

Report to the Audit & Assurance Committee

Sherwood Forest Hospitals NHS Foundation Trust
DRAFT External audit plan 2019/20
January 2020





The Audit & Assurance
Committee
Sherwood Forest Hospitals NHS
Foundation Trust,
King's Mill Hospital,
Mansfield Road,
Sutton in Ashfield,
Nottinghamshire,
NG174JL.

January 2020

Dear Audit & Assurance Committee Members,

Sherwood Forest Hospitals NHS Foundation Trust – Audit Strategy 2019/20

We are pleased to present to you, in your capacity as '*Those Charged with Governance*', our external audit plan for the year ended 31 March 2020. We have prepared this audit plan to provide the Audit & Assurance Committee with information about our responsibilities as external auditors and how we plan to discharge those responsibilities.

Our audit strategy for 2019/20 is set out in detail on the following pages. As in previous years, this includes an assessment of risk based upon our existing knowledge of the Trust, the wider sector issues, and other factors specific to the Trust which we believe increase audit risk. This ensures our audit approach reflects the key risks relevant to the Trust, as well as providing management and the Audit & Assurance Committee with an informed and independent view of risk in the organisation.

This document also includes our proposed audit strategy to the identified risks, the audit and reporting timetable, and other matters we are required to communicate as part of our audit planning.

Discussion of our strategy with you enables our engagement team members to understand your concerns and agree on mutual needs and expectations to provide the highest level of service quality. Our approach is responsive to the many changes affecting Sherwood Forest Hospitals NHS Foundation Trust, including include any significant changes applicable to this year's audit.

If you have any questions regarding matters in this document please contact Alison Breadon, Matthew Elmer or Glen Spencer who will be happy to discuss.

Yours faithfully,

Alison Breadon

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Section 1 – Our responsibilities

Our responsibilities

Our plan is required by International Standards on Auditing (UK) ('ISAs (UK)') and sets out our duties under the National Audit Office's Code of Audit Practice (the 'Code of Audit Practice').

We will conduct our audit in accordance with the relevant requirements of the NHS Act 2006, Local Audit and Accountability Act 2014 and the Code of Audit Practice. The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. 'Relevant bodies' are set out in Schedule 2 of the Act and include NHS Foundation Trusts.

Our primary responsibility is to form an independent opinion on the financial statements of Sherwood Forest Hospitals NHS Foundation Trust. In addition we will:

- Issue a report to the Audit & Assurance Committee setting out our audit findings;
- Provide a limited assurance report on the Trust's Quality Report; and
- A "Governors Report" summarising the findings from our procedures over the Trust's Quality Report.

The remainder of this document sets out how we will discharge our responsibilities and we welcome any feedback or comments that you may have on our approach.

£6.539m

Our overall materiality to be applied to the Trust's financial statements.

£300k

Our proposed 'clearly trivial' reporting de minimis limit.

5

The number of significant audit risks to be addressed through our audit.

£- 41.518m

The Trust's deficit control total, as agreed with NHS Improvement excluding Provider Sustainability Funding (PSF), Financial Recovery Fund (FRF) and Marginal Rate Emergency Tariff (MRET) funding.

Section 2 – Our audit approach

Our responsibilities

The PwC audit approach is designed to provide reasonable assurance over the areas of greatest financial misstatement risk within the Trust.

The identified risks are the result of our assessment of the wider sector-specific risks facing the Trust, as well as more specific risks stemming, for example, from developments discussed with management.

This section sets out the six fundamental steps that are integral to the PwC Audit approach. We explain the process we follow to identify risks, how we then scope our audit and testing to address these risks and how we plan to provide you with reasonable assurance and insightful conclusions thereon.

1. Client acceptance and independence

For all our audit engagements the starting point in the risk assessment process is our client acceptance process. This initial evaluation supplements our planning risk assessment. This assessment considers a wide range of factors and is not just limited to risks specific to financial statement line items.

We have also completed our initial independence procedures and include more details in Appendix 1. We will provide our formal independence letter to the Audit & Assurance Committee as part of our reporting in May 2020, but at this stage there are no significant issues to report regarding our independence.

At the date of this plan we confirm that in our professional judgement, we are independent accountants with respect to the Trust, within the meaning of UK regulatory and professional requirements, including the Financial Reporting Council's Revised Ethical Standard 2016.

In addition, we confirm that the objectivity of the audit team is not impaired.

1. Client acceptance and independence

2. Deep business understanding

3. Relevant risks

4. Intelligent scoping

5. Robust testing

6. Meaningful conclusions

Section 2 – Our audit approach

2. Understanding the business environment

Each year we update our audit approach to ensure that it continues to be focused on the risks that are relevant to the Sherwood Forest Hospitals NHS Foundation Trust and reflects the latest changes and developments in the Trust. Key members of the audit team, including the engagement leader, engagement manager and team leader, have been involved in the audit since our appointment. This ensures continuity which is beneficial both for our people and your audit, through ensuring that accumulated knowledge remains within the audit team, improving our understanding of your business and consequently the quality of the audit we deliver.

Set out below is a summary of the main factors that have informed our view of audit risk and our audit approach:

Provider Sustainability funding	<p>For 2019/20, the Trust agreed a control total with NHSI of £- 41.518m (excluding PSF, FRF and MRET funding) and £-14.867m including PSF, FRF and MRET.</p> <ul style="list-style-type: none"> • £5.385m MRET central funding - There are no in-year financial or other performance requirements linked to the receipt of MRET funding. • £6.459m Non recurring PSF allocation – This is linked to acceptance and delivery of a control total, dependent on year to date financial performance compared to plan. • £14.807m Non recurring FRF allocation – This is conditional on the Trust signing up to the control total and dependent on year to date financial performance compared to plan. <p>Overall, the Trust has underperformed during the 2019/20 year to date relative to its budget. PSF and FRF funding remain contingent on the Trust achieving certain performance measures. The existence of PSF and FRF monies means management have added incentives and pressures to manage short term financial performance of the Trust to trigger payment of the full allocations. Based on performance to date, management are not expecting to achieve the agreed control total. At the end of October 2019, the Trust was performing £2.3m worse than planned. This was partly due to non delivery of FIP and at the end of October 2019 due to overall expenditure being £2.86m above plan (which includes £1.57m of pay expenditure).</p>
Financial improvement (FIP)	<p>The Trust has a Financial Improvement Plan (FIP) of £12.8m. The FIP programme will be delivered with support from a dedicated project management team. At the end of October 2019, the FIP has delivered savings of £5.65m, £0.41m behind plan. The year to date position includes £3.65m of non recurrent savings.</p> <p>Schemes in delivery are expected to achieve £9.5m. Schemes in the pipeline are estimated by the Trust to deliver an additional £2.24m by the end of the financial year. The projected gap in the FIP at the end of October 2019 was therefore estimated to be £1.06m. A further risk to delivery of the FIP relates to planned outpatient transformation savings, of £2.21m.</p>
Care Quality Commission (CQC)	<p>The Trust is currently rated as good by the CQC, including having an outstanding rating for 'caring'. The Trust is due its next CQC core services review and is expecting this to occur in February 2020.</p>
Other financial matters	<ul style="list-style-type: none"> • Cash – closing cash at 31 October 2019 was £3.41m, £1.63m above plan. The Trust's cashflow forecast shows that it can comply with the minimum balance of £1.45m, required under the borrowing agreement. • Agency – Agency expenditure in the year is £2.16m, below the ceiling year to date. The ceiling for the year is £16.66m.

Section 2 – Our audit approach

Quality, safety and patient experience

- The Single Oversight Framework Integrated Performance Report to the Trust Board in December 2019 identified that, although many standards are being met, there remain areas of underperformance. The Trust remains challenged to maintain access, operational and financial performance by the continued demand levels, with high levels of activity on all patient pathways. The following operational performance/access targets were reported as red rated in the December 2019 Board report:
 - Emergency access within four hours
 - % of Ambulance handover >30 minutes
 - % of Ambulance handover >60 minutes
 - Maximum time of 18 weeks from referral to treatment – RTT
 - Sixty-two day urgent referral to treatment
 - Sixty-two day urgent referral to treatment from scanning

Section 2 – Our audit approach

3. Relevant audit risks

Our audit is risk based, which means we focus on the areas that matter to the Trust. Our risk assessment is conducted prior to considering the mitigating impact of controls, as required by auditing standards. Our risk assessment draws on our existing knowledge and experience of the Trust, updated to reflect developments and changes to the Trust and its operational environment.

We determine if risks are significant, elevated or normal and whether we are concerned with fraud, error or judgement. This subsequently drives the design of our testing procedures. Significant audit risks are those in the top right quadrant of the chart above with the highest potential for material misstatement due to a combination of their size, nature and likelihood and which in our judgement require specific audit consideration.

Risks	Fraud	Error	Judgement
1 Fraud in revenue recognition	●	○	○
2 Fraud in expenditure recognition	●	○	○
3 Management override of controls	●	○	○
4 Valuation of property, plant and equipment	○	○	●
5 Going concern	○	○	●

We have summarised our audit response to these risks on the following pages.

Section 2 – Our audit approach

Set out below is a summary of the principal audit risks, their impact on the Trust and our planned audit response to the identified risks:

Area and risk assessment	Comment	Audit response
<p>Fraud in revenue recognition</p> <p>Significant risk relates to revenue streams from the Clinical Commissioning Groups (“CCGs”) and NHS England.</p>	<p>Under ISA (UK) 240 there is a (rebuttable) presumption that there are risks of fraud in revenue recognition. There is a risk that the Trust could adopt accounting policies or treat income transactions in such a way as to lead to material misstatement in the reported revenue position. Revenue recognition is a particular risk due to the pressures on the Trust to achieve its control total.</p>	<ul style="list-style-type: none"> • We will obtain an understanding of the key income recognition controls; • We will perform testing over pre and post year end transactions to assess cut-off of income recognition; • We will evaluate and test application of the accounting policy for recognition of income to ensure that this is consistent with the requirements of the Department of Health and Social Care Group Accounting Manual; • We will substantively test a sample of income transactions recognised during the period by tracing amounts to contracts, invoices and bank statements; and • We will review the intra NHS agreement of balances any disputed amounts (revenue and receivables) to consider any implications on your financial statements.
<p>Fraud in expenditure recognition</p> <p>Significant risk relates to elements of expenditure that are most susceptible to manipulation:</p> <ul style="list-style-type: none"> • non-standard journal transactions; • expenditure accruals; and • unrecorded liabilities. 	<p>We extend the presumption in respect of revenue to the recognition of expenditure in the NHS. In the current economic environment, and pressures associated with achieving the agreed control total the Trust is subject to, and assessed on and pressures to achieve significant cost reduction plans.</p>	<ul style="list-style-type: none"> • We will obtain an understanding of the key expenditure recognition controls; • We will perform testing over post year end transactions to assess completeness and cut-off of expenditure recognition; • We will understand the basis of the control total, in particular which costs are included and excluded from the calculation (e.g. depreciation versus impairment) and test the classification of expenses; • We will test the completeness of accrual entries through a range of audit procedures including comparison to prior year accruals; and • We will review the intra NHS agreement of balances any disputed amounts (expenditure and payables) to consider any implications on your financial statements.
<p>Management override of controls</p>	<p>ISA (UK) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk that management may override controls in order to manipulate the financial statements</p>	<p>We will perform procedures to:</p> <ul style="list-style-type: none"> • Test the appropriateness of journal entries using Computer Assisted Audit Techniques; • Review accounting estimates for bias and evaluate whether circumstances producing any bias, represent a risk of material misstatement due to fraud; • Evaluate the business rationale underlying significant one-off transactions; and • Incorporate an element of ‘unpredictability’ to our procedures.

Section 2 – Our audit approach

Area and risk assessment	Comment	Audit response
<p>Valuation of property, plant and equipment</p>	<p>Property, plant and equipment (PPE) represents the largest balance in the Trust's Statement of Financial Position. The Trust measures its properties at fair value. This involves a range of assumptions and the use of external valuation expertise, provided by the District Valuer. ISA (UK) 500 and 540 require us, respectively to undertake certain procedures on the use of external expert valuers and processes and assumptions underlying fair value estimates.</p> <p>Whilst we have not found any significant issues in recent years in the valuation of PPE, the level of judgement required means we consider this to be a significant risk.</p> <p><i>PFI – Lifecycle Events</i></p> <p>In 2017/18, we reported that the Trust had not been accounting for lifecycle replacement as capital and had instead been expensing all of these costs to the Statement of Comprehensive Income. In 2018/19, the Trust accounted for all lifecycle replacement costs as capital even though detailed information from the PFI provider had still not been obtained to ensure that a full assessment of lifecycle events and their nature has been assessed. In each individual year, the planned maintenance and lifecycle replacement costs are not material. However they are material over the life of the contract and their inclusion impacts on other aspects of PFI accounting.</p> <p>We recommended that the Trust obtains more detailed information from the PFI provider so that a full assessment of lifecycle events can take place. This will become increasingly important as the amount dedicated to lifecycle events becomes larger over time.</p> <p><i>Asset lives</i></p> <p>In the prior year we disagreed with the Trust's accounting for changes in useful lives for medical equipment and plant/ equipment. This was because the Trust's accounting applied changes retrospectively. An adjustment which was unadjusted for £2m was raised and reported in our ISA260.</p>	<ul style="list-style-type: none"> We will understand the proposed accounting treatment (including financing arrangements) for any new capital scheme and material additions in 2019/20 and consider the implications of the valuation basis; We will use valuation experts to review the assumptions used in determining the fair value of assets recorded within the Trust's financial statements, and the basis for reaching this fair value; and We will agree fixed asset additions in the year to supporting documentation and consider whether transactions have been appropriately classified as capital or revenue. We will review the information shared with the Trust's valuer to ensure they are kept informed of disposals made which may impact on the valuation of the land and buildings, Understand any changes made in asset useful lives during the period and assess whether changes are reasonable. <p><i>PFI – Lifecycle Events</i></p> <ul style="list-style-type: none"> We will review the action taken by management since our 2017/18 audit relating to the accounting of lifecycle replacement costs to ensure that the accounts are materially correct. <p><i>Asset lives</i></p> <ul style="list-style-type: none"> We will review the Trust's fixed asset register to identify changes in asset useful lives. We will understand the rationale for changes and assess the accounting applied to reflect the impact of changes in the accounts (depreciation and net book value).
<p>Going concern</p>	<p>The Trust's financial statements are prepared on the assumption that it is a going concern and will continue its operations for the foreseeable future.</p> <p>Due to the Trust operating at a deficit, and the resulting challenges this presents for your cash flow, we will be required to perform additional work on management's assumptions for applying the going concern basis when producing the financial statements. We will also focus on the disclosures you make in your financial statements to ensure that they fully reflect any material uncertainties that exist over your future financial position.</p>	<p>We will undertake the following specific procedures:</p> <ul style="list-style-type: none"> Read the Trust's going concern assessment, prepared as part of preparations for the annual accounts process; Understand the Trust's cash forecasts for at least the next twelve months from our proposed opinion date and the assumptions underpinning them; Read the Trust's 2020/21 and medium term financial plans; and Ensure disclosures around the financial sustainability of the organisation are clear and transparent within the financial statements and Annual Report.

Section 2 – Our audit approach

Our approach to value for money

Under its terms of authorisation, the Trust is required to exercise its functions economically, efficiently and effectively.

Under the Code of Audit Practice, we must satisfy ourselves, by examination of the financial statements and otherwise, that you have made proper arrangements for securing economy, efficiency and effectiveness in your use of the Trust's resources (referred to here as "Value for Money", or "VFM"). The NAO guidance is included in Auditor Guidance Note 03 ("AGN 03") and requires us to reach our statutory conclusion on your arrangements based on the following overall evaluation criterion:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Our conclusion is then informed by three sub-criteria which guide our work:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

As part of the planning process we are required to perform procedures to assess the Trust's arrangements to secure VFM through the economic, efficient and effective use of its resources. We are required to continually reevaluate this risk assessment during the course of the audit. In performing these procedures we are required to determine whether any risks exist which may impact on our value for money conclusion, and what procedures we will perform to assess the implications of those risks.

We are yet to complete our detailed value for money planning and will update the Audit & Assurance Committee at its next meeting.

In the prior year, we concluded that, except for two matters, the Trust had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of its resources for the year ended 31 March 2019. One of these matters on the S111 license condition will not be relevant in the current year, as this was removed on 28 January 2019. The other matter was:

The Trust's outturn position for 2018/19 was a deficit from continuing operations excluding the impact of impairment in 2018/19 of £26.8 million. The Trust was forecasting a deficit of £41.5 million in 2019/20 before the receipt of £26.7 million of Provider Sustainability Fund, Financial Recovery Fund and Marginal Rate Emergency Tariff income, which is dependent on meeting financial and performance targets. The Trust was reliant on external cash support from the Department of Health and Social Care on a rolling monthly basis throughout 2018/19 and based on its financial plan for 2019/20, significant external financial support will be required for the foreseeable future. The 2019/20 plan assumes £14.9 million in revenue loan support will be required. These issues were evidence of weaknesses in proper arrangements for planning finances effectively to support the sustainable deployment of resources to deliver the Trust's strategic priorities.

The above matter has not materially changed in 2019/20 and therefore we will again consider the continuing impact on our conclusion as to whether the Trust had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of its resources for the year ended 31 March 2020.

As required by AGN 03 we will continue to update our risk assessment throughout our work up to completion of our audit.

Section 2 – Our audit approach

4. Intelligent scoping - Materiality

We set overall materiality to assist our planning of our overall audit strategy and to assess the impact of any adjustments identified. Overall materiality for the Trust has been set at 2% of forecast income (per the annual plan agreed with NHSI) for the year ended 31 March 2020. We will update this assessment as necessary in light of the Trust's actual results upon receipt of the draft accounts in April 2020.

We note that 2% of revenue is a common measure for calculating materiality for Foundation Trusts (and for other public sector organisations) and reflects the fact that this is typically the most relevant measure of size of a Trust's operations.

ISA (UK) 450 (Revised June 2016) 'Evaluation of misstatements identified during the audit' requires that we record all misstatements identified except those which are "clearly trivial" i.e. those which we do not expect to have a material effect on the financial statements even if accumulated. As part of our audit planning procedures we have identified that all misstatements less than £300k could be classed as clearly trivial at the Trust level and we would like to seek the Audit & Assurance Committee's views on this de minimis threshold.

Overall materiality and the clearly trivial reporting de minimis is as follows:

Business unit	Overall materiality (£'000)		Clearly trivial reporting de minimis (£'000)	
	2019/20	2018/19	2019/20	2018/19
Sherwood Forest Hospitals NHS Foundation Trust	6,539	5,876	300	293



Section 2 – Our audit approach

5. Robust testing

We continue to reassess our testing approach each year to reflect the on-going changes in your organisation and to ensure that our approach remains relevant, effective and efficient. Historically our testing was largely substantive with relatively little focus on controls and systems. This reflects our assessment of the most efficient approach to your audit given the level of substantive evidence available in the sector, such as the agreement of balances exercise.

Testing IT and systems

Under ISA (UK) 315 we are required to obtain an understanding of the Trust's information systems relevant to financial reporting, including how IT systems are used to initiate, record, process and report transactions. Our planned audit approach does rely upon the Electronic Staff Record (ESR) ISAE 3000 Type II Controls Report which provides assurance on the IT general controls over the ESR system used by the Trust.

Testing of controls

We will continue to adopt a substantive approach to the audit, with the exception of payroll where we will seek to rely on controls over starters, leavers and amendments to standing data.

Substantive testing

We will always supplement any controls comfort with further tests of detail, ensuring our overall testing continues to provide reasonable assurance over the financial statements. Where we have assessed audit risks as elevated or significant we will perform additional substantive work and incorporate unpredictable procedures into our testing approach. We will also use our knowledge and experience of the business from previous years to perform more substantive work in areas which involve higher levels of judgement (e.g. valuation of property, plant and equipment).

Data enabled auditing

We will continue to use data audit techniques to enhance the precision of our audit procedures as well as the overall coverage we obtain from our testing. These techniques enable us to interrogate all transactions in a population and identify 'higher risk' transactions – For example those transactions that do not follow the expected information flows or do not offset to appropriate balance sheet accounts.

Data enabled auditing also allows us to provide greater insight to management from our work on transaction flows and controls. The key area where we will use data auditing is over journals – helping us identify higher risk transactions in our work to address fraud risk.



Section 2 – Our audit approach

6. Meaningful conclusions

Our primary conclusion is our independent audit opinion on the Trust accounts stating whether: the financial statements provide a true and fair view and have been properly prepared in accordance with the Department of Health and Social Care Group Accounting Manual (DHSC GAM); the audited elements of the Remuneration and Staff Reports have been prepared in accordance with the NHS Foundation Trust Annual Reporting Manual (FT ARM); and the information given in the Performance Report and Accountability Report is consistent with the financial statements.

In addition, we are also required to provide an opinion on whether the final consolidation schedules (TACs) submitted to NHS Improvement are consistent with the audited financial statements.

Additional audit requirements:

We are also required to:

- Report by exception if the disclosures in the Annual Governance Statement are incomplete or if the Annual Governance Statement is misleading or inconsistent with our knowledge acquired during the audit;
- Report on an exception basis on the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year;
- Provide a limited assurance report on the Trust's Quality Report in line with NHS Improvement's detailed guidance for external assurance on quality reports / the Department of Health's guidance; and
- Undertake specified procedures as required by the National Audit Office.

Our audit principles

We will:

- tell you when we find anything significant through our audit work as soon as is practicable to do so; and
- Provide feedback giving value through our observations, recommendations and insights at the end of the year on the financial statements production in relation to the audit process.



Section 2 – Our audit approach

6. Meaningful conclusions

Quality Report

The regulations require you to publish a Quality Report as part of your Annual Report and Accounts. The aim of this Quality Report is to improve public accountability for the quality of care.

We are required to carry out work in accordance with the relevant guidance and to provide you with the following:

- a limited assurance report which says that nothing has come to our attention that causes us to believe that, for the year ended 31 March 2020:
- the Quality Report does not incorporate the matters required to be reported as specified in the relevant guidance;
- the Quality Report is materially inconsistent with the sources specified in the relevant guidance; and
- specified performance indicators have not been prepared in all material respects in accordance with the criteria set out in the Quality Report.
- a report to you which includes:
 - our detailed findings from the work we undertook to reach our conclusion on the limited assurance report; and
 - our findings from the work that we are required by NHSI to undertake in relation to any specified performance indicators.

At the time of writing our plan NHS Improvement's guidance on the production of the 2019/20 Quality Report is still being finalised. As such the details of our work, as set out above, may be subject to change. Equally, the performance indicators we are required to consider as well as the specific approach to testing these indicators have not been confirmed. We will update the Audit & Assurance Committee on the exact nature of our work once the final guidance is released.

Additional procedures for the NAO

The National Audit Office (the 'NAO') issues group audit instructions which set out additional audit requirements. We expect the procedures for this year to be similar to previous years, which will include:

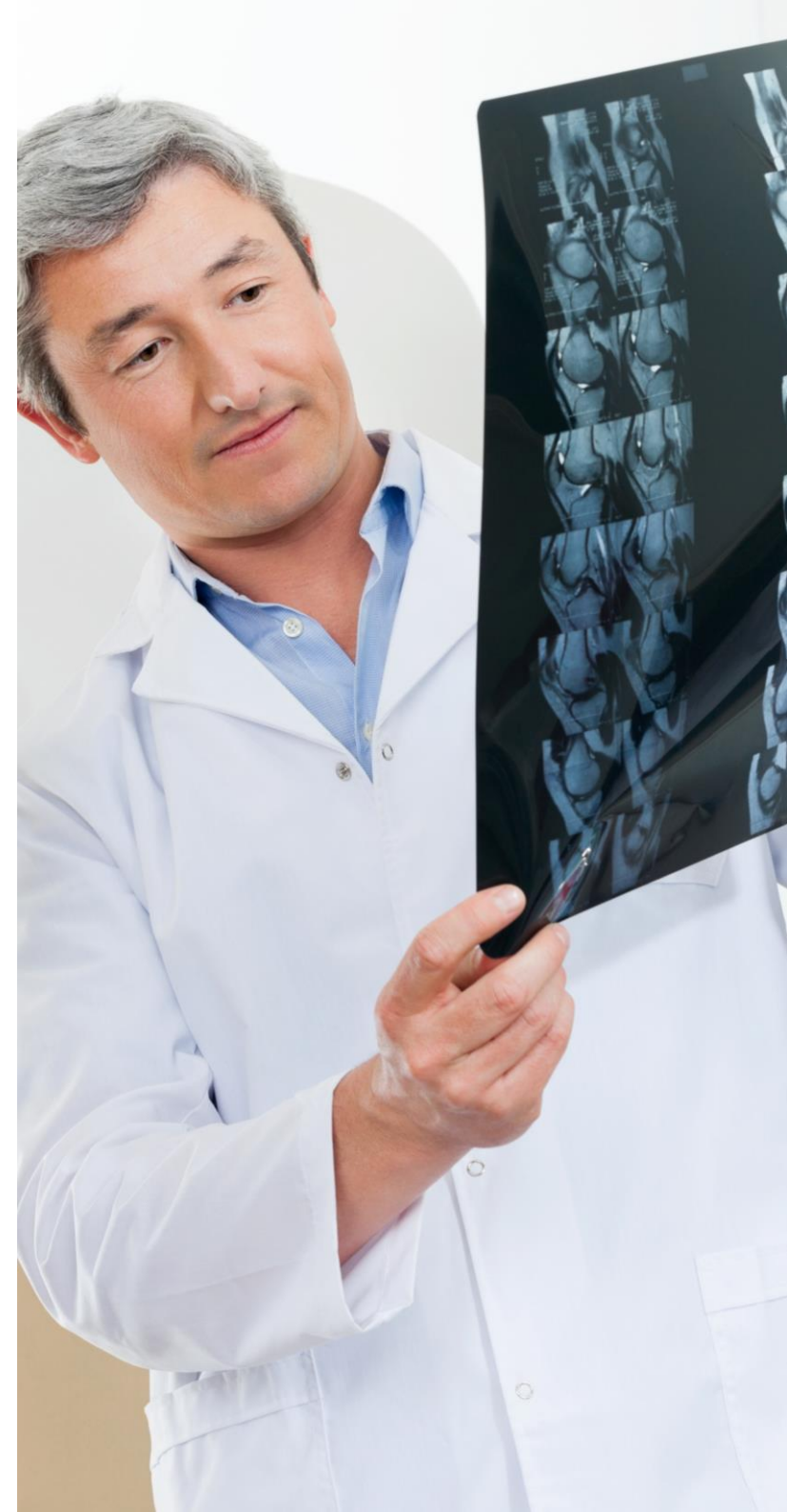
- The NAO audit team for the NHS Consolidated Provider Account 2019/20 will issue us with Group Instructions under ISA (UK) 600 (Revised) '*Special considerations - audits of group financial statements (including the work of component auditors)*'. These instructions may reflect procedures and requirements of the NAO audit team for the Department of Health and Social Care Annual Report and Accounts into which NHS providers will be consolidated in 2019/20.
- The NAO audit team for the Whole of Government Accounts (WGA) request us to undertake specific audit procedures in order to provide them with additional assurance over the amounts recorded in WGA schedules. The extent of these procedures will depend on whether or not the Trust is a sampled component for 2019/20.

In December 2019 it was confirmed that the Trust is not a sampled component.

We will seek to comply with the instructions and to report to the NAO in accordance with their requirements. In the unlikely event that we cannot comply with aspects of the instructions, we will discuss this with the Trust and with the NAO.

Section 3 – Audit timetable

Activity	Proposed timing
Initial onsite planning	2 December 2019
Audit & Assurance Committee – Presentation of audit plan	16 January 2020
Engagement letter to be issued	January 2020
On site interim work	24 February 2020
Testing of payroll controls	24 February 2020
Meeting with management - Planning debrief and control observations if applicable - Year end audit preparation	March 2020
Year end audit deliverable listing to be issued	31 March 2020
Final audit and statutory accounts	
First draft of accounts and TACs to be submitted	24 April 2020
Audit field work commences	w/c 20 April 2020
Clearance meeting with management	To be arranged for May 2020
Audit & Assurance Committee – Presentation of final findings (ISA (UK) 260 report)	21 May 2020
Annual report and accounts (including audit opinions) to be signed and filed with NHS Improvement	29 May 2020



Section 4 – Fraud and money laundering

Part of the Audit & Assurance Committee's governance role is to understand risks of the business and management's response, including fraud.

We would like to:

- Obtain your views about the risks of fraud in the entity
- Confirm whether you have knowledge of any actual, suspected or alleged fraud affecting the Trust.

Fraud

Management and the Board are responsible for safeguarding the assets of the Trust and for the prevention and detection of fraud, error and non-compliance with law or regulations. Our audit approach includes discussing the potential for fraud at different levels within the Trust, including with the Audit & Assurance Committee. We are required to obtain your views about the risk of fraud in the Trust, and to confirm whether you have knowledge of any actual, suspected or alleged fraud impacting the Trust.

We are required to comply with ISA (UK) 240 '*The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements*'. ISA (UK) 240 requires us to assess the risk of fraud within an entity and plan and tailor our procedures appropriately. The standards also require us to evaluate all anti-fraud programmes and controls over risks of fraud that are reasonably likely to have a material effect on the company's financial statements.

We will consider incentives and opportunities to commit fraud and obtain an understanding of the controls in place to prevent fraud. Through discussions with management, we will understand their views on the opportunities to commit fraud and their assessment of the risk areas, as well as gain an understanding of the controls in place to mitigate this risk. ISA (UK) 240 also requires us to incorporate an element of planned unpredictability in the selection of the nature, timing and extent of our audit procedures and we will incorporate this into the audit plan as appropriate. We will also focus on the areas that we consider to be key areas for fraud risk in the business, namely accounting estimates, significant unusual transactions and journal entries and other adjustments.

Money laundering

Our audit is covered by the Proceeds of Crime Act 2002. This requires us to report to PwC's Money Laundering Reporting Office if we have any knowledge or suspicion, or have reasonable grounds to know or suspect, that such offences have been committed. There is no 'de minimis' limit below which reports need not to be made.

Section 5 – Engagement team

Our core team

Our team has been structured to bring the right combination of specialist skills to the Trust's audit. We also recognise that continuity in the audit team is important to you and the senior members of our team are committed to developing longer term relationships with you.

Audit team	Responsibilities and experience
Engagement leader Alison Breadon	Engagement Leader responsible for independently delivering the audit in line with the Code of Audit Practice (including agreeing the Audit Plan and the ISA (UK) 260 Report to Those Charged with Governance), quality of outputs and signing of opinions and conclusions.
Engagement Senior manager Matthew Elmer	Responsible for ensuring audit is delivered to a high quality. Provision of technical expertise on high risk areas of the audit.
Engagement Senior manager Glen Spencer	Manager on the assignment responsible for overall control of the audit engagement, ensuring delivery to timetable, delivery and management of targeted work and overall review of audit outputs. Completion of the Audit Plan and ISA (UK) 260.
Engagement manager Armston Taka Mofor	Responsible for leading the on-site team, including the audit of the financial statements, and governance aspects of our work. Regular liaison with the finance team.
Quality Report Senior manager Charlotte Wood	Senior Manager on the quality accounts assignment responsible for overall control of the engagement, ensuring delivery to timetable, delivery and management of targeted work and overall review of outputs.

Specialist teams:

- Valuation
- IT and Data



Health Centre of Excellence:

We have a Centre of Excellence in the UK for the health sector which is a dedicated team of specialists which advises, assists and shares best practice with our audit teams in more complex areas of the audit. Your audit team works side by side with the Centre of Excellence to ensure we are executing the best possible audit approach.

Service Delivery Centres:

We use dedicated delivery centres to deliver parts of our audit work that are routine and can be done by teams dedicated to specific tasks; for example these include confirmation procedures, preliminary independence checks and financial statements quality checks. The use of our delivery centres frees up your audit team to focus on the areas of the audit that matter to you.

Section 6 – Independence and fees

Audit fees

Set out below are our proposed audit fees for the 2019/20 audit. We have provisionally agreed these fees with Management subject to approval by the Audit & Assurance Committee. We believe that our fees continue to represent a 'best value for money fee' without compromising the high quality of service we already deliver.

	2019/20 £'000s	2018/19 £'000s
Audit of Trust financial statements	79,646	78,084
Work in respect of Quality Report	8,775	8,636
* Scope variation - prior year	0	3,500
** Scope variation - Higher Profile Client Classification	20,000	0
*** Scope variation – IFRS16	10,000	0
Total audit fees in respect of Trust	118,421	90,220

Scope Variations

*Scope variation for additional work performed in relation to new accounting standards.

**PwC has been required by the Financial Reporting Council to update its definition of a Higher Profile Client (HPC) to include any entities that employ more than 5,000 UK employees and have a significant risk of going concern. The Trust meets both of these requirements and is therefore classified as a HPC. The implications of this are that the audit is required to have a Quality Review Partner. The Quality Review Partner and a Hot Reviewer are required to perform detailed review of the draft annual report and accounts in addition to the normal audit team. The work and effort required to complete this additional level of scrutiny on the Trust accounts is significant.

*** Audit work required to cover the disclosures under IFRS16 ahead of full implementation in 2020/21. The current fee is an estimate only at this stage.

Independence

Independence is fundamental to our ability to serve as auditors and we have procedures in place that enable us to assess whether accepting any engagement would be inconsistent with our role as auditors. We have fully considered our position with respect to the Trust and can report that we are satisfied with our independence at this stage and that we monitor this continually. We have included the specific threats and safeguards in relation to the non-audit services we perform and other independence considerations within Appendix 1 to this report, and we will update you on any further changes to this at the final Audit & Assurance Committee meeting in May 2020.

Appendices



Appendix 1: Independence threats and safeguards

In concluding on our independence as auditors, we have made enquiries of all PwC teams who work with your organisation, and we have specifically considered the following factors. We would be happy to discuss any of these areas with you in more detail at the Audit & Assurance Committee meeting.

Potential threats	Considerations and safeguards in place	Conclusions
Relationships and investments	We have not identified any potential issues in respect of personal relationships with the Trust or investments in the Trust held by individuals.	No significant threat to our independence has been identified.
Employment of PwC partners or staff by the Trust	We are not aware of any former PwC partners or staff being employed, or holding discussions in respect of employment, by the Trust as a director or in a senior management or financial reporting oversight role covering financial, accounting or control related areas.	No significant threat to our independence has been identified.
Business relationships	We have not identified any business relationships between PwC and the Trust.	No significant threat to our independence has been identified.
Services provided to the Trust	<p>PwC has not provided any non-audit services to the Trust during the year to date. The only non-audit service expected to be performed for 2019/20 is our work on the Quality Account – this work is mandated by NHS Improvement as part of our audit appointment. Our work is conducted on an independent and objective basis in line with externally produced guidance from NHS Improvement.</p> <p>No other threats to our independence have been identified from performing this work.</p> <p>In each case, all decisions on these matters are ultimately taken by the Trust's management.</p> <ul style="list-style-type: none"> • Perfect ward – <i>The Trust uses Perfect Ward. This is an online inspection tool which works on a subscription basis and is customised for each organisation depending on what they want areas to inspect, who they want to do the inspections and what questions they want to ask. PwC holds a minority stake in Perfect ward.</i> 	<p>No significant threat to our independence has been identified.</p> <p>No significant threat to our independence has been identified.</p>
Fees (including contingent fees)	<p>The total non-audit fees for the year ended 31 March 2019 were £8,636, and there were no contingent fees between PwC and the Trust. The overall level of non-audit fees is not considered to be disproportionate to the audit fees and is not significant to PwC as a firm.</p> <p>We expect non-audit fees for the year ended 31 March 2020 to be in the region of £8,775.</p>	No significant threat to our independence has been identified.

Appendix 1: Independence threats and safeguards

Potential threats	Considerations and safeguards in place	Conclusions
Services to directors and senior management	PwC has not provided any services e.g. personal tax services, directly to directors, or other members of senior management.	No significant threat to our independence has been identified.
Rotation of audit staff	The lead audit engagement partners are rotated at least every ten years, as required by our own rules and by regulatory bodies. Rotation ensures a fresh look without sacrificing institutional knowledge. Rotation of audit engagement partners, key partners involved in the audit and other staff in senior positions is reviewed on a regular basis by the audit engagement partner. This includes partners and staff involved in the audit of the Trust.	No significant threat to our independence has been identified.
Gifts and hospitality	We have not identified any significant gifts or hospitality provided to, or received from, a member of Trust's board, senior management or staff.	No significant threat to our independence has been identified.

Conclusion

We hereby affirm that, in our professional judgement, as at the date of this letter:

- we comply with UK regulatory and professional requirements, including the Ethical Standard issued by the Auditing Practices Board; and
- our objectivity is not compromised

This report is intended solely for the use of the Audit & Assurance Committee, the Board of Directors, management, and others within the Trust and should not be used for any other purposes.

We look forward to discussing with you the matters addressed in this appendix as well as other matters that may be of interest to you at the forthcoming Audit & Assurance Committee meeting. We will be prepared to answer any questions you may have regarding our independence as well as other matters.

We would ask the Audit & Assurance Committee to consider the matters in this report and to confirm that they agree with our conclusion on our independence and objectivity.

Thank you

This is a draft prepared for discussion purposes only and should not be relied upon; the contents are subject to amendment or withdrawal and our final conclusions and findings will be set out in our final deliverable.

This document has been prepared only for Sherwood Forest Hospitals NHS Foundation Trust and solely for the purpose and on the terms agreed with them in our agreement dated 1 February 2019. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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