Year end report 2020/21

Bradford District Care NHS Foundation Trust

June 2021

I confirm that this is the final version of our ISA 260 Audit Memorandum relating to our audit of the 2020/21 financial statements for Bradford District Care NHS Foundation Trust. This document was discussed and approved by the Trust's Audit Committee on 08 June 2021.

Rashpal Khangura

Director for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Leeds

10 June 2021

Our audit opinions and conclusions:	
Financial Statements: unqualified	Use of resources: no significant weaknesses identified

Key contacts

Your key contacts in connection with this report are:

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Introduction

To the Audit Committee of Bradford District Care NHS Foundation Trust

We are pleased to have the opportunity to meet with you on 08 June to discuss the results of our audit of the financial statements of Bradford District Care NHS Foundation Trust (the ‘Trust’), as at and for the year ended 31 March 2021.

We are providing this report in advance of our meeting to enable you to consider our findings and hence enhance the quality of our discussions. This report should be read in conjunction with our audit plan and strategy report, presented on 08 February 2021. We will be pleased to elaborate on the matters covered in this report when we meet.

Our audit is substantially complete. There have been no significant changes to our audit plan and strategy. Subject to your approval of the financial statements, we expect to be in a position to sign our audit opinion on 10 June 2021, provided that the outstanding matters noted on page 4 of this report are satisfactorily resolved.

We expect to issue an unmodified Auditor’s Report on the financial statements and have not identified any significant weaknesses in your arrangements to secure value for money. In addition to this opinion we have prepared our Auditor’s Annual Report which contains a narrative summary of our findings to be published on the Trust’s website. This is included in the papers for this meeting.

We draw your attention to the important notice on page 4 of this report, which explains:

- The purpose of this report;
- Limitations on work performed; and
- Restrictions on distribution of this report.

Yours faithfully,

Rashpal Khangura

08 June 2021

How we have delivered audit quality

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. We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

We define ‘audit quality’ as being the outcome when audits are:

– **Executed consistently**, in line with the requirements and intent of **applicable professional standards** within a strong **system of quality controls** and

– All of our related activities are undertaken in an environment of the utmost level of **objectivity**, **independence**, **ethics** and **integrity**.

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.

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 has been prepared for the Audit Committee, in order to communicate matters of interest as required by ISAs (UK), 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.

Purpose of this report

This report has been prepared in connection with our audit of the financial statements of Bradford District Care NHS Foundation Trust (the 'Trust') , prepared in accordance with International Financial Reporting Standards ('IFRSs') as adapted by the Group Accounting Manual issued by the Department of Health and Social Care, as at and for the year ended 31 March 2021. This report summarises the key issues identified during our audit but does not repeat matters we have previously communicated to you.

Limitations on work performed

This report is separate from our 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 now complete.

Restrictions on distribution

The report is provided on the basis that it is only for the information of the Audit Committee of the Trust; that it will not be quoted or referred to, in whole or in part, without our prior written consent; and that we accept no responsibility to any third party in relation to it.

Our audit findings

Significant audit risks

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Significant audit risk	Risk change	Our findings
Valuation of land and buildings	No Change	The results of our testing were satisfactory. We considered the value recognised to be reasonable.
Expenditure Recognition	No Change	The results of our testing were satisfactory. We considered the amount of revenue recognised to be acceptable.
Revenue Recognition	No Change	The results of our testing were satisfactory. We considered the amount of revenue recognised to be acceptable.

Key accounting estimates

Page 13

Land and Building Valuations	Neutral	We critically assessed the key underlying assumptions underpinning the valuation on which the carrying value of PPE is based. The assumptions were found to be balanced.

Value for money

Page 16 –18

Under the Code of Audit Practice we are required to report to you if we have identified a significant weakness in the Trust's arrangements to securing economy, efficiency and effectiveness in its use of resources. We have nothing to report in this respect. Our Annual Audit Report contains our public commentary in regard to this work and is elsewhere on the agenda.

Whole of Government Accounts

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 Department of Health and Social Care.

Uncorrected audit misstatements

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Understatement/(overstatement)

	£m	%
Expenditure	(1.035)	(0.5)
Surplus/(deficit)	1.035	27.1

Number of Control deficiencies

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Significant control deficiencies	0
Other control deficiencies	2
Prior year control deficiencies remediated	0

Other matters

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 bought to the attention of the public. There are no such matters we wish to bring to your attention.

COVID-19: Audit implications

The table below identifies the specific areas of our audit that were expected to be affected by the COVID-19 pandemic, and how our audit differs from those prior to the pandemic.

Subsequent events disclosures	– Due to the rapidly evolving situation, we considered the impact of events subsequent to the reporting date. At the time of writing our report we have not identified any issues which require reporting. – We will continue to monitor this through to the date of the auditor's report.
Audit effort and audit fees	– We have not charged additional fees due to the challenges of remote working as we consider that the extra costs incurred are offset by efficiencies inherent to home working.
Going concern	– The required enhanced procedures under the revised ISA (UK) 570 on your risk assessment process and fact that we need to perform procedures through to the date of the auditors' report, which is due to be later than in prior years, meant a different approach in this key area. – Practice Note 10 (and the Group Accounting Manual) have been updated during the year to reiterate the continuation of services principal and therefore, despite the ongoing uncertainty of funding, we have concluded that it is appropriate to prepare your financial statements on a going concern basis.
Accounting estimates	– The risk of material misstatement relating to the valuation of property, plant and equipment has altered due to the higher degree of estimation uncertainty resulting from current economic conditions. However it is noted that RICS have issued guidance reiterating that an inherent uncertainty paragraph is not expected in every asset valuation issued (as was common at the height of the pandemic in the prior year). – We evaluated the methods, assumptions and data used to derive the estimates for asset valuations to obtain evidence that they are appropriate in the context of the financial reporting framework and are, when appropriate, based on conditions and events at the measurement date. – We evaluated whether related disclosures comprise required disclosures, including significant assumptions about the future and other major sources of estimation uncertainty, and whether they include the information necessary to achieve the fair presentation of the financial statements as a whole. – We have communicated our views about significant qualitative aspects of accounting estimates.

COVID-19: Audit implications (contd.)

Obtaining sufficient appropriate audit evidence	– There was an extension to the standard timetable (to 15th June 2021) for the completion of our audit to enable us to obtain sufficient appropriate audit evidence to support our audit opinion. This was made for all providers and was to allow auditors more time to: – modify audit procedures when expected audit evidence was unavailable; – collate external confirmations or perform alternative audit procedures; – allow further time for the settlement of invoices; or – allow for delays in the completion of component audits. – We adapted our testing methods to respond to challenges of remote working: – using secure and innovative technologies, for example video access to perform walkthroughs of processes; – stratifying sample populations by risk for the different NHS financial regimes within the period given their differing control environments.

Audit risks

1 Valuation of Land and Buildings

Significant audit risk

The risk

Land and buildings are required to be held at fair value. As hospital buildings are specialised assets and there is not an active market for them they are usually valued on the basis of the cost to replace them with a 'modern equivalent asset'.

The value of the Trust's land and buildings at 31 March 2020 was £40.5m, of which £33.5m are valued as specialised assets at depreciated replacement cost based on modern equivalent assets.

The last full revaluation took place in 2016/17. Also, last year management has changed the application of valuation policy to the method of modern equivalent assets for two inpatient locations (Airedale Centre for Mental Health & Lynfield Mount Hospital).

We noted that management had commissioned a full valuation as part of the 2020/21 accounts process.

Our response

- We critically assessed the independence, objectivity and expertise of Cushman & Wakefield, the valuers used in developing the valuation of the Trust's properties at 31 March 2021;
- We inspected the instructions issued to the valuers for the valuation of land and buildings to verify they were appropriate to produce a valuation consistent with the requirements of the Group Accounting Manual;
- We compared the accuracy of the data provided to the valuers for the development of the valuation to underlying information, such as floor plans, and to previous valuations, challenging management where variances were identified;
- We critically assessed the controls in place for management to review the valuation and the appropriateness of assumptions used;
- We considered the carrying value of the land and buildings; including any material movements from the previous revaluations. We challenged key assumptions within the valuation, including the use of relevant indices and assumptions of how a modern equivalent asset would be developed, as part of our judgement. We also challenged specific assumptions such as the rate of obsolescence.
- We verified the methodology that was used in preparing the valuation and whether it was consistent with the requirements of the RICS Red Book and the GAM;
- We agreed the calculations performed of the movements in value of land and buildings and verified that these had been accurately accounted for in line with the requirements of the GAM; and
- Disclosures: We considered the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.

Our work did not identify any material audit misstatements.

Audit risks

2 **Expenditure recognition**

Fraud risk related to misstatement of expenditure

Significant audit risk

The risk

As the Trust is set a control total by NHS Improvement for its expected financial performance there is a risk that non-pay expenditure may be manipulated in order to report that the control total has been met.

The setting of a control total can create an incentive for management to understate the level of non-pay expenditure compared to that which has been incurred.

We consider this would be most likely to occur through manipulating accruals and prepayments at the end of the year to defer expenditure to the following year.

Due to the uncertain nature of NHS funding for the year and for 2021-22 we also consider the risk management may wish to overstate accruals if performance against the control total allows, for example to bring forward expenditure from 2021-22 to mitigate financial pressures.

Our response

We performed the following procedures in order to respond to the significant risk identified:

- We assessed the design and operation of process level controls for the purchase ordering of goods and services and the accrual of information at the end of the year based on those that have been receipted;
- We assessed the design of controls for developing manual expenditure accruals at the end of the year to verify that they have been completely and accurately recorded;
- We inspected invoices for material expenditure, in the period following 31 March 2021, to determine whether expenditure has been recognised in the correct accounting period;
- We tested a sample of expenditure transactions by agreeing through to supporting documentation;
- Agreement of Balances: We will assess the outcome of the agreement of balances exercise with other NHS organisations and compared the values reported to the value of expenditure captured in the financial statements. We sought explanations for any variances over £100,000;
- We selected a sample of year end accruals and inspected evidence of the accrual value to assess whether the accrual was accurately and reasonably recorded;
- We inspected journals with unusual revenue, expenditure, cash combinations that might have been utilised to manipulate expenditure recognition; and
- We performed a retrospective review of prior year accruals in order to consider both consistency and the impact on our assessment of the accruals at 31 March 2021. We also compared the items that were accrued at 31 March 2020 to those accrued at 31 March 2021 in order to assess whether any items of expenditure may not have been accrued for at the year end that require recording.

Our work did not identify any material audit misstatements, however we did identify several adjusted and unadjusted audit misstatements over our audit misstatement posting threshold (AMPT). See Appendix five for further detail.

Audit risks

3 **Revenue recognition**

Fraud risk related to overstatement of revenues

Significant audit risk

The risk

Professional standards require us to make a rebuttable presumption that the fraud risk from Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

We recognise that the incentives in the NHS differ significantly to those in the private sector which have driven the requirement to make a rebuttable presumption that this is a significant risk. These incentives in the NHS include the requirement to meet regulatory and financial covenants, rather than broader share based management concerns.

As the Trust is required to meet a control total at the end of the year this may create an incentive for revenue to be manipulated in order to achieve budgeted financial performance. We anticipate that this would occur through manipulation of year end income accruals. As much of the Trust's income for 2020-21 has been contracted on a block basis our risk will be focused on the variable elements of income the Trust has received during the year.

Our response

We performed the following procedures in order to respond to the significant risk identified:

- We evaluated the design of controls in place for the Trust to engage in the agreement of balances exercise with other NHS providers and commissioners;
- We inspected material claims made for additional funding for April to September 2020 to verify that the Trust has appropriately claimed income to a break-even position in line with issued guidance;
- Contract agreement: We agreed commissioner income to the agreed block contracts for the second half of the year and selected a sample of the largest balances to agree that they have been invoiced in line with the contract agreement and payment has been received.
- Income recognition: We carried out sample testing of transactions for material income in the period prior to and following 31 March 2021 to determine whether income was recognised in the correct accounting period;
- Agreement of Balances: We assessed the outcome of the agreement of balances exercise with CCGs and other NHS providers and confirmed the values they were disclosing within their financial statements to the value of income captured in the financial statements. We sought explanations for any variances over £100,000, and critically assessed the Trust's assessment of the level of income they are entitled to and receipts that can be collected;
- Transformation funding: We agreed significant additional funding (e.g. Holiday accrual and 'other income' offset) due at the year end to the confirmation received from NHSI and agreed that this was appropriately recorded in the financial statements; and
- Other income: We tested material other income balances from Bradford and Wakefield Councils by agreeing a sample of income transactions through to supporting documentation and bank balances.
- We carried out sample testing of year end income accruals in order to assess whether the actual value of income billed and received following 31 March 2021 agreed to the amounts accrued.

Our work did not identify any material misstatements.

Audit risks

4 **Management override of controls[(a)]**

Fraud risk related to unpredictable way management override of controls may occur

Significant audit risk

The risk

- Professional standards require us to communicate the fraud risk from management override of controls as significant.
- Management is 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.
- We have not identified any specific additional risks of management override relating to this audit.

Our response

- Our audit methodology incorporates the risk of management override as a default significant risk.
- In line with our methodology, we evaluated the design and implementation of controls over journal entries and post-closing adjustments.
- Assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.
- Assessed the appropriateness of the accounting for significant transactions that are outside the component's normal course of business, or are otherwise unusual.
- Assessed the full population of relevant journal entries to identify journals displaying high risk characteristics. We followed up each of these journals in order to assess the appropriateness and accuracy of the transaction posted.

Our findings

- We identified 56 journal entries and other adjustments meeting our high-risk criteria – our examination did not identify any inappropriate entries.
- We evaluated accounting estimates, including the consideration of alternative assumptions on build costs and did not identify any indicators of management bias. See page 13 for further discussion.
- We did not identify any significant unusual transactions

Note: (a) Significant risk that professional standards require us to assess in all cases.

Mandated risks

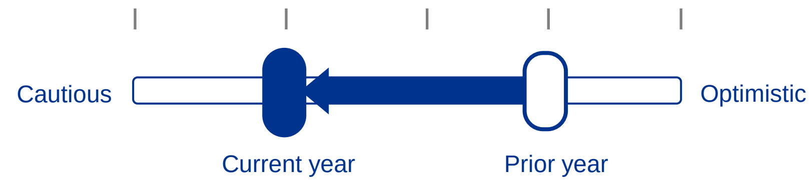
Risk	Why	Finding from the audit
Fraud risk from revenue recognition	Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.	Much of the Trust's income was in the form of block contracts, which the Trust had little influence or control over. Therefore our work focused upon the variable elements of income and year end accrued/deferred income to ensure income had been recognised appropriately and in the current period. See commentary on page 10 for further detail, no issues identified.
Fraud risk from management override of controls	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. We have not identified any specific additional risks of management override relating to this audit.	Our procedures, included testing of journal entries, accounting estimates and significant transaction outside the normal course of business, no instances of fraud were identified.

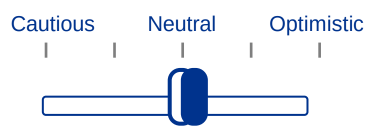
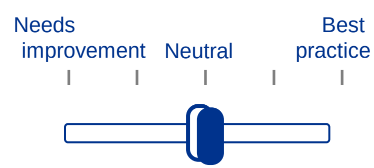
Reconfirming materiality: We can confirm that we have completed all our audit work to the materiality that we proposed at the planning stage of the audit, which was a total materiality of £2m, performance materiality of £1.5m with an audit differences posting threshold of £0.1m.

Key accounting estimates - Overview

Our view of management judgement

Our views on management judgments with respect to accounting estimates are based solely on the work performed in the context of our audit of the financial statements as a whole. We express no assurance on individual financial statement captions.



Asset/liability class	Our view of management judgement	Balance (£m)	YoY change (£m)	Our view of disclosure of judgements & estimates	Further comments
Asset 1 Valuation of Land and Buildings		**37.8**	**(4.8)**		We have considered the Trust's valuation exercise undertaken in year in some detail. This includes ensuring that the key assumptions around what a Modern Equivalent Asset might look like remain relevant. We have also reviewed asset lives see further description at page 8. The asset lives, valuation methodologies and underlying assumptions are in line with sector norms and our understanding of the Trust.

Other matters

Annual report

We have read the contents of the Annual Report (including the Accountability Report, Directors Report, Performance Report and Annual Governance Statement (AGS)) and audited the relevant parts of the Remuneration Report. We have checked compliance with the NHS Group Accounting Manual (GAM) issued by Department of Health and Social Care and Foundation Trust Annual Reporting Manual (the ARM). 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 provide 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 (following minor audit adjustments);
- The AGS is consistent with the financial statements and complies with relevant guidance subject to updates as outlined on page 4; and
- The report of the Audit Committee included in the Annual Report includes the content expected to be disclosed as set out in the GAM and ARM and was consistent with our knowledge of the work of the Committee during the year.

Whole of Government Accounts

As required by the National Audit Office (NAO) we are required to provide a statement to the NAO on your consolidation schedule. We comply with this by checking that your summarisation schedule is consistent with your annual accounts. We have completed that work and found no matters to report.

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 £59,000 plus VAT (£49,000 in 2019/20). We have not completed any non-audit work at the Trust during the year.

Value for money

We are required under the Audit Code of Practice to confirm whether we have identified any significant weaknesses in the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources.

In discharging these responsibilities we include a statement within the opinion on your accounts to confirm whether we have identified any significant weaknesses. We also prepare a commentary on your arrangements that is included within our Auditor's Annual Report, which is required to be published on your website alongside your annual report and accounts.

We have prepared our Auditor's Annual Report and a copy of the report is included within the papers for the Committee alongside this report.

Commentary on arrangements

In addition to this report we have prepared our Auditor's Annual Report which contains a narrative summary of our findings to be published on the Trust's website. This is included in the papers for this meeting.

Response to risks of significant weaknesses in arrangements to secure value for money

As reported in our risk assessment we noted one risk of a significant weakness in the Trust's arrangements to secure value for money. Our response to these risks is set out on the following pages. We have no recommendations to report.

Summary of findings

We have set out in the table below the outcomes from our procedures against each of the domains of value for money:

Domain	Risk assessment	Summary of arrangements
Financial sustainability	One significant risk identified	No significant weaknesses identified
Governance	No significant risk identified	No significant weaknesses identified
Improving economy, efficiency and effectiveness	No significant risk identified	No significant weaknesses identified

We confirm that we have not identified any significant weaknesses to be included within our value for money report

We identified a significant risk relating to financial sustainability due to uncertainty around the funding environment of the NHS. We have set out on the following page the work performed in response to this risk and a summary of our findings.

Value for money - risk of significant weakness in arrangements

Domain - Financial sustainability	
Description of risk	**Summary of Findings**
We have identified a significant risk that the Trust does not have sufficient arrangements in place to ensure financial sustainability. This is largely due to the inherent uncertainty within the NHS with regards to future funding regimes and the impact that these might have upon the Trust.	The Covid 19 pandemic has had a major impact on the NHS and this has resulted in changes to the financial planning regime. On 17 March 2020 normal contractual arrangements with NHS providers were suspended and the NHS moved to block contract payments on account. The value of these was determined centrally, rather than being agreed between the CCG and the providers. NHS organisations were also reimbursed with additional funding as required in order to reflect the additional costs incurred as a result of Covid-19. For months 7-12 of NHSE/I provided allocations for each provider to cover additional cost pressures due to Covid-19 and the provision of services. Due to the inherent uncertainties of the funding regime and the relaxation of some reporting requirements in year such as performance against CIP targets we have identified a significant risk that the processes for ensuring financial sustainability are not robust. We will consider whether there were sufficient controls allowing the Trust to effectively manage resources and ensure continuity in the delivery of its services. We found that the budget monitoring and control processes were able to identify and incorporate significant pressures into the financial plan to ensure it was achievable and realistic. The initial draft budgets were constructed based on appropriate local and national planning assumptions and we saw evidence of appropriate review and sign off by the relevant budget holders. Emerging cost pressures are identified through monthly review of budget statements by the budget holders and review of any material variances to budget by the Finance, Business and Investment committee (FBIC). Following changes to the funding regime for months 7-12 the Trust presented a 'Sustainability Update' to FBIC in September 2020 with 'best', 'mid' and 'worse' case scenarios outlined. These identified potential funding gaps of between circa £900k and £6.2m. We note that subsequent guidance for 21/22 funding arrangements has seen a continuation of current arrangements for the first half of the period reducing some (although not all) of the financial pressures identified. CIP savings had been identified to reduce the deficit going forward and we noted that the CIP requirement was reviewed throughout the year, with circa £4.7m of these having been identified as deliverable when revised at month 6 albeit with some non recurrent underspends being used to support this delivery. Within the risk register, individual risks are marked and described. Each risk is marked with a score per category, and any ways to mitigate the risk are noted. Our review of the financial plan has confirmed risks have been appropriately considered to date.

Value for money - risk of significant weakness in arrangements

Domain - Financial sustainability	
Description of risk	**Summary of Findings (continued)**
We have identified a significant risk that the Trust does not have sufficient arrangements in place to ensure financial sustainability. This is largely due to the inherent uncertainty within the NHS with regards to future funding regimes and the impact that these might have upon the Trust.	We also found the Trust have plans in place to support the sustainable delivery of strategic and statutory priorities and maintain services. Whilst funding regimes for the future remain uncertain at the current time the Trust has evidenced through both its performance dashboards and ‘sustainability updates’ that it has a clear understanding as to where future funding/cost pressures may lie and has begun to develop plans to mitigate these. These plans include working with the local West Yorkshire and Harrogate ICS on system level solutions as well as more local Bradford place based solutions. We shall continue to review these plans and their monitoring up to the conclusion of our work. We noted that the Trust ended the 2020/21 period with a reported operating surplus (prior to impairments and revaluation movements) of £3.8m. We have also seen that the Trust presented a financial plan for 2021/22, which has recognised the uncertainty in the second half of the year, including an identification of the anticipated requirement for efficiency savings. We note that the Trust continues to develop plans for efficiency savings particularly for the anticipated shortfalls in the second half of the period.
	Conclusions
	Our work has concluded that the Trust had appropriate arrangements in place during the period to manage and monitor its financial sustainability. This is borne out by the year end operating surplus position as well as the development of a budget for 21/22 that recognises the potential risks to financial sustainability in the short to medium term.

Appendix

Contents

Revision to the Going Concern auditing standard

The revision of International Standard on Auditing (ISA) 570 relating to going concern applies for audits of the year ending 31 March 2021 and subsequent years. The revised standard introduces a requirement for all entities to complete a formal assessment of their status as a going concern and recommends that this is presented to the entity's Audit Committee.

Going concern is a fundamental concept to the preparation of the accounts for all entities, however it is interpreted separately in the public sector. While the risk associated with going concern is lower for NHS providers and commissioners care should be taken to ensure appropriate consideration is given to assessing whether there is a risk that the going concern status might not be appropriate.

Practice Note 10

The expectations for content to be included within a going concern assessment are set out in Audit Practice Note 10, which provides guidance for completing audits in the public sector in the UK. This sets out that a risk assessment for an entity in the public sector must at a minimum consider the following factors:

- What are the requirements of the reporting framework with regards to going concern; and
- Complete a risk assessment to consider whether there are any factors that would call into doubt the going concern status.

Requirements of the reporting framework

The definition of going concern is set out in the Financial Reporting Manual published by HM Treasury and supported by the DHSC Group Accounting Manual. These set out that:

"*For non-trading entities, the anticipated continuation of the provision of a service in the future, as evidenced by inclusion of financial provision for that service in published documents, is normally sufficient evidence of going concern.*"

HM Treasury Financial Reporting Manual

The above therefore means that the assurance over the continued provision of services comes primarily from the publication of documents that set out that the services the organisation provides will continue to be provided. This means even if it is expected that the organisation will merge it is still considered to be a going concern.

In forming the going concern assessment providers and CCGs are required to consider whether there is a documented expectation for the services they provide to continue. This can consider factors such as:

- The requirement for health services to be provided is set out in legislation, such as the Health Act and Health and Social Care Act.
- The presence of published allocations, such as resource limits for CCGs, that confirm they will continue to receive funding.
- The presence of strategies, such as ICS long term plans, that plan for the continued provision of the services provided by the entity.

Revision to the Going Concern auditing standard

Risk assessment

The assessment of going concern should consider whether any risks have been identified that may mean the going concern assumption is not appropriate. As the key sources of assurance that services will provide are based on legislation and published strategies this should focus on whether there are any factors published that could lead to the services provided ending.

This assessment should consider the impact of the white paper that is currently being consulted on, particularly for the establishment of integrated care systems as legal entities.

Assessing financial performance

While the focus of the going concern assessment does not need to be on financial performance it is important that there is an understanding of the expected future financial performance, particularly if it is expected there may be deficits or gaps in funding available.

While deficits or gaps in funding may not lead to a modification of the going concern status they may still require disclosure within the going concern accounting policy so that users of the accounts can understand why the accounts are prepared on a going concern basis.

Demising entities

Where a CCG or provider is due to demise, for example due to merger with another entity, then they are still considered to be a going concern. The risk assessment will need to give the same consideration as set out above for the new merged entity to confirm that it is appropriate for it to be considered a going concern.

Conclusion

Following our consideration of the above we have concluded that management’s decision, based on the continuation of services principle, to prepare the financial statements on a going concern basis is a reasonable one.

Changes to our audit reports as a result of ISA (UK) changes

Going concern

Our conclusion on going concern has been updated to provide a positive confirmation that we have not identified any factors that would cause us to consider there is a material uncertainty over the Trust's status as a going concern.

Irregularities and fraud

In all audit reports, we are now required to **explain to what extent the audit was considered capable of detecting irregularities, including fraud.**

This is tailored to each audit. We include a summary of what risks we identified relating to fraud and what procedures we have performed in response to these.

Laws and Regulations

For audits of financial periods commencing on or after 15 December 2019, auditors are required to explain in the auditor's report to what extent the audit was considered capable of detecting irregularities, including fraud.

This was already a requirement for auditors of public interest entities (PIEs) in ISA (UK) 700 (Revised June 2016).

We also set out as part of the report the laws and regulations that we have identified that have a direct impact on the preparation of the Trust's accounts.

KPMG

Required communications with the Audit Committee

Type		Response
Our draft management representation letter	OK	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2021.
Adjusted audit differences	OK	There were two adjusted audit differences with a nil impact on the reported surplus. See Appendix 5.
Unadjusted audit differences	OK	The aggregated impact on the reported surplus of unadjusted audit differences would be £1.035m. In line with ISA 450 we request that you adjust for these items. However, they will have no effect on the opinion in the auditor's report, individually or in aggregate. See Appendix 5
Related parties	OK	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee	OK	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	OK	We communicated verbally to management all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not previously been communicated on 27 May 2021.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	OK	No actual or suspected fraud involving management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements was identified during the audit.
Make a referral to the regulator	OK	If we identify that potential unlawful expenditure might be incurred then we are required to make a referral to your regulator. We have not identified any such matters.
Issue a report in the public interest	OK	We are required to consider if we should issue a public interest report on any matters which come to our attention during the audit. We have not identified any such matters.

Required communications with the Audit Committee

Type	Response
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	None. We have complied with the new requirements of AGN07 which removes the need for Foundation Trusts to have audit findings reported via a long for audit report.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	No material inconsistencies were identified related to other information in the annual report, Strategic and Directors' reports. The Annual report is fair, balanced and comprehensive, and complies with the revised guidance issued during March 2021.
Breaches of independence	No matters to report. The engagement team have complied with relevant ethical requirements regarding independence.
Accounting practices	Over the course of our audit, we have evaluated the appropriateness of the Trust's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.
Significant matters discussed or subject to correspondence with management	The identified control deficiencies and audit misstatements were discussed with management.
Certify the audit as complete	We are required to certify the audit as complete when we have fulfilled all of our responsibilities relating to the accounts and use of resources as well as those other matters highlighted above.
Standard representations requested	We have requested the standard letter of management representation.

Recommendations raised and followed up

The recommendations raised as a result of our work in the current year are below. There were no recommendations from our audit in the prior period.

Priority rating for recommendations					
❶	Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷	Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸	Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
Financial Statements			
1	❸	**Removal of ESR Access** Our audit work identified 3 instances of 'super users' with privileged access to the ESR system not having access removed in a timely manner following either a change in role or leaving the Trust. We were satisfied that this had not led to inappropriate access or changes to the ESR system having occurred and note that management had raised an incident report when the issue was brought to their attention by our audit. There is a risk that without prompt revocation of access rights to ESR underlying data may be inappropriately adjusted or removed. **Recommendation** The Trust should assure themselves that the processes in place for the removal of access rights to the ESR system ensure timely removal of users. Users should be reviewed periodically to ensure access rights remain appropriate.	**Management Response** Recommendation accepted. The HR Systems Team immediately amended the access for the staff identified and the process going forward will be to add a 2nd manual check (carried out by a separate member of the team) to strengthen the process. **Officer** Claire White, HR Governance & Staff Bank Manager **Due Date** Complete

Recommendations raised and followed up

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
Financial Statements			
2	3	**Review of year end accruals and accounting entries** Our audit identified a number of accruals transactions that had either been incorrectly identified or classified. See Audit Differences appendix for further details of these. Whilst recognising the tight timescales for production of the year end accounts there is a risk that without a robust review process of key year end transactions errors are made in the financial statements presented for audit. **Recommendation** The Trust should assure themselves that the review processes in place for key year end accounting transactions and judgements are robust and provide the desired level of assurance to management with regards to the accuracy of the figures disclosed.	**Management Response** The Trust agree that a robust review will be undertaken at year end to ensure that the classification of accounting entries are in line with accounting practices. **Officer** Claire Risdon, Deputy Director of Finance **Due Date** March 2022

Audit Differences

Under UK auditing standards (ISA (UK&I) 260) we are required to provide the Audit 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 Committee, details of all adjustments greater than £100K are shown below:

Unadjusted audit differences (£'000)				
No.	Detail	SOCI Dr/(cr)	SOFP Dr/(cr)	Comments
1	Dr Accruals Dr Provisions Cr Personnel expense Cr Other expenditure	 (£421) (£119)	£119 £421	As at year-end, we assessed that the Trust did not have an established liability for these recognised expenses.
2	Dr Annual leave accrual Cr Personnel expense	 (£373)	£373	We recalculated the Trust's annual leave accrual based upon the policy of being able to carry forward up to 10 days of annual leave. We identified a difference with regards to a number of employees who accrued leave of up to 13 days, this combined with an error in the calculation of whole time equivalents for a number of employees.
3	Dr Other payables Cr Other expenditure	 (£122)	£122	We identified a liability has been recorded in 2020/21 financial year against lease charges pertaining to 2021/22.
4	Dr Other payable Cr Prepayment		£315 (£315)	We identified this projected misstatement over prepayments as a result of identifying the adjusted error of £619k (see over page). Note that this is an extrapolated projection and therefore management have not adjusted for this value.
Total		**(£1,035)**	**£1,035**	

Audit Differences (continued)

Under UK auditing standards (ISA UK&I 260) we are required to provide the Audit 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.

Adjusted audit differences (£'000)				
No.	**Detail**	**SOCI Dr/(cr)**	**SOFP Dr/(cr)**	**Comments**
1	Dr Accrued expenses Cr Provision Cr Deferred Income		£1,112 (£974) (£138)	Probable future obligations of the Trust, earlier recorded as an accrual, are re-classified as provision due to some uncertainty over the value and timing of these liabilities reaching fruition. One item reclassified as deferred income (reducing income rather than increasing spend).
2	Dr Other payable Cr Prepayment		£619 £(619)	Adjustment of liability for 2021/22, earlier recorded on a gross-up basis in the financial year 2020/21.
Total		£nil	£nil	

Adjusted disclosures (£'000)			
No.	**Detail**	**Amount**	**Comments**
1	Remuneration report – Pension table	£18	Adjustment in the remuneration report – pension table against real increase in cash equivalent transfer value of pension benefits.
2	Other Auditor Remuneration	£9	Adjustment in the amount of auditor remuneration for audit-related assurance services - Other Auditor remuneration Note 5
Total		£27	

Confirmation of Independence

We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Partner and audit staff is not impaired.

To the Audit Committee members

Assessment of our objectivity and independence as auditor of Bradford District Care NHS Foundation Trust

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

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 [partners/directors] and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard.

As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Independence and objectivity considerations relating to the provision of non-audit services

Summary of non-audit services

We note that there were no non audit services carried out for the Trust in the current or preceding period.

Confirmation of Independence

We have considered the fees charged by us to the Trust and its affiliates for professional services provided by us during the reporting period. Total fees charged by us can be analysed as follows:

	2020/21	2019/20
	£'000	£'000
Audit of Bradford District Care FT	59	49
Audit of charitable fund	5	5
Total audit	**64**	**54**
Total non-audit services	0	0
Total Fees	**64**	**54**

Fee ratio

The anticipated ratio of non-audit fees to audit fees for the year at the time of planning is 0 : 1. We do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

Application of the FRC Ethical Standard 2019

We communicated to you previously the effect of the application of the FRC Ethical Standard 2019. That standard became effective for the first period commencing on or after 15 March 2020, except for the restrictions on non-audit and additional services that became effective immediately at that date, subject to grandfathering provisions.

We confirm that as at 15 March 2020 we were not providing any non-audit or additional services that required to be grandfathered.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Audit and Compliance Committee and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

KPMG LLP

Yours faithfully

KPMG LLP