



External Audit Report

Bradford District Care Foundation Trust

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21 May 2018

I confirm that this is the final version of our ISA 260 Audit Memorandum relating to our audit of the 2017/18 financial statements for Bradford District Care NHS Foundation Trust. This document was discussed and approved by the Trust's Audit Committee on 23 May 2018.

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Rashpal Khangura

Director for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square, Sovereign Street, Leeds, LS1 4DA
xx May 2018

Our audit opinions and conclusions:

Financial Statements: unqualified	Use of resources: clean
Quality Reports (content): clean	Quality Report (indicators): clean

Content

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Important Notice

This report is presented under the terms of our audit engagement letter. Circulation of this report is restricted. The content of this report is based solely on the procedures necessary for our audit. This report is addressed to Bradford District Care NHS Foundation Trust NHS Foundation Trust (the Trust) and has been prepared for your use only. We accept no responsibility towards any member of staff acting on their own, or to any third parties. The National Audit Office (NAO) has issued a document entitled Code of Audit Practice (the Code). This summarises where the responsibilities of auditors begin and end and what is expected from the Trust. External auditors do not act as a substitute for the Trust's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

Basis of preparation: We have prepared this External Audit Report (Report) in accordance with our engagement letter dated March 2018.

Purpose of this report: This Report is made to the Trust's Audit Committee (and for the quality report work we will share the findings with governors) in order to communicate matters as required by International Audit Standards (ISAs) (UK and Ireland), and other matters coming to our attention during our audit work that we consider might be of interest, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report, or for the opinions we have formed in respect of this Report.

Restrictions on distribution: This Report is subject to disclosure restrictions as set out in our Engagement Letter.

Limitations on work performed: This Report is separate from our long form audit report and does not provide an additional opinion on the Trust's financial statements, nor does it add to or extend or alter our duties and responsibilities as auditors. We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report. The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit: Our audit is not yet complete and matters communicated in this report may change pending signature of our audit report. We will provide an oral update on the status of our audit at the Audit Committee meeting but would highlight the following work is still outstanding:

- Financial Statements audit: reconciling the final version of the accounts to the draft version we audited whilst onsite;
- WGA: a number of mandated tests need to be completed due to the Trust being a sampled body this year;
- Payroll: a small sample of payslips still are to be agreed to the general ledger; and
- Quality Report: some work remains on checking the final version of the quality report against the version we audited.



Summary

Financial Statements Audit

We intend to issue an unqualified audit opinion on the accounts following the Audit Committee adopting them and receipt of the management representations letter.

We have completed our audit of the financial statements. We have also read the content of the Annual Report (including the Remuneration Report) and reviewed the Annual Governance Statement (AGS). Our key findings are:

- There are no unadjusted audit differences.
- We have agreed presentational changes to the accounts with Finance, mainly related to compliance with the Group Accounting Manual (GAM).
- We have reviewed the annual report and have no matters to raise with you.

Quality Report

We have completed our audit of the Trust's Quality Report:

- You have achieved a clean limited assurance opinion on the content of your Quality Report which could be referenced to supporting information and evidence provided. This represents an unmodified audit opinion on the Quality Report.
- This year we have also tested Improving Access to Psychological Therapies (IAPT) and Early Intervention in Psychosis (EIP) as the two mandated indicators. Our detailed testing on the indicators has concluded that we are able to give a clean limited assurance opinion on the presentation and recording of these.

Our work on the local indicator A&E data collection as selected by Governors has indicated that if required to, we would be able to give a clean limited assurance opinion on the presentation and recording of this indicator.

Value for money and audit certificate

Based on the findings of our work, we have concluded that the Trust has adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required to certify that we have completed the audit of the Trust financial statements in accordance with the requirements of the Code. If there are any circumstances under which we cannot issue a certificate, then we must report this to those charged with governance.

Other Matters

We intend to issue an unqualified Group Audit Assurance Certificate to the NAO regarding the Whole of Government Accounts submission, made through the submission of the summarisation schedules to NHS Improvement (NHSI).

We have not made any recommendations as a result of our 2017/18 work. There were also no recommendations to follow up from the previous year.

In auditing the accounts of an NHS body auditors must consider whether, in the public interest, they should make a report on any matters coming to their notice in the course of the audit, in order for it to be considered by Trust members or brought to the attention of the public; and whether the public interest requires any such matter to be made the subject of an immediate report rather than at completion of the audit. There are no matters that we wish to report.



Financial Statements Audit

Section Two

Financial Statements Audit

We audit your financial statements by undertaking the following tasks:

Work Performed	Accounts production stage		
	Before	During	After
1. Business Understanding: review your operations	✓	✓	–
2. Controls: assess the control framework	✓	–	–
3. Prepared by Client Request (PBC): issue our prepared by client request	✓	–	–
4. Accounting standards: agree the impact of any new accounting standards	✓	✓	–
5. Accounts Production: review the accounts production process	✓	✓	✓
6. Testing: test and confirm material or significant balances and disclosures	–	✓	✓
7. Representations and opinions: seek and provide representations before issuing our opinions	✓	✓	✓

We have completed the first six stages shown above and report our key findings below:

1. Business Understanding	In our audit plan we assessed your operations to identify significant issues that might have a financial statements consequence. We confirmed this risk assessment as part of our audit work. We have provided an update on each of the risks identified later in this section.
2. Assessment of the control environment	We have assessed the effectiveness of your key financial system controls that prevent and detect material fraud and error. We found that the financial controls on which we seek to place reliance are operating effectively. We have not made any recommendations. We believe that these recommendations (which are shown in appendix 1) will strengthen your control environment. We have reviewed the work undertaken by Audit Yorkshire, your internal auditors, in accordance with ISA 610 and used the findings to inform our planning and audit approach. We have chosen not to place reliance on their work due to the approach we adopted for the financial statements audit.
3. Prepared by client request	We produced this document to summarise the working papers and evidence we ask you to collate as part of the preparation of the financial statements. We discussed and tailored our request with Head of Financial Accounting and this was issued as a final document to the finance team. The quality of documentation received from the Trust Finance team and other contacts has been high and all requests have been answered promptly. The use of a SharePoint site for 2017/18 has proved very effective for the audit and finance team.
4. Accounting standards	We work with you to understand the changes to accounting standard and other technical issues. For 2017/18 these changes have related to: <ul style="list-style-type: none"> • Updates to the content of the annual report - we reviewed the content of the draft annual report and have shared feedback with the Director of Corporate Affairs on areas where further disclosure is required; and • The inclusion of mandated headings for number of the prime financial statements and notes.

Section Two

Financial Statements Audit

5. Accounts Production	We received complete draft accounts by 24 April 2018 in accordance with NHSI's deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of ARM and GAM. We will debrief with the Finance team to share views on the final accounts audit. Hopefully this will lead to further efficiencies in the 2018/19 audit process. In particular we would like to commend Trust finance staff who were available throughout the audit visit to answer our queries. We thank the finance team for their co-operation throughout the visit which allowed the audit to progress and complete within the allocated timeframe.
6. Testing	We have summarised the findings from our testing of significant risks and areas of judgement within the financial statements on the following pages. During the audit we identified only presentational issues which have been adjusted as they have no material effect on the financial statements.
7. Representations	You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Deputy Chief Executive on 18 May 2018. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us.

We are required under ISA 260 to communicate to you any matters specifically required by other auditing standards to be communicated to those charged with governance; and any other audit matters of governance interest. As the Trust is required to comply with elements of the UK Corporate Governance Code through the Foundation Trust Code of Governance, ISA 260 also requires us to communicate to you any information that we believe is relevant to understanding our rationale and the supporting evidence for the exercise of our professional judgement. This includes our view of: Business risks relevant to the financial reporting objectives, the application of materiality and the impact of our judgements on these areas for the overall audit strategy and audit plan; significant accounting policies; management's valuations of the Trust's material asset and liabilities and the related disclosures; the quality of management's assessment of the effectiveness of the system of internal control included in the AGS; and any other matters identified during the course of the audit. We have not identified any other matters to specifically report.

To ensure that we have provided a comprehensive summary of our work, we have over the next pages set out:

- The results of the procedures we performed over Property, Plant and Equipment which were identified as a significant risk within our audit plan and which will form a part of our audit opinion;
- The results of our procedures to review the required risks of the fraudulent risk of revenue recognition and management override of control; and
- Our view of the level of prudence you have applied to key balances within your financial statement

Section Two

Financial Statements Audit

Significant audit risk	Account balances effected	Summary of findings
Valuation of land and buildings	Note 14 Property, plant and equipment, Land and Building NBV £51.7m PY £49.0m	<p>We have assessed the competence, capability, objectivity and independence of the Trust's external valuer and considered the terms of engagement of, and the instructions issued to the valuer for consistency with the Trust's accounting policies for the valuation of property, plant and equipment and also RICS and did not identify any issues.</p> <p>During our work we also compared the price index used by the valuer to that per the Gerard Eve Interim Market report. We considered the accuracy of the estate base data provided to the valuer to complete the full valuation to ensure it accurately reflected the Trust estate and we confirmed that valuation of appropriate assets has taken place. We confirmed from a review of the valuer's report that sites were visited to confirm asset details.</p> <p>We assessed whether the accounting disclosures for the revaluation and impairments to land and buildings complied with the requirements of the Department of Health's Group Accounting Manual 2017/18. No exceptions were noted. The Trust has included additional disclosures within Note 14 to aid the readers understanding of the impact of the revaluation exercise.</p>

Section Two

Financial Statements Audit

Risks that ISAs require us to assess in all cases	Why	Our findings from the audit
<p>Fraud risk from revenue recognition</p>	<p>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.</p> <p>We have rebutted this risk for block contract income but not for other operating income. This is because there is limited incentive and opportunity for the manipulation of income from block contracts. However, there is greater scope for manipulation of revenue recognition in non-routine or contracted service provision. Revenue from these sources is forecasted to be above our materiality level and therefore we did not deem it appropriate to rebut the risk in relation to this income stream.</p>	<p>Total operating revenue per the accounts is £142.6 million, of which NHS Income is £115.3 million. The remaining non NHS Income balance is £27.3 million.</p> <p>We have remained alert to the fraud risk through our audit of this balance. Key items within this non NHS income stream include £23.6 million of local authority contracts. As part of our work we reviewed contracts in place with Bradford Council and agreed monthly receipts to the bank statements.</p> <p>We sample tested other material non-NHS revenue streams, agreeing amounts back to supporting evidence of income receipt.</p> <p>Our testing did not identify any issues.</p>
<p>Fraud risk from management override of controls</p>	<p>Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>We have not identified any specific additional risks of management override relating to this audit.</p>	<p>Our procedures, included testing of journal entries, accounting estimates and significant transaction outside the normal course of business, no instances of fraud were identified.</p>

Section Two

Financial Statements Audit

Judgements in your financial statements

We consider the level of prudence within key judgements in your financial statements. We have summarised our view below using the following range of judgement:



Assessment of subjective areas				
Asset/liability class	Current year	Prior year	Balance (£m)	KPMG comment
Provisions	3	3	£0.9 (PY:£0.7)	The majority of the balance relates to provisions for injury benefits based on information provided by the NHS Pensions Agency. Discussions with management have not identified any other litigation or claims that need to be provided for and there have been no national directives.
Accruals	3	3	£2.4 (PY:£1.5)	This balance includes numerous accruals for expenditure incurred but not yet invoiced. We tested a sample of these items and based on our sample testing we have no indications to suggest the accrual is understated or overstated.
Deferred income	3	3	£0.01 (PY:£0.03)	The amount of deferred income in the accounts is below our triviality level, this is consistent with our understanding and also in line with the previous year. Therefore no audit work was performed.
Debtors provisioning	3	3	£0.05 (PY:£0.05)	Our audit work did not identify any issues that would suggest the provision for impairment of receivables is materially misstated. The majority of the Trust's debtors at the year-end relate to NHS bodies and would not be impaired.
Assets (lives, VAT and valuations)	3	3	£51.7 (PY:£49.1)	We identified the valuation of land and buildings as a significant audit risk and our work in this area is summarised on page 9. No issues were identified from this work.

Section Two

Financial Statements Audit

Annual report

We have read the contents of the Annual Report (including the Accountability Report, Performance Report and AGS) and audited the relevant parts of the Remuneration Report. We have checked compliance with the NHS Foundation Trust Annual Reporting Manual (ARM) issued by NHSI. Based on the work performed:

- We have not identified any inconsistencies between the contents of the Accountability, Performance and Director's Reports and the financial statements.
- We have not identified any material inconsistencies between the knowledge acquired during our audit and the director's statements. As Directors, you confirm that you consider that the annual report and accounts taken as a whole are fair, balanced and understandable and provides the information necessary for patients, regulators and other stakeholders to assess the Trust's performance, business model and strategy.
- The part of the Remuneration Report that is required to be audited were all found to be materially accurate;
- The AGS is consistent with the financial statements and complies with relevant guidance subject to updates as outlined within section three; and
- The report of the Audit Committee included in the Annual Report is currently being reviewed by management to ensure that it appropriately addresses matters communicated by us to the Audit Committee, and meets guidance as set out in the ARM.

Independence and Objectivity

ISA 260 also requires us to make an annual declaration that we are in a position of sufficient independence and objectivity to act as your auditors, which we completed at planning and no further work or matters have arisen since then.

Audit Fees

Our fee for the audit was £49,000 plus VAT (£49,000 in 2016/17). This fee was in line with that highlighted within our audit plan agreed by the Audit Committee. Our fee for the external assurance on the quality report was £11,500 plus VAT (£11,500 in 2016/17). We have not completed any non-audit work at the Trust during the year and the fees within Note 5 relating to other external audit fees relate to work undertaken in earlier years.

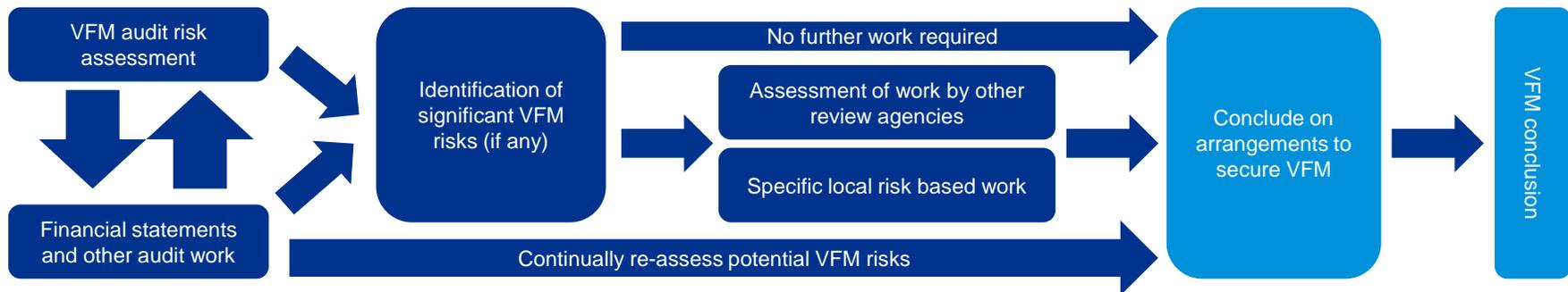


Value for Money

Section Three

Value for Money

For 2017/18 our value for money (VFM) work follows the NAO's guidance. It is risk based and targets audit effort on the areas of greatest audit risk. Our methodology is summarised below. We identified two significant VFM risks which are reported overleaf.



AGS review	Regulatory review	Other matters considered in risk assessment
<p>We reviewed the 2017/18 AGS and took into consideration the work of internal audit.</p> <p>We confirm that the AGS reflects our understanding of the Trust's operations and risk management arrangements.</p>	<p>We considered the outcomes of relevant regulatory reviews (NHS Improvement, CQC, etc.) in reaching our conclusion.</p> <p>The Trust's rating under NHSI's Single Oversight Framework is 1 for the year-end.</p> <p>The Trust has an overall CQC rating of "requires improvement". The last inspection was issued in February 2018.</p>	<p>As part of our risk assessment we reviewed various matters, including:</p> <ul style="list-style-type: none"> • forecast run rate position. • core assumptions in the 2018/19 Annual Plan. • recurrent cost improvement schemes are identified and delivered. • current operational performance and commissioner relationships / contractual risks. • planned VS actual outturn. • significant one-off items affecting the outturn position. • Management's assessment of the Trust's ability to continue as a going concern. • any financial support received. • partnership arrangements / relationships with key third parties.

Section Three

Value for Money

Significant risk based VFM audit work

The table below sets out the detailed findings of our significant risk based VFM work. This work was completed to address the residual risks remaining after our assessment of the higher level controls in place to address the VFM risks identified in our planning and financial statements audit work.

Value for money risk	Why this risk is significant	Our audit response and findings
Financial Resilience	<p>As part of our responsibilities in relation to reaching our use of resources conclusion we are required to perform any work that we regard as necessary to allow us to conclude on whether you have effectively, efficiently and economically exercised your functions.</p> <p>Due to the continued significant financial challenge in the sector we will undertake a detailed consideration of the Trust's financial position and financial sustainability.</p>	<p>Through our work on significant risks in terms of the financial stability of Bradford District Care Foundation Trust we have found that the Trust will continue to have significant financial challenges going forward in 2018/19.</p> <p>Through review of various information (minute review; discussion with management; appropriate escalation of issues internally with FBIC/Board) we believe the Trust is taking appropriate action to address these challenges.</p> <p>The Trust is also not alone in facing these challenges – financial sustainability is a huge challenge for the NHS, linked with activity levels, funding pressures on commissioners passed on to providers, and other service pressures.</p> <p>Our work to date has not highlighted any concerns that would suggest management are not responding appropriately to the challenges faced. We plan to issue an unqualified VFM conclusion for 2017/18.</p>

Section Three

Value for Money

Significant risk based VFM audit work

Value for money risk	Why this risk is significant	Our audit response and findings
CQC Report	The Trust received a rating of “requires improvement” following their CQC inspection. Well Led was one of the areas requiring improvement therefore we identified this as a significant risk and undertook more detailed work in this area.	<p>We reviewed the detail contained within the CQC report and undertook a detailed assessment of whether the issues raised impacted upon any areas of our VFM conclusion. We identified that the issues raised within the CQC report did not indicate that there is currently any significant issue with informed decision making, sustainable resource deployment or working with third parties.</p> <p>We also discussed and reviewed the actions taken by the Trust to address the issues identified within the CQC report and it is positive that the Trust had quickly developed an action plan to address the areas raised.</p> <p>Based on our work to date we have not identified any concerns that would suggest management are not responding appropriately to the challenges faced and we plan to issue an unqualified VFM conclusion for 2017/18.</p>



Quality Report

Section Four

Quality Report

Conclusion on content of quality report

Subject to carrying out our final checks to ensure you have reflected our comments in the quality report and reviewing changes made by the Trust after the date of this report, we are satisfied that there is sufficient evidence to provide a limited assurance opinion on the content of the quality report.

Work performed and findings

We consider two criteria:

- Review of content to ensure it addresses the requirements set out in the Detailed Requirements for Quality Reports for Foundation Trusts in 2017/18 issued by NHSI; and
- Review of content in the quality report for consistency with other information specified by NHSI.

Our findings are set out below:

Issue considered	Findings
Inclusion of all mandated content	The content of the quality report presented for audit was accurately reported in line with the quality report regulations. Once the final version of the Quality Report has been received, along with receipt of a signed management representation letter from the Trust, we shall be able to issue our final opinion.
Are significant matters in the specified information sources reflected in the quality report and significant assertions in the quality report supported by the specified information sources?	We identified that the Trust's quality report reflected its significant matters, relevant to the selected priorities from the specified information sources.

Section Four

Quality Report

Audit of indicators within the quality report

We carried out work on two mandated indicators, which require a public opinion, as specified by NHSI in its guidance:

- EIP Referral; and
- IAPT.

In addition, we carried out work on a locally selected indicator chosen by your Council of Governors. The indicator selected was the reduction in A&E attendance. This indicator is not subject to a limited assurance opinion.

Conclusion

Our work on the two mandated indicators has concluded that there is sufficient evidence to provide a limited assurance opinion in respect of EIP and IAPT. For the local indicators, reduction in A&E attendance, we have concluded that if required we would be in a position to provide a limited assurance opinion.

Please note that the extent of the procedures performed is reduced for limited assurance. The nature of the procedures may be different and less challenging than those used for reasonable assurance. Therefore, our work was not a reasonable assurance audit of either the performance indicators or the processes used to collate and report them.

Results of our work

We have set out overleaf the key findings from our work as described above in relation to the two mandated indicators and the locally selected indicator. In reaching our conclusions we are required to have assessed the design and operation of the systems of control over the data against the six data quality dimensions defined by the NAO. In reaching our conclusion we have assessed these arrangements to consider whether they can be graded as:

- **Green:** No improvement to achieve compliance with the dimensions of data quality noted.
- **Amber:** Opportunities to achieve great efficiency or better control in compliance with the dimensions of data quality noted.
- **Red:** Concern that systems will not achieve compliance with one or more aspects of the dimensions of data quality and therefore a limited assurance opinion cannot be provided.

Section Four

Quality Report

Design of system and processes and operation				Results of our sample testing	Conclusion reached
Data quality dimension	Design	Operation	Commentary on ratings		
Mandated Indicator: EIP Referral Performance target: 50% Performance recorded in Quality Report: 57.9% Q4					
Accuracy	●	●	Through our testing we found that accurate data was used and reported.	A sample size of 25 has been selected for those individuals who were assessed within 14 days of referral. KPMG also selected 10 who had been excluded and checked that this was appropriate.	We have not come across any indications that data for this indicator is not produced in line with national guidance.
Completeness	●	●	A sample of excluded patients were tested.		
Relevance	●	●	We reconciled all records of all EIP referrals to the number of referrals used in the indicator.		
Reliability	●	●	We confirmed with staff that there had been no changes to the process.		
Timeliness	●	●	We checked whether the system used to record the data underpinning the indicator is updated for new referrals on a timely basis.		
Validity	●	●	Agree details of a sample of referrals to patient records. We also checked that any exclusions from the indicator are in line with indicator guidance.		
Overall	●	●	No issues identified, test was satisfied.		

Section Four

Quality Report

Design of system and processes and operation				Results of our sample testing	Conclusion reached
Data quality dimension	Design	Operation	Commentary on ratings		
Mandated Indicator: IAPT referral Performance target: 75% Performance recorded in Quality Report: 96.5% in Q3					
Accuracy	●	●	Through our testing we found that accurate data was used and reported.	A sample size of 25 has been selected for those individuals had started a NICE package in month. KPMG also selected 10 who had been excluded and checked that this was appropriate.	We have not come across any indications that data for this indicator is not produced in line with national guidance.
Completeness	●	●	A sample of excluded patients were tested.		
Relevance	●	●	We reconciled all records of all to the number of patients used in the indicator.		
Reliability	●	●	We confirmed with staff that there had been no changes to the process.		
Timeliness	●	●	We checked whether the system used to record the data underpinning the indicator is updated for new referrals on a timely basis.		
Validity	●	●	Agree details of a sample of referrals to patient records. We also checked that any exclusions from the indicator are in line with indicator guidance.		
Overall	●	●	No issues identified, test was satisfied.		

Section Four

Quality Report

Design of system and processes and operation				Results of our sample testing	Conclusion reached
Data quality dimension	Design	Operation	Commentary on ratings		
Local Indicator: Reduction in A&E attendance Performance target: Fall in numbers on prior year Performance recorded in Quality Report: 774 and 877					
Accuracy	●	●	Through our testing we found that accurate data was used and reported.	A sample size of 25 has been selected of those who had been referred to A&E during the month.	While we are not required to give an opinion on this indicator, we have not come across any indications that data for this indicator is not produced in line with national guidance.
Completeness	●	●	We viewed the report being ran and selected our sample from this.		
Relevance	●	●	We reconciled all records of all to the number of patients used in the indicator.		
Reliability	●	●	We confirmed with staff that there had been no changes to the process.		
Timeliness	●	●	We checked whether the system used to record the data underpinning the indicator is updated for new referrals on a timely basis.		
Validity	●	●	Agree details of a sample of referrals to patient records. We also checked that any exclusions from the indicator are in line with indicator guidance.		
Overall	●	●	No issues identified, test was satisfied.		



Appendices

Appendix 1

Audit Differences

Under UK auditing standards (ISA (UK&I) 260) we are required to provide the Audit and Governance Committee with a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK&I) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the Audit and Governance Committee, we will report details of all adjustments greater than £100K identified as part of our audit.

- There were no unadjusted audit differences.

Under UK auditing standards (ISA UK&I 260) we are required to provide the Audit and Governance Committee with a summary of adjusted audit differences (including disclosures) identified during the course of our audit. The adjustments below have been included in the financial statements.

- There were no adjusted audit differences.

During the audit we identified only a small number of presentational/disclosure issues which have been adjusted by the Trust..

Appendix 2

Audit Independence

The purpose of this Appendix is to communicate all significant facts and matters that bear on KPMG LLP's independence and objectivity and to inform you of the requirements of *ISA 260 (UK and Ireland) Communication of Audit Matters to Those Charged with Governance*.

Integrity, objectivity and independence

We are required to communicate to you in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

We have considered the fees paid to us by the Trust for professional services provided by us during the reporting period. We are satisfied that our general procedures support our independence and objectivity.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail. There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to the Board of Governors.

Audit matters

We are required to comply with *ISA (UK and Ireland) 260 Communication of Audit Matters to Those Charged with Governance* when carrying out the audit of the accounts.

ISA 260 requires that we consider the following audit matters and formally communicate them to those charged with governance:

- Relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement lead and audit staff.
- The general approach and overall scope of the audit, including any expected limitations thereon, or any additional requirements.
- The selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the Trust's financial statements.
- The potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements.
- Audit adjustments, whether or not recorded by the entity that have, or could have, a material effect on the Trust's financial statements.

Appendix 2

Audit Independence

- Material uncertainties related to event and conditions that may cast significant doubt on the Trust's ability to continue as a going concern.
- Disagreements with management about matters that, individually or in aggregate, could be significant to the Trust's financial statements or the auditor's report. These communications include consideration of whether the matter has, or has not, been resolved and the significance of the matter.
- Expected modifications to the auditor's report.
- Other matters warranting attention by those charged with governance, such as material weaknesses in internal control, questions regarding management integrity, and fraud involving management.
- Any other matters agreed upon in the terms of the audit engagement.

We continue to discharge these responsibilities through our attendance at Audit Committees, commentary and reporting and, in the case of uncorrected misstatements, through our request for management representations.

Auditor Declaration

In relation to the audit of the financial statements of the Trust for the financial year ending 31 March 2018, we confirm that there were no relationships between KPMG LLP and the Trust, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards in relation to independence and objectivity.

Appendix 2

Audit Independence

We have summarised below the non-audit services that we have been engaged to provide during 2017/18, the estimated fee, the potential threats to auditor independence and the associated safeguards we have put in place to manage these.

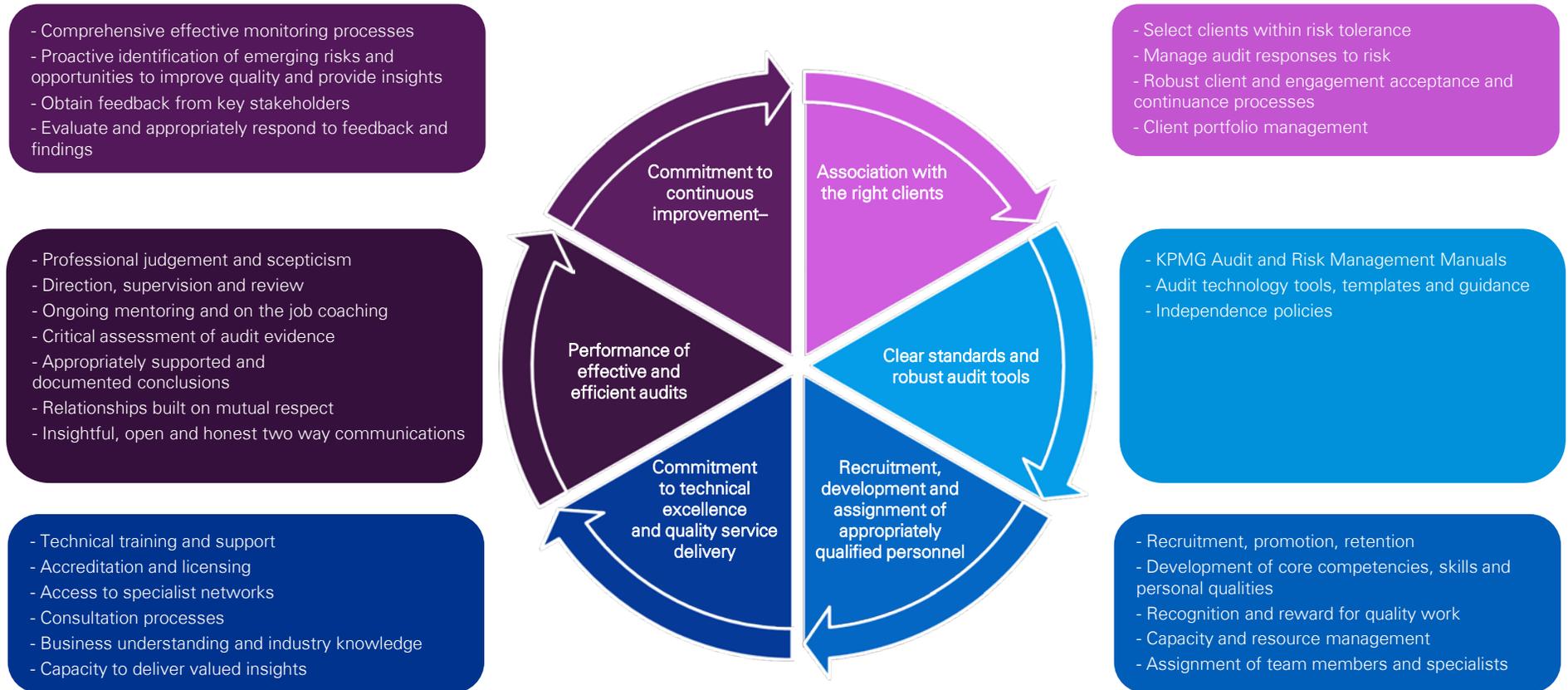
Description of non audit services	Estimated Fee 2017/18	Potential threat to auditor independence	Associated safeguards in place
Quality Report	£11,500 excluding VAT	This is an audit related assurance service and in the majority of instances the external audit firm performs this work. In this instance we had a separate team undertake this work to that who completed the work on the financial statements audit and VFM.	Not applicable.
Total fees	£11,500 excluding VAT		
Total fees as a percentage of the external audit fees	23.5%		

We have considered the ratio of audit to non-audit fees and as required by the APB Ethical Standards. The principal threat which arises from fees from non-audit services which are large in absolute terms of relative to the audit fee is the perception of self-interest and advocacy. In this regard, we do not consider that the above ratio creates such a self-interest or advocacy threat since the absolute level of non-audit fees is not significant to our firm as a whole and neither the audit partner nor members of the audit team are incentivised on, or rewarded in respect of, the provision of non-audit services to you. We believe that the question of perception is best addressed through appropriate disclosure as to use of the auditor for the provision of non-audit services in the Trust's annual report.

Appendix 3

KPMG's Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework





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