothing and reflect actual indices, meets the definition of a change in estimation and it is therefore appropriate to account for this in 2018/19 rather than reflecting a prior period adjustment. Our work to corroborate the indices used is still in progress but have received confirmation from the Trust's valuer that these are correct.

Significant findings

Risks identified in our Audit Plan	Commentary
3 **Valuation of land and buildings (continued)** PPE valuation represents a significant estimate by management in the financial statements. 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. In intervening years, such as 2018/19, the Trust requests a desktop valuation from its valuation expert. We therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Auditor commentary** We identified that the Robert Kilpatrick buildings were not revalued, as in previous years, as the building is owned by the University of Leicester. Several years ago UHL made an investment in this building to provide facilities for the training of medical students as part of UHL's commitment as a teaching hospital. This asset is the representation of this investment and the benefit UHL gain from it. This is included in the accounts at a £2m NBV reflecting the Trust's investment in a building it does not own. We have not identified a material risk in relation to this asset but note that the valuation does not therefore cover 100% of land and buildings assets. There were a number of errors in the accounting for the revaluation. Depreciation was not reset to zero, and there were errors in the movements calculated for individual assets due to the timing of processing the revaluation movements before the asset register had been finalised for the year. Additionally there was no reconciliation performed between the fixed asset register and the accounts, or between the valuer's report and the valuations recorded in the asset register. This has resulted in adjustments to the Statement of Financial Position and Note 15, as set out in Appendix C. **Conclusion** Our work in this area is still in progress but we are satisfied that there are no material errors. Our audit work has not identified any other issues in respect of the valuation of land and buildings. The Trust has agreed to amend the accounts for the accounting errors identified. We have requested specific representation from the Trust within the Letter of Representation with regard to the basis of the MEA valuation including the use of a 2-site model based on the Trust's future planned estate size, and the assumptions relating to the land area valued, and the reasonableness of the assumptions used by the valuer in 2017/18 with regard to smoothing of indices. We have undertaken sufficient testing to confirm that the valuation of property, plant and equipment is not materially misstated.

Significant findings arising from the group audit

Findings	Group audit impact
• Our work on the group consolidation is still in progress	• We have not identified any significant issues to date

Significant findings – judgements and estimates

	Summary of management's approach	Audit Comments	Assessment
Land and Buildings – £392.5m	Land and buildings comprises £374.1m of specialised assets such as the three hospital sites, which are required to be valued at depreciated replacement cost (DRC) at year end, on a modern equivalent asset basis. Management have determined the amount of space and location required for ongoing service delivery in the light of their current and projected service needs and the future planned reconfiguration from three sites to two, and have instructed the valuer accordingly. The remainder of land and buildings (£18.4m) are not specialised in nature and are required to be valued at existing use value (EUV) at year end. The Trust has engaged Gerald Eve LLP to complete the valuation of properties as at DD MM YY on a five yearly basis with a desktop revaluation in intervening years. 99% of total land and buildings were revalued on a desktop basis at 31 March 2019. The total year end valuation of land and buildings was £392.5m, a net increase/decrease of £39m from 2017/18 (£353.5m).	**Changes in estimation** • We identified that land and buildings have increased on average by 11% since the 2017/18 valuation, which was significantly different to our expectation based on national indices. Following discussions with the valuer, we confirmed that approximately 6% of this relates to local indices for building costs (BCIS location factor), but the remainder is due to the impact of 'smoothing' of indices used by the valuer in 2017/18 to avoid distortions due to assumed volatility that with hindsight was not correct. Due to this, the increase in 2018/19 is considerably larger than it would have been had the valuer not taken the decision to use smoothing in 2017/18. • We obtained further information from the valuer on this matter. The valuer confirmed that in 2017/18, a considerable spike in the BCIS location factor for Leicester to 105 was identified at the time of the valuation being performed (January 2018). A similar spike had been observed in 2015 following which the values returned to longer-term trend levels. The valuer considered a range of different smoothing approaches which could potentially be adopted to address the issue of Location Factor volatility. This included a polynomial trend curve which indicated a value of approximately 95 as at January 2018, the average of monthly location factors for the 12 months up to and including January 2018 which indicated a value of 95, and the rolling 10 year average of March (the valuation date) published location factors which gave a value of 95.2. This latter location factor was then adopted in the 2017/18 valuation rather than the January location factor of 105 based on the valuer's judgement that the higher factor would risk distortion of the valuation. • Based on the information provided by the valuer, we are satisfied that the judgement made in 2017/18 was based on the best information available at the time, including historical experience of local volatility in indices. Our prior year audit work indicated that the valuation movements with the smoothing applied were broadly in line with national indices, so the assumption of local volatility does not appear unreasonable. The subsequent increase in indices over the course of 2018/19 meant that with hindsight this judgement was not correct, however this information was not available to the valuer at the time. Therefore we are satisfied with management's assertion that the change in assumptions this year, to move away from smoothing and reflect actual indices, meets the definition of a change in estimation and it is therefore appropriate to account for this in 2018/19 rather than reflecting a prior period adjustment.	● (amber)

Assessment

- ● (red) We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● (amber) We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● (yellow) We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● (green) We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – judgements and estimates

	Summary of management's approach	Audit Comments	Assessment
Land and Buildings – £392.5m (continued)	Land and buildings comprises £374.1m of specialised assets such as the three hospital sites, which are required to be valued at depreciated replacement cost (DRC) at year end, on a modern equivalent asset basis. Management have determined the amount of space and location required for ongoing service delivery in the light of their current and projected service needs and the future planned reconfiguration from three sites to two, and have instructed the valuer accordingly. The remainder of land and buildings (£18.4m) are not specialised in nature and are required to be valued at existing use value (EUV) at year end. The Trust has engaged Gerald Eve LLP to complete the valuation of properties as at DD MM YY on a five yearly basis with a desktop revaluation in intervening years. 99% of total land and buildings were revalued on a desktop basis at 31 March 2019. The total year end valuation of land and buildings was £392.5m, a net increase/decrease of £39m from 2017/18 (£353.5m).	• We have obtained evidence of location factors for Leicester which corroborate the remaining movement of 11.25%. We are therefore satisfied that the valuation for 2018/19 appears to be reasonable, with the significant valuation movement adequately explained by a combination of the prior year 'smoothing' and the 2018/19 location factors for Leicester. • We have requested that management provide specific representations to confirm that the assumptions used by the valuer in the 2017/18 and 2018/19 valuations were reasonable and that they have not identified any requirement to restate the 2017/18 values. **Other considerations** • The Trust has used Gerald Eve as its valuation expert. We have not identified any issues with the competence, objectivity and capabilities of the valuer. • We performed testing of the completeness and accuracy of the underlying information used to determine the estimate. This information includes details of the future planned site to support the MEA valuation (as in 2017/18), as well as capital expenditure for the year. We identified a small difference of £0.6m in the capital expenditure submitted to the valuer compared to that in the fixed asset register, which is due to discussions with the valuer about the relevant data for the valuation. We have not identified a material risk due to this discrepancy. • As in 2017/18, the MEA valuation is based on the planned future estate size (as set out in the Trust's 5 Year Estates Strategy, June 2014, prepared by Capita). This approach appears to be reasonable as it is consistent with the Trust's reconfiguration plans for its future estate. We noted that, as in 2017/18, the site valued by the valuer was approximately 2% smaller than the Capita report. We have reviewed this and are satisfied that this does not present a risk of material misstatement. We also noted that, as in 2017/18, the land area valued by the valuer was substantially larger than that in the Capita report. We queried this with the valuer in the prior year and obtained an explanation. However we have requested that the Trust confirm the basis of the site area valued within the letter of representation. • The disclosures within the accounts were judged to be sufficient. Errors were made in the accounting for the revaluation and amendments have been made to the accounts to correct this. Further details are set out on page 37, 41, and 43.	● (amber)

Assessment
- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – judgements and estimates

	Summary of management's approach	Audit Comments	Assessment
Property, Plant and Equipment – useful economic lives	The Trust has made a number of changes to useful economic lives during 2018/19. **Equipment and furniture and fittings assets (not yet fully depreciated)** The Trust has increased the lives of equipment assets based on a review of expected remaining lives in light of the reduced capital programme in recent years. This has increased useful lives up to a maximum of 15 years. We have reviewed a sample of the assets to verify the basis for the remaining useful economic life determined. For all of these assets, the increase was to the maximum of 15 years. This has reduced the in-year depreciation charge by £2.9m. **Fully depreciated assets** The Trust has identified fully-depreciated assets which are still in use and has made a reversal of depreciation in year to reflect depreciation over-charged in previous years. This has reduced the in-year depreciation charge by £4.5m. We have reviewed a sample of the assets to verify the basis for the valuation assigned to the asset, and the remaining useful economic life determined. The Trust has estimated the remaining value of these assets based on the information available, which included an assessment of market value where appropriate.	Given the reduced availability of capital funding it is not unreasonable for the Trust to review asset lives. Due to the limited availability of comparator items which would corroborate the useful lives selected, the useful lives are based on judgements made by the Medical Equipment Management Service, based on their knowledge of the assets in question and their expectations of the likely remaining life of each asset in the current climate. Given the lack of corroborating evidence to support these judgements, the asset lives chosen are by nature subjective. Based on the sample, it appears the maximum life of 15 years has been selected in the majority of cases for the assets which were not yet fully depreciated. However management's view is that the Medical Equipment Management Service is the best source of such judgements, given their day-to-day monitoring of these assets, and that the asset lives selected are therefore reasonable. The estimation of the remaining values of fully depreciated assets are also judgemental, but where possible the Trust has had regard to market evidence for comparative assets to inform its estimation process. The adjustment to reverse depreciation charged in previous years is not material and as such it is not out of line with accounting standards to correct the previous over-charging of depreciation in previous years. However, it is not common practice, is not cash releasing and will not assist the Trust in the medium term as the depreciation is merely deferred to future years. This adjustment has not been processed through the asset register. This should be corrected to ensure that depreciation is charged on these assets in future years. For the sample of non-fully depreciated assets), Trust staff were unable to provide corroborating examples of assets which had remained in use for the specified amount of time, so the changes are based on medical equipment staff judgements based on their expectations about the remaining lives of current assets. These judgements have inherent uncertainty and we have therefore reported this reduction in depreciation as a £2.9m error.	● ●

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – judgements and estimates

	Summary of management's approach	Audit Comments	Assessment
Sale of Glenfield Paddock land £6m	• The Trust has recognised income from the sale of land during the year, with a put option which would require the Trust to repurchase the land at a future date if invoked by the purchaser. • Management have determined that the income should be recognised in year as they have determined that it is unlikely the put option will be invoked. This is based on an assessment that planning permission and third party access rights are likely to be granted and that the purchase is therefore unlikely to have an economic incentive to invoke the put option. • The Trust has recognised the put option as a financial instrument, and valued this at nil as at 31/3/19 for the same reasons. • The Trust has included a provision of £500k relating to section 106 liabilities. The maximum potential liability per the contract is £2.2m. There are a number of uncertainties relating the final amount the Trust will be liable for, so there is a risk that this provision may be understated by up to £1.7m. We have reported this as an unadjusted error on page X.	• We are satisfied that the Trust's judgements regarding the recognition of income and the valuation of the put option appear to be reasonable • The Trust will need to revalue the put option each year. • Additional disclosures have been requested in the accounts regarding the contingent liability relating to the put option, and the put option valuation as a financial instrument • There is a risk that the provision for section 106 liabilities may be understated by up to £1.7m given the inherent uncertainties • The Trust has not included detailed disclosures relating to the provision due to commercial sensitivity, which is not in line with the requirements of the GAM.	● (green)
De minimus policy for accruals	• The Trust has changed its accruals policy in 2018/19 to increase the de minimus from £10k to £15k for both automated accruals and manual accruals. • The impact of this de minimus policy has been assessed by the Trust as £5.3m of expenditure which has not been accrued. This compares to approximately £2.5m in 2017/18. • We note that the majority of this balance relates to GRNI accruals that are not difficult to identify and to accrue for. We also note that this is not a commonly applied policy in the NHS and that the change in policy has not been agreed by the Board • Although this is not material, there is a significant risk that the Trust is not recognising all its liabilities. Given the volatility of the values the Trust needs to ensure there is not a risk of material misstatement in its accounts in future years.	• The amount is not material, however it represents a significant under-accrual of expenditure due to the application of the de minimum • We have reported the increase in value since 2017/18 of £2.8m as an error. • We have requested specific representation in this area within the Letter of Representation.	● (red)

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – judgements and estimates

	Summary of management's approach	Audit Comments	Assessment
Prepayments (continued)	We identified a number of issues with prepayments in the accounts. eQuip programme The Trust has entered into a 5-year agreement in year for the provision of IT hardware, software and related services. The Trust assessed this as being an operating lease, and recognised a prepayment of £3.2m to reflect the difference between the amount paid in year and the service/hardware actually received. The Trust has been invoiced for £3.2m and paid £2.9m in 2018/19, and the Trust has assessed that it has received assets, software and services with a maximum value of £740k. The Trust has recognised expenditure of £250k. This indicates a prepayment of £2.2m.	In our view the arrangement has the hallmarks of a finance lease due to the potential for the arrangement to cover substantially all the useful life of the assets and the lack of an ability for the Trust to cancel. However this is a judgemental area and not clear cut. We therefore recommend that the Trust revisit their assessment in future. On the basis that the Trust has assessed this as an operating lease, we consider that the prepayment is overstated. The value of the assets received in year is not significant so we are satisfied the impact would not be material. Given the level of assets received to date compared to the amounts paid, it appears to reasonable to recognise a prepayment, but in our view this is currently overstated by £1m, with payables overstated by £300k. Expenditure is understated by approximately £490k. We are currently finalising our work in this area in order to confirm the final values.	●
	Managed Equipment Service finance lease The Trust entered into a finance lease a number of years ago for the managed equipment service. The lease liability is calculated based on a model which is provided to the Trust at the start of each year. For a number of year, the value of the capital additions received by the Trust has been lower than that recorded in the model, due to constraints in the Trust's capital resources. In previous years, the Trust therefore adjusted the closing liability to reflect the additions actually received. This led to a mismatch between the model and the accounts. In 2018/19, the Trust has reassessed their approach and determined that it would be appropriate to recognise the full liability as per the model, but to recognise a corresponding prepayment to reflect the capital additions not yet received.	The Trust has amended the model used to calculate the lease liability to reflect the lower additions actually received in both 2017/18 and 2018/19. The Trust has amended the accounts to remove the prepayment and reduce the lease liability in line with the amended model. There are minor differences remaining which we have reported as unadjusted errors. The Trust will work more closely with Althea in future to ensure we are provided with a clear updated model each year which meets our requirements in terms of reflecting actual capex.	●

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – judgements and estimates

	Summary of management's approach	Audit Comments	Assessment
Prepayments	Sample testing - receivables In our testing of a sample of receivables, we tested a number of prepayments.	Our testing of receivables indicated that there are errors within the prepayments disclosed in the accounts. As the items identified were based on a sample, we have to consider the potential impact across the population as a whole.	●
	We tested one prepayment was for £510k relating to staff costs for training which took place during 2018/19, and £11k costs incurred in 2018/19 relating to a 2019/20 CIP programme for patient meals, which were deferred into 2019/20 on the basis the training certification would be valid for a year and that the CIP benefits will be realised in future years..	For this item, we were not satisfied that the treatment as a prepayment was appropriate as the expenditure was incurred in 2018/19. This therefore represents an understatement of expenditure and overstatement of prepayments of £506k	
	We also tested two prepayments where errors had been made in calculation.	The differences were trivial but as these were selected as part of a sample we have extended our testing to gain assurance over the remaining population.	
	Journals testing We identified one prepayment for £450k in our journals testing which related to consultancy advice received in 2018/19 and previous years. This has been deferred on the basis the benefits will be obtained in future years.	The Trust have been unable to provide any evidence that the services paid for have not yet been received, and the project does not appear to be capital in nature. Therefore we are not satisfied that the treatment as a prepayment was appropriate as the expenditure was incurred in 2018/19. This therefore represents an understatement of expenditure and overstatement of prepayments of £450k.	
		As we have identified issues with prepayments based on sample testing in two separate areas of testing, we have had to extend our testing in order to be able to evaluate the risk of issues within the rest of the population of prepayments. Our testing is still in progress	

Assessment
- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – judgements and estimates

	Summary of management's approach	Audit Comments	Assessment
Accrual of VAT	• From our sample testing of receivables and journals, we identified that the Trust has recognised accruals for VAT recovery relating to VAT arrangements of lease cars under salary sacrifice (£393k), Asteral/Althea stock buyback (£464k), and IBM and Softcat (£1.3m), • The Trust obtained external advice from KPMG and EY in order to inform its judgement that this VAT was recoverable. This income has not yet been received from HMRC and not all of the VAT returns have been submitted. • As such VAT income is not received in the normal course of business, the recognition criteria is that the income should be virtually certain, rather than the lower threshold of the income being probable • The Trust has informed us they are not aware of any other similar VAT accruals.	• Lease cars – advice has been obtained from EY and the claim has been submitted to HMRC but there has not yet been confirmation from HMRC and the cash has not yet been received. The claim was only submitted in March 2019 and the Trust is not aware of any reason why this would not be accepted by HMRC. • Althea stock buyback – we understand that HMRC has indicated they are satisfied with the model used by the Trust, however the Trust has not yet submitted the claim. We are awaiting further evidence from the Trust to support this explanation but based on the explanation provided we do not anticipate regarding this as an error. • IBM and Softcat – the Trust has previously successfully reclaimed VAT in this area, however more recently HMRC have indicated that such a VAT claim is not acceptable to them. The Trust have obtained advice from EY which suggests that there may be some counter arguments which could be used. However we have not seen evidence of further progress in this area. Our view is that this indicates uncertainties around this reclaim and that the accrual does not therefore appear to be appropriate. We have therefore reported this as an error.	●

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

	Issue	Commentary	
1	**Payroll leavers**	• We tested a sample of starters and leavers to ensure the Trust's records are updated. One person in our sample left the Trust in February 2019 but the leavers form was not received by Payroll until March 2019. This will have led to an overpayment which the Trust would then need to recover.	**Auditor view** • The Trust should ensure that leavers forms are provided to Payroll on a timely basis to avoid overpayments of salary • We are satisfied the issue was identified within the year, and that the total value of overpayments progressed to invoice by the Trust in 2018/19 was £780k which is not material
2	**Differences between fixed asset register and the accounts**	• We identified a high number of issues where the fixed asset register did not reconcile to Note 15. There were a number of other differences due either to errors in the fixed asset register or errors in Note 15. This necessitated additional audit work in order to ensure we had obtained assurance over the figures. • There is a difference of £3m in opening gross book value and opening accumulated depreciation for plant and machinery, with the asset register showing lower values. This was identified and raised with the Trust during our 2017/18 audit. The Trust have still been unable to identify the reason for the difference although it is believed to relate to the MES finance lease. This has no impact on the net book value disclosed in the Statement of Financial Position but affects the disclosure in Note 15. • The reversal of depreciation relating to previously fully-depreciated assets has not been reflected in the asset register. • We are satisfied that we have gained sufficient assurance over Note 15 and that the Trust has agreed to amend the accounts for the errors we identified.	**Auditor view** • These issues created additional audit work due to the need to query differences • A reconciliation should be performed each year between the accounts and the fixed asset register to ensure any differences are identified and followed up prior to audit • As part of the 2019/20 audit, we will ensure that the fixed asset register has been fully updated so that 2019/20 opening balances reflect the audited 2018/19 accounts
3	**Manual adjustments to the accounts**	• We identified manual adjustments were made outside the ledger to correct the coding of deferred income relating to maternity pathways • We are satisfied that the adjustment out of receivables is appropriate, however the resultant entry to payables was misclassified as trade payables rather than deferred income – contract liabilities. All such adjustments should be processed through the general ledger to ensure appropriate oversight and approval. We raised a similar issue in the prior year audit.	**Auditor view** • All adjustments should be processed through the general ledger rather than being manual adjustments to the accounts
4	**Payroll reconciliation**	• The reconciliation between the payroll system and the general ledger has an unreconciled difference of £1.3m (0.22% of payroll costs), indicating a possible risk of underaccrual.	**Auditor view** • The Trust should endeavour to identify all reconciling amounts to ensure its pay expenditure is recorded accurately

Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

	Significant matter	Commentary	
1	Significant events or transactions that occurred during the year	• The Trust has made a number of judgements and estimates in year. We have discussed these with management and reviewed relevant supporting evidence.	**Auditor view** We have set out our conclusions on pages 15 to 21. **Management response** • TBC

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	• We are not aware of any related parties or related party transactions which have not been disclosed
3	**Matters in relation to laws and regulations**	• The Trust has breached the requirement to break even taking one year with another over a three year rolling period. As such we have made a referral to the Secretary of State under section 30 of the Local Accountability Act 2014. • You have not made us aware of any other significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	**Written representations**	• A letter of representation has been requested from the Trust, including specific representations in respect of the Group, which is included in the Audit Committee papers. • Specific representations have been requested from management in respect of the significant assumptions used in making accounting estimates for the following areas: – useful lives of Property, Plant and Equipment; – the appropriateness of the MEA basis of valuation using the future two site model, including the specific judgements utilised by the valuer with regard to land areas valued; – the reasonableness of assumptions used by the valuer in relation to indices used in the valuation of PPE in 2017/18 and 2018/19, and confirmation that a prior period adjustment is not required; – the appropriateness of the revenue recognition for the sale of Glenfield 'Paddock' land, and the valuation of the related put option and the provision relating to section 106 liabilities; – the appropriateness of the de minimus policy for accruals of expenditure; – the reasons for not adjusting prepayments to reflect audit adjustments identified; and – the collectability of NHS income
5	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests to the Trust's banks. This permission was granted and the requests were sent. Both of these requests were returned with positive confirmation.

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
6	**Accounting practices**	• We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements but identified a number of errors, improvements and corrections to disclosures. Those deemed significant are reported in Appendix 40 to 41.
7	**Audit evidence and explanations/significant difficulties**	• All information and explanations requested from management was provided. • There were a number of discrepancies in the draft accounts between the Statement of Financial Position and the related notes, and between the accounts and supporting working papers. This included Cash, Property Plant and Equipment, Receivables and Payables. These issues caused delays to our audit due to the extra time required to raise queries prior to being able to commence audit work.

Other responsibilities under the Code

	Issue	Commentary
1	**Other information**	• We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Our work in this area is complete subject to reviewing the final version of the other information. Minor inconsistencies have been identified but amendments have been agreed by management. We anticipate issuing an unmodified opinion in this respect – refer to appendix E.
2	**Auditable elements of Remuneration and Staff Report**	• We are required to give an opinion on whether the parts of the Remuneration and Staff Report subject to audit have been prepared properly in accordance with the requirements of the Act, directed by the Secretary of State with the consent of the Treasury. • We have audited the elements of the Remuneration and Staff report , as required by the Code. Our work in this area is still in progress. • We anticipate issuing an unqualified opinion
3	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a number of areas: • If the Annual Governance Statement does not comply with guidance issued by NHS Improvement or is misleading or inconsistent with the information of which we are aware from our audit • If we have applied any of our statutory powers or duties We identified a small number of minor improvements to ensure the AGS fully complied with the guidance. These were accepted by the Trust and appropriate amendments made to the final version of the AGS. We issued a section 30 letter under the Local Audit and Accountability Act 2014. Further details are set out on page 33.

Other responsibilities under the Code

	Issue	Commentary
4	**Review of accounts consolidation schedules and specified procedures on behalf of the group auditor**	• We are required to give a separate audit opinion on the Trust accounts consolidation schedules and to carry out specified procedures (on behalf of the NAO) on these schedules under group audit instructions. In the group audit instructions the Trust was selected as a [sampled/non-sampled] component. • Our work in this area is still in progress. • We will complete the specified procedures required under the group instructions and will submit our assurance statement by the deadline.
5	**Certification of the closure of the audit**	We intend to certify the closure of the 2018/19 audit of University Hospitals of Leicester NHS Trust in the audit opinion, as detailed in Appendix E.

Value for Money

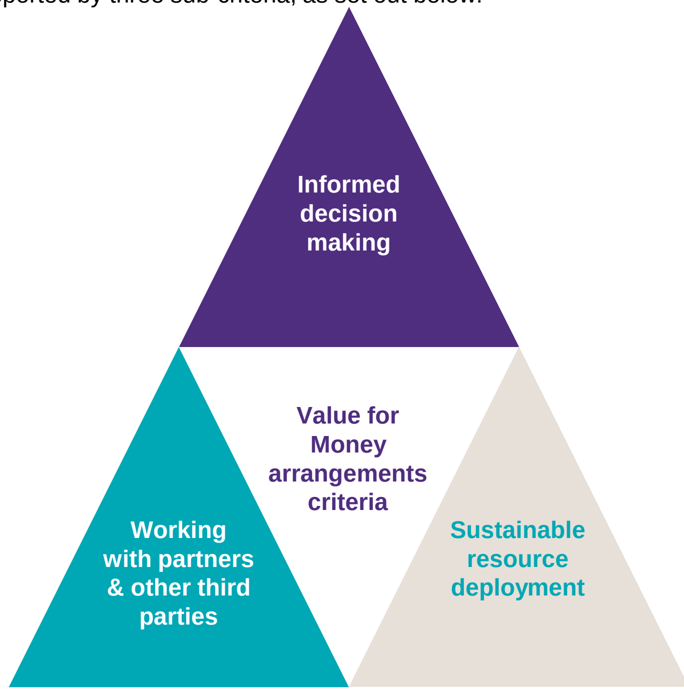
Background to our VFM approach

We are required to satisfy ourselves that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and report by exception where we are not satisfied. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Trust. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single 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."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in December and January 2019 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated January 2019.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Trust's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Trust's arrangements. In arriving at our conclusion, our main considerations were:

- The Trust accepted a revised control total of £21.2m deficit excluding PSF, and delivered a deficit of £51.8m excluding PSF
- The Trust delivered its 2018/19 CIP programme, but with some reliance on non-recurrent and non-cash releasing items
- The Trust accessed £49.5m of DHSC loans funding in 201819
- Further cash support of £10.7m is projected as part of the 2019/20 financial plans.
- The Trust has accepted its control total and set a deficit budget of £10.7m, including £38.1m of central funding of which £31.2m is contingent upon delivery of the financial plan for 2019/20
- The 2019/20 CIP requirement is £26.6m. £23.6m of this had been identified by April 2019 but only 4% was fully developed (£1m) with a further £4.8m worked up but still needing to go through QA process.
- As part of the STP the Trust is planning to reconfigure its hospitals from 3 to 2 sites. The major capital funding has not been approved, so timescales and funding are still uncertain.
- We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 30 to 32.

Overall conclusion

Because of the significance of the matters we identified in respect of the Trust’s financial sustainability during 2018/19, we are not satisfied that the Trust has made proper arrangements to secure economy, efficiency and effectiveness in your use of resources. We therefore propose to give a qualified 'adverse' conclusion.

The text of our proposed report can be found at Appendix E.

Recommendations for improvement

On pages 30 to 32 we have highlighted our views on the progress and challenges the Trust is making and facing looking forward. We have discussed and agreed these and our findings arising from our work this year with management.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings	Conclusion
1	**Financial performance and sustainability** This risk relates to the sub-criteria of sustainable resource deployment. The Trust has a planned deficit of £21.2 million in 2018/19 and is forecasting a £51.8 million deficit for the full year. The Trust requires ongoing cash support from the Department of Health. The Trust's medium-term plan is to undergo a substantial reconfiguration and eventually return to financial balance. However, due to the cessation of the facilities management subsidiary the financial position being forecast is a significantly higher deficit than initially forecast. The CIP programme at £51.5 million is challenging with £7.5m unidentified as at month 7. Substantial non-recurrent measures are planned in order to reduce the deficit forecast for 2018/19, although it is unlikely that the planned deficit will be achieved. The Trust is in discussions with NHS Improvement to agree a revised target deficit. Our response to this risk will be to carry out further work to assess how the Trust has responded to these challenges in 2018/19 both in terms of the 2018/19 outturn performance and its plans for future years. This will include but is not limited to: • reviewing the arrangements the Trust has for managing its in year financial position including the final outturn position • reviewing the arrangements the Trust has in place for ensuring the future sustainable management of its finances	**2018/19** The Trust originally planned for a 2018/19 income and expenditure deficit of £29.9m, subsequently revised to £21.2m in line with NHS Improvement's revised Control Total. If delivered, this revised Control Total would have given the Trust access to provider sustainability funding (PSF) of £21.9m giving a reported surplus of £0.8m. At Quarter 2, the Trust revised its outturn forecast to a deficit of £51.8m excluding Provider Sustainability Funding (PSF), a deterioration from Plan of £30.6m. Of this, £21.9m was driven by the impact of the cessation of the planned subsidiary company (FM LLP) with the remaining £8.7m representing other risks to the plan. The £21m relating to the planned subsidiary includes the reversal of the £12.5m VAT accrual from 2017/18, along with other planned savings which will no longer be possible. At year end the Trust has achieved its revised forecast year to date deficit of £51.8m excluding PSF and Impairment. Including PSF, the Trust has achieved a year to date deficit of £41.7m per the draft accounts. The outturn includes a number of one-off items and non-cash releasing technical adjustments including: - sale of Glenfield Paddock Land £5.9m - changes to useful economic lives for equipment £2.9m - reversal of depreciation previously charged on fully depreciated assets £4.5m - change in de minimus for accruals from £10k to £15k - £0.7m **Cost Improvement Plans** The Trust has reported delivery of £51.6m of CIP in 2018/19 which is £0.1m favourable compared to plan. Recurrent schemes made up 75% of the in year programme, with 25% being non-recurrent, which the full year effect has a variance to plan of £9.9m. This will create additional pressures for the Trust in future years. This includes the non-recurrent and non-cash releasing items referenced above.	**Auditor view** The Trust delivered a financial deficit which was significantly higher than its plan although the majority of this was driven by the cessation of the planned subsidiary company which was out of the Trust's control. As in 2017/18, the Trust has made use of non-recurrent and non-cash releasing items to deliver its forecast deficit and its CIP programme. This place additional pressure on future years. It is critical that the Board continues to maintain continued focus on delivery of the agreed CIPs and managing emerging risks if it is to deliver the longer term goal of financial balance by 2023/24 and ensure a sustainable and viable future for the Trust. **Management response** • […]

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings	Conclusion
1	**Financial performance and sustainability** This risk relates to the sub-criteria of sustainable resource deployment. The Trust has a planned deficit of £21.2 million in 2018/19 and is forecasting a £51.8 million deficit for the full year. The Trust requires ongoing cash support from the Department of Health. The Trust's medium-term plan is to undergo a substantial reconfiguration and eventually return to financial balance. However, due to the cessation of the facilities management subsidiary the financial position being forecast is a significantly higher deficit than initially forecast. The CIP programme at £51.5 million is challenging with £7.5m unidentified as at month 7. Substantial non-recurrent measures are planned in order to reduce the deficit forecast for 2018/19, although it is unlikely that the planned deficit will be achieved. The Trust is in discussions with NHS Improvement to agree a revised target deficit. Our response to this risk will be to carry out further work to assess how the Trust has responded to these challenges in 2018/19 both in terms of the 2018/19 outturn performance and its plans for future years. This will include but is not limited to: • reviewing the arrangements the Trust has for managing its in year financial position including the final outturn position • reviewing the arrangements the Trust has in place for ensuring the future sustainable management of its finances	**Operational Performance** Alongside its financial position, the Trust continues to struggle to meet all the standards in relation to patient performance. Positive areas are the reduction in mortality rate to 99% and several months of compliance with diagnostic 6 week wait and 52+ weeks wait. Referral to treatment was below national standard but the key measure of waiting list size trajectory was achieved. Areas of underperformance are - UHL ED 4 hour performance which was 75.1% for March 2019 and 77% for the year as a whole - Ambulance Handover where the Trust continues to exceed the 30 and 60+ minutes targets - Cancer 62 and 31 day treatment where the Trust is not meeting the timelines **Cash** The Trust funded the 2018/19 operating deficit by securing £49.5m of external financing from DHSC. The Trust's deficit cash requirement for 2019/20 is £10.7m and this is due to be drawn down on a monthly basis. £34.1m of loans are due to mature over the next 12 months and although the mechanism for repaying these is yet to be defined, the Trust is planning on the basis that these facilities will be made available. These loans previously matured in 2018/19 and were extended to 2019/20.	

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings	Conclusion
1	**Financial performance and sustainability** This risk relates to the sub-criteria of sustainable resource deployment. The Trust has a planned deficit of £21.2 million in 2018/19 and is forecasting a £51.8 million deficit for the full year. The Trust requires ongoing cash support from the Department of Health. The Trust's medium-term plan is to undergo a substantial reconfiguration and eventually return to financial balance. However, due to the cessation of the facilities management subsidiary the financial position being forecast is a significantly higher deficit than initially forecast. The CIP programme at £51.5 million is challenging with £7.5m unidentified as at month 7. Substantial non-recurrent measures are planned in order to reduce the deficit forecast for 2018/19, although it is unlikely that the planned deficit will be achieved. The Trust is in discussions with NHS Improvement to agree a revised target deficit. Our response to this risk will be to carry out further work to assess how the Trust has responded to these challenges in 2018/19 both in terms of the 2018/19 outturn performance and its plans for future years. This will include but is not limited to: • reviewing the arrangements the Trust has for managing its in year financial position including the final outturn position • reviewing the arrangements the Trust has in place for ensuring the future sustainable management of its finances	**2019/20** The Trust has accepted its control total and is planning for a 2019/20 deficit of £10.7m including £38.1m of central funding. Of this £38.1m of funding, receipt of Provider Sustainability Funding (£16.4m) and Financial Recovery Funding (£14.8m) are dependent upon delivery of the financial plan. The key risks identified by the Trust are: - Full delivery of CIP £26.6m efficiency - Identification of actions to close the planning gap of £7.8m - CMGs and Directorates to deliver their budgeted position with no over-spends - Commissioner affordability and the requirement for the Trust to be paid for all completed activity The Trust has a £26.6m CIP requirement for 2019/20. £23.6m of this had been identified by April 2019 but only 4% was fully developed (£1m) with a further £4.8m worked up but still needing to go through QA process. It is critical that progress is made to ensure the CIP programme is fully developed and that it is deliverable. **Looking ahead** As part of the STP the Trust is planning to reconfigure its hospitals from 3 to 2 sites. Timescales and funding for this reconfiguration are still very uncertain, and to date funding has only been approved for specific projects such as the reconfiguration of ICU rather than for the wholesale reconfiguration. The Trust is continuing to seek funding, and to identify other changes that can be made to service delivery between its 3 sites where this has a clinical benefit. The Trust is in the process of updating its Medium Term Financial Plan (MTFP), which was last updated in November 2018. The Trust expects this updated MTFP to demonstrate a plan to return to financial balance by 2023/24, alongside its reconfiguration plans and the ambitions as set out within the NHS Long Term Plan. **Conclusion** We concluded that because of the significance of the matters we have identified in respect of the Trust's financial sustainability during 2018/19 we are not satisfied that the Trust has made proper arrangements to secure economy, efficiency and effectiveness in your use of resources. We therefore propose to give a qualified 'adverse' conclusion.	

Other statutory powers and duties

We set out below details of other matters which we, as auditors, are required by the Act and the Code to communicate to those charged with governance.

	Issue	Commentary
1	**Referral to Secretary of State under section 30 of the Local Audit and Accountability Act 2014**	• The Trust has delivered a deficit out-turn for the past six financial years. It has also set a deficit budget for 2019/20. Therefore, the Trust has breached the requirement under Section 30 of the Local Audit and Accountability Act 2014 to break even taking one year against another over a three year rolling period. As such we have made a referral to the Secretary of State.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Audit and 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 following non-audit services were identified which were charged from the beginning of the financial year to 22 May 2019, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Assurance on your quality report	6,950	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £6,950 in comparison to the total fee for the audit of £82,550 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Audit of subsidiary company Trust Group Holdings Limited	TBC	Self-Interest (because this is a recurring fee	This is an audit services. The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is small in comparison to the total fee for the audit of £82,550 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Charitable Fund Audit	£5,900	Self-Interest (because this is a recurring fee	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,900 in comparison to the total fee for the audit of £82,550 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
None			

These services are consistent with the Trust's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee as part of the original tender for the audit. None of the services provided are subject to contingent fees.

Action plan

We have identified [X] recommendations for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
1	● Medium	• We identified a leavers form for an employee who left the Trust in February 2019 which Payroll did not receive until March 2019	• The Trust should ensure that adequate procedures are in place to ensure leavers forms are submitted to Payroll on a timely basis to avoid overpayments. **Management response** • […]
2	● Medium	• There was no reconciliation between the fixed asset register and the accounts, or between the valuer's report and the valuations posted. This led to a number of errors in the accounts. • The reversal of depreciation for fully-depreciated assets has not been reflected in the asset register	The Trust should perform appropriate reconciliations to ensure the accounts are accurately supporting by working papers prior to the start of the audit The fixed asset register should also be fully updated to reflect all audit adjustments made in 2018/19 and to reflect the reversal of depreciation on previously fully-depreciated assets **Management response** • […]
3	● Medium	• In our sample of payables we tested an accrual for water charges. We were informed this was based on an estimate following a discussion with the service engineer, so there was no written support for the accrual. The final invoices were received at a later date and were approximately 16% higher than the accrual.	Although the estimate does not appear to be unreasonable, the Trust should ensure that all such estimates have written backing to ensure there is an audit trail to document how these are calculated. **Management response** • […]

Controls

- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of [insert client name] Trust's 2017/18 financial statements, which resulted in 3 recommendations being reported in our 2017/18 Audit Findings report. <u>We have followed up on the implementation of our recommendations and note that some are still to be completed.</u>

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	X	• The manual authorisation process for journals presents a control risk because it is possible for journals to be posted without being authorised in line with policy. • The Trust should introduce automated authorisation, or perform additional checks on a sample of journals to ensure authorisation policies are carried out.	• We identified further issues in our 2018/19 audit. This issue is therefore still outstanding.
2	X	• We identified that a number of manual adjustments were made outside the general ledger to correct entries made for in-year financial reporting which had not been fully reversed by year end. • Manual adjustments represent a control risk as entries made outside the ledger are not subject to the same authorisation processes as those journalled into the general ledger. The Trust should avoid such entries being made in the future.	• We identified further manual adjustments in the 2018/19 audit, although less extensive than in 2017/18. This recommendation is therefore still outstanding.
3	X	• We identified a number of differences on the agreement of balances exercise. Our audit identified deficiencies in the Trust's response to the agreement of balances process. • The Trust should review its processes for agreeing debtor and creditor balances at the year end, and should ensure that the Agreement of Balances exercise is undertaken in accordance with national guidance	• We identified further issues in our 2018/19 audit. This issue is therefore still outstanding.

Assessment
✓ Action completed
X Not yet addressed

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

	Detail	Statement of Comprehensive Net Income £'000	Statement of Financial Position £' 000	Impact on total net surplus/(deficit) £'000
1	**Property, Plant and Equipment revaluation** There were errors in the accounting for the revaluation of property, plant and equipment (land and buildings). As a result, Property Plant and Equipment was understated by £8,398k and the Revaluation Reserve by £8,406k	£0	8,398 (8,406)	• £0
2	**MES finance lease** The Trust recognised a prepayment and increased liability to reflect cash paid to the supplier for assets not yet received. As this is a finance lease, it is more appropriate to recognise a reduced liability. Prepayments and the finance lease liability were overstated by £8,783.	£0	(8,783) 8,783	• £0
3	**Maternity pathways** This was classified as trade payables which was incorrect as this related to deferred income which is shown separately on the Statement of Financial Position. This is a classification error only.	£0	4,986 (4,986)	• £0
	Overall impact	**£nil**	**£nil**	**£Xnil**

Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Auditor recommendations	Management response	Adjusted?
Statement of Cash Flows	A number of amendments are required to correct the statement following audit. Note we are still in the process of auditing the updated version.	TBC	TBC
Note 1.1.2 Going concern	The disclosure in the draft accounts is adequate but could be improved to provide greater clarity to the reader of the accounts	TBC	TBC
Note 6	£15.4m relating to research staff costs has been classified as research and development, this would be more appropriately disclosed as staff and executive directors costs.	TBC	TBC
Note 8	The Trust identified a classification error of £522k, with temporary staff being overstated and salaries and wages being understated by the same amount.	TBC	TBC
Note 14 Intangible Assets	There are a number of errors within the note requiring correction.	TBC	TBC
Note 15 Property, Plant and Equipment	There are a number of errors within the note requiring correction. These include: • Correcting the entries relating to revaluation, including resetting of depreciation to zero on revaluation • Allocating additions to relevant categories rather than applying all additions to the 'assets under construction' category and then reclassifying in year • Correcting the analysis of asset by source of financing	TBC	TBC
Note 16 Inventories	There are a number of errors within the note requiring correction, and the note should reconcile to the Statement of Financial Position. Additionally the prior year comparatives were not disclosed correctly within the note. Note that the errors affect the disclosure note only and there is no impact on the values disclosed in the Statement of Financial Position. The narrative footnote requires updating as the figures have not been updated from the prior year accounts.	TBC	TBC
Note 17 Trade and other receivables	Contract receivables is understated by £1.1m so the note does not reconcile to the Statement of Financial Position. The disclosure of NHS receivables at the foot of the note requires correction as it is currently understated by £15m. Note that these errors affect the disclosure note only and there is no impact on the values disclosed in the Statement of Financial Position.	TBC	TBC

Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Auditor recommendations	Management response	Adjusted?
Note 18 Cash and Cash Equivalents	There are a number of errors within the note requiring correction, and the note should reconcile to the Statement of Financial Position. Additionally the prior year comparatives were not disclosed correctly within the note. Note that the errors affect the disclosure note only and there is no impact on the values disclosed in the Statement of Financial Position.	TBC	TBC
Note 19 Trade and other payables and Note 20 Other liabilities	There are a number of errors within the note requiring correction, and the note should reconcile to the Statement of Financial Position. £5m relating to maternity pathways deferred income was incorrectly classified as trade payables within note 18. This has been reclassified as deferred income within note 20.	TBC	TBC
Note 23 Provisions	Appropriate disclosure should be made of the provision for section 106 liabilities.	No disclosure will be made relating to section 106 due to commercial sensitivities. The value is not material.	TBC
Note 26.2 Financial Instruments	The note is not in the correct format as shown in the template accounts. The Trust informed us that adjustments were required to the note, we are still in the process of auditing the updated note.	TBC	TBC
Note 31.1 External financing	Cash flow financing should be corrected from £50,267 to £50,944.	TBC	TBC
Various	The accounts do not contain disclosures relating to the put option. We would expect appropriate disclosures relating to the contingent liability, and the valuation of the put option in the financial instruments note.	TBC	TBC
Various	We have identified a number of other improvements to disclosures within the accounts. None of these are significant enough to bring to the attention of the audit committee.	TBC	TBC

Audit Adjustments

Impact of unadjusted misstatements and uncertainties

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Statement of Comprehensive Income £'000	Statement of Financial Position £' 000	Impact on total net surplus/(deficit) £'000	Reason for not adjusting
	Errors				
1	**Prepayments – sample testing** Our testing of an extended sample is still in progress. To date we have identified errors of £1,010k. Prepayments are overstated and expenditure understated.	Min 1,010	Min (1,010)	Min 1,010	
2	**Prepayment – eQuip** The Trust has recognised a prepayment of £3.2m, having paid £2.9m in year. The Trust estimates that it has received £740k of hardware and services. We are working to finalise the values, but we have estimated that prepayments is overstated by £1m, payables overstated by £300k and expenditure understated by £500k.	500	(1000) 300	500	
3	**Changes in asset lives** The Trust has increased asset lives for equipment. We tested a sample, and the Trust was unable to corroborate the revised lives to supporting examples. Therefore we consider depreciation charge understated and PPE understated by £2,982k.	2,982	(2,982)	2,982	
4	**Accrual of VAT recovery** The Trust has accrued VAT relating to its IBM contract. HMRC has informed the Trust that this is not recoverable. The Trust has obtained advice from EY and hopes to recover the VAT but in our view receivables is overstated and expenditure understated by £1,368k	1,368	(1,368)	1,368	
5	**Inventory sample testing** We attended one stocktake and counted a sample of stock items. We identified differences between our count and the quantities recognised in the accounts which could not be corroborated. If similar differences exist in the population as a whole, we have estimated the potential error as an understatement of inventory and overstatement of expenditure by £991k	(991)	991	(991)	
6	**MES finance lease** There is a remaining unadjusted difference relating to the MES lease. Based on our estimates, prepayments are overstated by £433k, the finance lease is overstated by £159k and income is overstated by £274k.	274	(478) 159	274	
	Overall impact	See overleaf	See overleaf	See overleaf	

Audit Adjustments

Impact of unadjusted misstatements and uncertainties

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Statement of Comprehensive Income £'000	Statement of Financial Position £' 000	Impact on total net surplus/(deficit) £'000	Reason for not adjusting
	Errors continued				
7	**Accruals de minimus** The Trust applies a de minimus policy for accruals. In the prior year this was £10k and in 2018/19 this was £15k. The value of expenditure not accrued has increased from c£2.5m in 2017/18 to £5.3m in 2018/19 (note that £0.7m of this increase relates to the increase in de minimus). We consider the increase of £2.8m to be an understatement of expenditure and payables.	2,800	(2,800)	2,800	
	Uncertainties				
8	**Agreement of Balances mismatches** Receivables – there is currently a balance of £9.9m where the Trust has confirmed on 22 May 2019 they are in formal dispute with the commissioner. We are still in the process of obtaining evidence from the Trust to support these receivables. This is a risk of overstatement of receivables. Payables – risk of £1.7m understatement of payables	Up to 2,800 Up to 1,700	Up to (3,100) Up to (1,700)	Up to 2,800 Up to 1,700	
9	**Provision for section 106 liabilities** The Trust has recognised a provision of £500k for section 106 liabilities relating to the sale of the Glenfield Paddock land. The maximum potential liability is £2.2m. There are a number of uncertainties so there is a risk that this provision may be understated by a maximum of £1.7m.	Up to £1,700	Up to (£1,700)	Up to £1,700	
10	**PPE additions** We identified discrepancies in the split of additions for buildings and AUC between supporting working papers and the revised disclosure in the accounts. It is unclear which analysis is correct, but this highlights a risk that the accounts may be misstated. As buildings were subsequently revalued, the risk is that PPE and the revaluation reserve are overstated by approximately £1,100k and that the disclosure of AUC and buildings additions is misclassified by up to £1,100k.	0	Up to 1,100 Up to (1,100)	0	
	Overall impact	**Up to £14,143**	**Up to (£14,688)**	**Up to £14,143**	

Audit Adjustments

Impact of unreconciled agreement of balances mismatches

We have considered the remaining agreement of balances mismatches. We are satisfied they are not material to the Trust's accounts, however as they are above £300k we will need to report them to the NAO. We have reviewed these mismatches and are satisfied with the position taken by the Trust, except for the uncertainties reported on page 41.

	Detail	Statement of Comprehensive Income £'000	Statement of Financial Position £' 000	Impact on total net surplus/(deficit) £'000	Reason for not adjusting
1	**Agreement of Balances mismatches** We identified the following remaining mismatches. This includes the amounts reported as uncertainties on page 41.				
	Income – overall risk of overstatement (7 counterparties)	6,500			
	Receivables – overall risk of overstatement (6 counterparties)		(13,845)		
	Payables – overall risk of understatement (4 counterparties)		(1,700)		

Audit Adjustments

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2017/18 financial statements.

	Detail	Statement of Comprehensive Net Income £'000	Statement of Financial Position £' 000	Impact on total net surplus/(deficit) £'000	Reason for not adjusting
1	**Accrual of VAT income relating to the Trust's estates strategy.** *Note that this income was subsequently reversed in 2018/19 following the cessation of the facilities company which meant the Trust would no longer be in a position to recover this VAT.*	12,500	(12,500)	12,500	[TBC]
2	**Property, Plant and Equipment existence** We tested a sample of assets included within the opening PPE balances to verify they were in use by the Trust. We identified one asset with a net book value at 1 April 2017 of £5k which was recorded on the asset register but which had been returned to the supplier a number of years earlier. The value of the unadjusted misstatement shown here is an estimate of the potential error if the asset tested is indicative of a similar error rate within the total balance of PPE as a whole. It is not therefore designed to reflect an actual error, but merely an estimate of a potential projected error.	nil	(953) 953	nil	This value is a projected rather than an actual error and no other such assets have been identified to date.
	Debt over 180 days old The Trust receivables include £5.3m of debt over 180 days old which is not impaired. We have reviewed this balance and identified a potential risk which is estimated at £2.6m. *Note that the change to IFRS 9 means that the Trust's approach to providing for receivables has changed, with an adjustment made to opening balances in 2018/19, and we have not reported any issues for 2018/19.*	2,600	(2,600)	2,600	[TBC]
	Asset lives The Trust has increased asset lives by up to 2 years and has reduced the depreciation charge in year by £3.2m. Of this balance approximately £600,000 relates to an increase in buildings lives. We have reviewed the asset lives for buildings against those provided by the Trust's valuer and note that the Trust has not followed the advice of its expert. As such we consider the reduction in depreciation to be an error (£1.1m, increased from £600k as originally reported)	1,100	(1,100)	(1,100)	[TBC]
	Overall impact	£16,200	(£16,200)	£16,200	

Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit Fees	Proposed fee £	Final fee £
Trust Audit	£82,550	TBC
Audit of subsidiary company Trust Group Holdings Limited	TBC	TBC
Charitable Fund Audit	£5,900	TBC
Total audit fees (excluding VAT)	**£TBC**	**£TBC**

The proposed Trust audit fees reconcile to the financial statements, which disclose £99,000 which agrees to the Trust audit fee as noted above, including VAT.

We encountered a number of areas during the audit which caused additional audit work. These included:

- Sale of Glenfield land and the related put option
- Changes in asset lives and reversal of depreciation charged on fully depreciated assets
- Prepayments relating to MES finance lease and the eQuip project, plus additional testing of prepayments due to inappropriate deferrals of expenditure identified
- Quality issues within the accounts and supporting working papers resulting in figures not reconciling – including PPE, receivables, payables and cash.

We will be seeking an additional fee to reflect this additional work and will agree this with the Trust after the audit is complete,

Non Audit Fees

Fees for other services	Fees £
Audit related services:	
Quality Accounts	£6,950
	£6,950

Audit opinion

We anticipate we will provide the Group with an unmodified audit report

Our report will be tabled separately.