



# Annual Audit Letter

Stockport NHS Foundation Trust  
Year ending 31 March 2020





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*Reports and letters prepared by the auditor and addressed to Stockport NHS Foundation Trust are prepared for the sole use of Stockport NHS Foundation Trust and we take no responsibility to any member or officer in their individual capacity or to any third party.*

# 1. EXECUTIVE SUMMARY

## Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Stockport NHS Foundation Trust (the Trust) for the year ended 31 March 2020. Although this letter is addressed to the Trust, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the NHS Act 2006 (the 2006 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	Our auditor's report issued on 24 June 2020 included our opinion that the financial statements give a true and fair view of the Trust's financial position as at 31 March 2020 and of its financial performance for the year then ended.
Value for Money conclusion	Our auditor's report was qualified in respect of our value for money conclusion. The qualification related to the Trust's arrangements for delivering financial sustainability and its performance against the A&E 4 hour wait national target.
Reporting to the group auditor	In line with group audit instructions issued by the NAO, on 24 June 2020 we reported that the Trust's consolidation schedules were consistent with the audited financial statements.
Statutory reporting	Our auditor's report confirmed that we did not use our powers under schedule 10 of the 2006 Act to issue a report in the public interest.
Quality Report	The Department for Health & Social Care announced in March 2020 that, as a consequence of the Covid-19 pandemic, that auditors would not be required to complete and report their work on the Trust's 2019/20 Quality Report including the quality indicators.

# 2. AUDIT OF THE FINANCIAL STATEMENTS

## Opinion on the financial statements

Unqualified

### The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Trust and whether they give a true and fair view of the Trust's financial position as at 31 March 2020 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Trust's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, issued to the Trust on 24 June 2020, stated that, in our view, the financial statements give a true and fair view of the Trust's financial position as at 31 March 2020 and of its financial performance for the year then ended. Our audit report highlighted the Trust's disclosure in its financial statements that there were material uncertainties relating to its consideration of its going concern.

### Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2020:

Financial statement materiality	Our financial statement materiality is based on 2% of the Trust's gross expenditure	Group: £6.45m Trust: £6.4m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	Group: £0.2m Trust: £0.198m
Specific lower materiality	We have applied a lower level of materiality to the following areas of the accounts: - Remuneration report disclosures in the Annual Report - Related party transactions	£5,000 equating to 1 banding £100,000



## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Our response to significant risks and key audit matters

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Trust's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report.

Key audit matters are defined as those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

The table below outlines the identified significant risks and key audit matters, the work we carried out on these, and our conclusions.

Identified significant risk	Key audit matter?	Our response	Our findings and conclusions
<p><b>Revenue Recognition</b></p> <p>The Trust recognised £339.9m of revenue from activities in the Statement of Comprehensive Income. The Trust's primary source of revenue is through contracts with commissioning bodies in respect of the provision of acute and community healthcare services. Notes 3.1, 4 and 4.1 provide further information on the nature of the Trust's revenue and Note 3.2 provides further information on the source of the Trust's revenue.</p> <p>ISA (UK) 240 includes a rebuttable presumption that there is a risk of fraud in relation to revenue recognition. We have not rebutted the presumed risk on the basis that the Trust has continued financial pressures in 2019/20 and there is a perceived incentive to recognise revenue before it has been earned. We consider that the risk relating to revenue recognition impacts on revenue from patient care and other income as well as the trade and other receivables recognised as current assets in the Statement of Financial Position. The risk related solely to the cut-off assertion, being the recognition of income around the financial year end.</p>	Yes	<p>Our audit procedures included:</p> <ul style="list-style-type: none"><li>Evaluating the Trust's accounting policy in respect of revenue recognition to ensure that it is in line with the requirements of the GAM.</li><li>Reconciling revenue recognised through contracts with commissioners, to the underlying contractual agreement and any agreed variations in the year to appropriate evidence.</li><li>Testing a sample of other revenue by agreeing the transactions to appropriate source documentation and obtaining assurance that each item was recorded in the correct financial year and at the correct value.</li><li>Considering information provided by the Department of Health and Social Care in respect of year-end intra-NHS transactions.</li></ul>	We obtained sufficient appropriate evidence to conclude that revenue recognised in the financial statements is reasonable.



# 2. AUDIT OF THE FINANCIAL STATEMENTS

## Our response to significant risks and key audit matters (continued)

Identified significant risk	Key audit matter?	Our response	Our findings and conclusions
<p><b>Valuation of Land &amp; Buildings</b></p> <p>Note 15.1 to the financial statements discloses information on the Trust's holding of property, plant and equipment (PP&amp;E) which includes £131.6m of land and buildings held at current value at 31 March 2020. These assets are subject to periodic revaluation in line with the requirements of the GAM. Note 1.9 to the financial statements describes the Trust's accounting policy with respect to the valuation of land and buildings and includes disclosure of a material valuation uncertainty as a result of the Covid-19 pandemic.</p> <p>The Trust's holding of PP&amp;E includes a portfolio of land and building assets that are held at current value. Management engage a valuation expert ('the valuer') to provide the Trust with valuations in accordance with Royal Institution of Chartered Surveyors (RICS) requirements.</p> <p>We consider there to be a significant risk of material misstatement in relation to the valuation of the Trust's land and buildings as a result of the:</p> <ul style="list-style-type: none"><li>• High degree of estimation uncertainty associated with the valuations;</li><li>• Level of judgement applied by management and the valuer in estimating current values; and</li><li>• Extent to which the valuations are reliant on complete and accurate source data on individual assets being provided to the valuer.</li></ul> <p>The significant risk of material misstatement is further increased due to the additional estimation uncertainty arising from the Covid-19 pandemic.</p>	Yes	<p>Our audit procedures included:</p> <ul style="list-style-type: none"><li>• Obtaining an understanding of the skills, experience and qualifications of the valuer, and considering the appropriateness of the instructions to the valuer from the Trust.</li><li>• Obtaining an understanding of the basis of valuation applied by the valuer in the year. This included understanding and evaluating the methodology applied to estimate the gross replacement cost of the Trust's operational land and buildings on a modern equivalent asset basis.</li><li>• Sample testing the completeness and accuracy of underlying data provided by the Trust and used by the valuer as part of their valuations.</li><li>• Testing the accuracy of how valuation movements were presented and disclosed in the financial statements.</li><li>• Making direct enquiries with the valuer to understand the nature of the material valuation uncertainty disclosed in their valuation report.</li><li>• Using relevant market and cost data to assess the reasonableness of the valuation as at 31 March 2020. In doing so, we also considered relevant valuation indices prepared by an independent third party, to assess the effect of the material valuation uncertainty disclosed by the valuer and the Trust in the financial statements.</li></ul>	<p>We obtained sufficient appropriate evidence to conclude that the valuation of land and buildings included in the financial statements is reasonable.</p>

## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Our response to significant risks and key audit matters (continued)

Identified significant risk	Key audit matter?	Our response	Our findings and conclusions
<p><b>Going concern</b></p> <p>The Trust continues to face significant financial challenges, both in the short term, in delivering cost savings and productivity improvements, and over the medium term to be financially sustainable. In 2018/19, the Trust's auditor included a material uncertainty relating to going concern in their audit report.</p> <p>For 2019/20 the Trust submitted a plan to NHSI forecasting agreeing a 'control total' of a £3.6m deficit. This is after receipt of planned non-recurring external support of £20.9m and achieving planned cost improvements (CIPs) of £14.2m. The Trust achieved its 'control total', delivering a deficit of £3.3m for the year.</p> <p>The impact of the Covid-19 pandemic has led to changes in the Trust's contracts with commissioners. These changes provide more certainty to the Trust's income in the short term, but longer term uncertainties remain. The Trust's going concern considerations are for the period of at least 12 months from the date the accounts are signed, and these longer term uncertainties lead to a risk that management's assessment that the Trust is a going concern may not be appropriate.</p>	Yes	<p>We undertook a range of substantive procedures including:</p> <ul style="list-style-type: none"> <li>Critically assessing the Trust's judgements relating to its consideration of going concern;</li> <li>Reviewing the Trust's financial plan including its cash flow forecast and underlying assumptions for the period to June 2021;</li> <li>Reviewing the impact of the longer-term uncertainties at the point at which the current Covid-19 funding regime ends; and</li> <li>Assessing the appropriateness of the disclosures made in the going concern note to the financial statements.</li> </ul>	<p>Our work in this area has concluded that although there are some material uncertainties impacting on the Trust's consideration of going concern, there are no indications that the Trust's use of the going concern principle to prepare its financial statements is not appropriate.</p>
<p><b>Management override of controls</b></p> <p>In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits</p>	No	<p>We undertook a range of substantive procedures including:</p> <ul style="list-style-type: none"> <li>Reviewing accounting estimates impacting on amounts included in the financial statements;</li> <li>Considering any significant transactions outside the normal course of business; and</li> <li>Reviewing journal entries recorded in the general ledger and other adjustments made in preparation of the financial statements.</li> </ul>	<p>We obtained sufficient appropriate evidence to conclude that there had been no material management override of controls.</p>

## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls.

We did not raise any high priority or material recommendations from our audit work.

We did identify three low priority improvements to the internal control framework which were discussed and agreed with management as part of the audit and reported in our Audit Completion Report to the Trust.





# 3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion

Qualified – ‘Except for’

## Our approach to the Value for Money conclusion

We are required to consider whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider. We are only required to report if we conclude that the Trust has not made proper arrangements..

The overall criterion is that, ‘in all significant respects, the Trust had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.’ To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Our auditor’s report, issued to the Trust on 24 June 2020 outlined our qualified conclusion on the Trust’s arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31<sup>st</sup> March 2020.

## Significant Value for Money risks

The NAO’s guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Trust being inadequate. In our Audit Strategy Memorandum, we reported that we had identified two significant Value for Money conclusion risks. The work we carried out in relation to significant risks is outlined below.

Significant risk	Commentary	Matters to report
Financial Sustainability	<p>The 2019/20 financial year saw the Trust agree a control total (deficit of £3.6m), which hadn’t been possible in 2018/19, and secure £20.9m from the Provider Sustainability Fund and Financial Recovery Fund, along with £3.6m of Marginal Rate Emergency Tariff funding.</p> <p>In 2019/20 the Trust exceeded its agreed financial control total by delivering a deficit of £3.3m against a control total deficit of £3.6m, and consequently received an additional £3.2m of Financial Recovery Funding. This represents a good achievement for the Trust, and demonstrates their ability to deliver to an agreed financial position. The Trust reported delivery of cost improvement plan (CIP) savings in the year of £13.5m against a target of £14.2m.</p> <p>The Trust financial report to the Board acknowledges that</p> <p>“Whilst this is an excellent position for the Trust there remains underlying risk in performance which will have to be reconsidered when the financial regime is reset after the Covid-19 period.”</p> <p>[continued overleaf]</p>	See overleaf



### 3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion

Qualified – ‘Except for’

#### Our approach to the Value for Money conclusion (continued)

Significant risk	Commentary	Matters to report
Financial Sustainability (continued)	<p>In addition to the additional funding received in the year, the delivery of the control total was achieved through a significant level of non-recurrent measures including reversals of previous asset valuation impairments charged to expenditure, the release of no longer required provisions, and non-recurrent savings – £9.5m of the £13.5m CIP savings being non-recurrent.</p> <p>The Trust provides a clear and honest assessment of the financial position, and reports that the underlying deficit, once the one-off funding and non-recurrent measures are removed, was £43.2m.</p> <p>Due to the outbreak of the Covid-19 pandemic in the first quarter of 2020, the financial framework for the NHS was changed. Although this is continuing to evolve, the Trust acted quickly to maintain financial governance during the pandemic, with regular reporting of the effects of the pandemic both internally and to NHSI.</p> <p>Whilst the national financial framework provides a way of managing financial risks during the pandemic, it is important that strong financial governance remains in place over the longer term.</p> <p>As a consequence of the impact of the Covid-19 pandemic, the normal cycle of annual planning, which leads to the agreement of financial control totals, was suspended. At the point of suspension the Trust had not agreed its control total with NHSI. At that stage, the Board concluded the proposed break even control total incorporated an unrealistic and undeliverable level of CIP savings for the year. The latest information indicates that the current Covid-19 funding situation will continue until October 2020, and this provides some certainty to the Trust on the level of funding. However, as the Trust acknowledges, returning to the pre-pandemic financial framework, under which the Trust does not have an agreed control total, would require significant additional funding and CIP delivery to break-even, and so presents some significant risks.</p> <p>The Trust has also acknowledged this position in its consideration of going concern in its Annual Report and its financial statements, reflecting the material uncertainties inherent in the current situation.</p> <p>In January and February 2020 the Trust received its latest CQC inspection and this was reported in May 2020. The CQC inspection rated the Trust’s use of resources as ‘Requires Improvement’. While the report acknowledges the improvements made in several areas, it reports clearly the areas where further improvements are necessary</p>	<p>We are satisfied the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, except for:</p> <ul style="list-style-type: none"><li>• The Trust’s financial position for the year was reliant on £24.5m of one off funding and significant non-recurrent savings</li><li>• The Trust does not yet have an agreed financial control total for 2020/21, and at the time the Trust reverts back from the Covid-19 pandemic funding, it has significant challenges and risks to deliver a sustainable financial position.</li></ul>



### 3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion

Qualified – ‘Except for’

#### Our approach to the Value for Money conclusion (continued)

Significant risk	Commentary	Matters to report
<p><b>Compliance with NHSI enforcement undertakings</b></p> <p>The Trust is subject to NHSI enforcement undertakings due to breaching the NHSI provider licence regarding not achieving the A&amp;E 4 hour waiting time.</p>	<p>The Trust monitors delivery of the A&amp;E target through its regular and routine performance management reporting to Finance &amp; Performance Committee and Board. This includes clear reporting of the actual performance through the year together with the planned trajectory and the comparison to the national target. The reporting includes a performance narrative to provide the context to the performance.</p> <p>The Trust’s performance against the A&amp;E 4 hour waiting was well below the national target of 95% for the year. The Trust has agreed an Emergency Department Improvement Plan, delivery of which is monitored on a weekly basis.</p> <p>The CQC review in 2019/20, reported in May 2020, highlights the scale of the challenge with the performance of A&amp;E reporting that “There were significant issues with the flow of patients through the emergency department and the hospital so that patients were assessed, treated, admitted and discharged in a safe, timely manner. Emergency care was consistently unable to be provided in a timely way”.</p>	<p>We are satisfied that except for the matters highlighted below, the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources:</p> <ul style="list-style-type: none"><li>• The Trust’s performance in 2019/20 against the A&amp;E 4 hour waiting time fell significantly short of the national target, and the Trust remains subject to NHSI enforcement undertakings.</li></ul>

# 4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Governance Statement	No matters to report
Consistency of consolidation data with the audited financial statements	Consistent
Other information published alongside the audited financial statements	Consistent

The NAO's Code of Audit Practice and the 2006 Act place wider reporting responsibilities on us, as the Trust's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

## Matters which we report by exception

The 2006 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest; and
- make a referral to the regulator where we believe that a decision has led to, or would lead to, unlawful expenditure, or an action has been, or would be unlawful and likely to cause a loss or deficiency.

We have not exercised any of these statutory reporting powers.

We are also required to report if, in our opinion, the governance statement does not comply with the guidance issued by NHS Improvement or is inconsistent with our knowledge and understanding of the Trust. We did not identify any matters to report in this regard.

## Reporting to the NAO in respect of consolidation data

The NAO, as group auditor, requires us to report to them whether consolidation data that the Trust has submitted is consistent with the audited financial statements. We have concluded and reported that the consolidation data is consistent with the audited financial statements.

## Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Trust. In our opinion, the information in the Annual Report is consistent with the audited financial statements.



# 5. OUR FEES

## Fees for work as the Trust's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to Audit Committee in May 2020.

Having completed our work for the 2019/20 financial year, we can confirm that our final fees are as follows:

Area of work	2019/20 proposed fee	2019/20 final fee
External audit of the Trust and Group financial statements	£46,200	£46,200
Assurance Report in relation the Trust's Quality Report	£7,700	£450 *
Total fees payable	£53,900	£46,650

\* The Department for Health & Social Care announced in March 2020 that, as a consequence of the Covid-19 pandemic, that auditors would not be required to complete and report their work on the Trust's 2019/20 Quality Report including the quality indicators. The small fee relates to the cost of the work undertaken until the cancellation of the work was announced.

## Fees for other work

We confirm that we have not undertaken any non-audit services for the Trust in the year, but we are engaged to carry out the external audit of the Trust's incorporated charity, Stockport NHS Foundation Trust General Fund. Our fees for this work were reported in our Audit Strategy Memorandum, and are planned to be £4,400.

# 6. FORWARD LOOK

## Financial outlook

The Trust continues to face significant financial pressures for 2020/21 reflecting the impact of Covid-19 and the continued national drive to re-establish financial control over the NHS provider sector. The current NHS financial regime provides block contract payments until July 2020 based on the 2019/20 cost base plus inflation. The arrangements after July 2020 are less certain although the existing block contracting arrangements may continue for a further period of time through 2020/21.

The Trust is keenly aware of the challenges it faces at the point at which the current, Covid-19, financial regime ceases, and agreements with NHS Improvement on the control total and available central financial support can recommence. The challenges of managing the increasing national cost pressures and the impact of inflationary rises which determine the annual price uplift on many external contracts add to the Trust's significant pressures in the medium term.

The Trust has made good progress in putting plans in place to help to meet the uncertainty faced through its 2020/21 Financial Plan and continues to recognise the significant risks and challenges in delivering financial sustainability in 2020/21 and beyond.

## Operational challenges

The Trust continues to plan to modernise and develop its services to best meet the needs of patients. This includes a number of operational challenges as follows:

- Successfully responding to the issues raised in the recent CQC inspection report;
- Continuing to implement its improvements to the delivery of A&E and related services; and
- Improving performance against the other key national targets and standards, including Referral to Treatment times and diagnostic tests.

In addition, the COVID-19 outbreak presented significant clinical and operational challenges for the Trust. As the NHS moves into a recovery and reset phase, the Trust faces additional challenges to ensure its estate and infrastructure can continue to meet patient needs.

## How we will work with the Trust

We are committed to supporting the Trust as its external auditor. In the coming year we will:

- Liaise routinely with management and finance staff to stay up to date with developments as they occur through the year, ensuring our audit plan for 2020/21 is formed with full understanding of the Trust's issues and risks;
- Discuss audit timetables early in the year and maintain regular discussions on audit progress through the audit, ensuring we deliver a 'no surprises' audit;
- Attend each Audit Committee meeting and presenting Audit Progress Reports including updates on regional and national developments; and
- Host technical events for staff, such as our NHS Accounts workshop.

In addition we will hold an audit debrief meeting with the Trust to identify any learning points from our 2019/20 audit to ensure the audit in 2020/21 progresses even more smoothly.

The Trust has taken a positive and constructive approach to our audit and we wish to thank the Board, Audit Committee, and Trust staff for their support and co-operation during our audit in the past year.



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