



# Year end report 2019/20

Leeds Community Healthcare NHS Trust

15 June 2020

# DRAFT

I confirm that this is the final version of our ISA 260 Audit Memorandum relating to our audit of the 2019/20 financial statements for **Leeds Community Healthcare NHS Trust**. This document was discussed and approved by the Trust's Audit Committee on 12 June 2020.

[Signature]

Claire Partridge

Designation: Partner for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
Leeds

[x] June 2020

Our audit opinions and conclusions:

Financial Statements: unqualified

Use of resources: unqualified

# Introduction

## To the Audit Committee of Leeds Community Healthcare NHS Trust

We are pleased to have the opportunity to meet with you on 12 June 2020 to discuss the results of our audit of the financial statements of Leeds Community Healthcare NHS Trust (the 'Trust'), as at and for the year ended 31 March 2020.

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 10 January 2020. We will be pleased to elaborate on the matters covered in this report when we meet.

Our audit is substantially complete. There have been changes to our audit plan and strategy based on revised requirements from NHSI and NHSE as communicated in March 2020. These changes relate to the following

- IFRS 16 is deferred with only limited disclosure requirements for 2019/20

Subject to your approval of the financial statements, we expect to be in a position to sign our audit opinion **on [date]**, provided that the outstanding matters noted on page 3 of this report are satisfactorily resolved.

We expect to issue an unmodified Auditor's Report on the financial statements and an unqualified Value for Money Conclusion.

We draw your attention to the important notice on page 3 of this report, which explains:

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

Yours faithfully,  
[Personal signature]

Claire Partridge

15 June 2020

## 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.

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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 Trust's Audit Committee, in order to communicate matters of interest as required by 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.

## Purpose of this report

This Report has been prepared in connection with our audit of the financial statements of Leeds Community Healthcare NHS 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 2020. 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 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 as still outstanding at the date on the front of this report:

- Final confirmation of any subsequent events
- Receipt of letter of representation

## 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.



# Summary



## Financial Statements Audit

We intend to issue an unqualified audit opinion on the accounts following the Board 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:

- We have made no recommendations as a result of our work.
- There are no unadjusted audit differences.
- There are three adjusted audit differences (see page 14 for details)
- We have agreed presentational changes to the accounts with Finance, mainly related to compliance with the Group Accounting Manual (GAM).
- We have not asked for any additional management representations in addition to our routine requests.
- We have reviewed the annual report and have no matters to raise with you.

## Value for Money

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.

Through our risk assessment procedures, we have assessed the impact of COVID-19 as highlighted on page 6.

## Audit Certificate

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. There are no issues that would cause us to delay the issue of our certificate of completion of the audit.

## 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 Department of Health.

There were no recommendations to follow up as part of our 2018/19 audit work. We have made no of recommendations as a result of our work.

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.

# Summary: Impact of COVID-19



## Scepticism Challenge

Below we have summarised the impact of COVID-19 on our audit approach for 2019/20:

Area of the audit	Status	Impact on Audit Approach
<b>Financial Statements: Valuations</b>		No matters to report. We were able to gain assurance around the valuation of land and buildings through our audit procedures
<b>Financial Statements: Going Concern</b>		While impacting across the corporate sector the directions under which you prepared your accounts included in the FREM and GAM and the funding mechanisms put in place across the NHS mean your Trust will be considered a going concern. We have however considered your financial position through our work on use of resources in line with the FRC's Practice Note 10 (Audit of financial statements of public sector bodies in the United Kingdom).
<b>Financial Statements: Events after the reporting period</b>		We have considered whether it is necessary to disclose any post date events from the effects of the COVID pandemic on the Trusts operations. We have not identified any subsequent events that require adjustment or disclosure.
<b>Financial Statements: Revision to threshold for the AoB exercise</b>		No matters to report. We have not identified any issues that require adjustment or disclosure.
<b>Financial Statements: Procedures</b>		We have considered more broadly how our audit procedures should be revised given the extended deadline for submission. This means we have updated our procedures, for example considering a longer period for post date events, and specifically considering whether COVID related income and expenditure from the final weeks of the year were correctly included in the financial statements. No matters to report. We have not identified any issues that require adjustment or disclosure.
<b>Financial Statements: IFRS 16</b>		The implementation of the new lease accounting standards has been deferred to 1 April 2021 with only limited disclosure requirements for 2019/20. We have summarised the work completed during our planning and interim audit work.
<b>Value for money: additional consideration emerged on response to COVID19</b>		We undertook additional work to understand the impact of COVID19 on your value for money arrangements. By way of reminder our value for money responsibilities are focused on understanding the arrangements you have put in place up to the 31 March and to consider the disclosures you have made within your annual governance statement. We have no matters to report.



# Financial Statements Audit

# Financial statements audit - our summary findings



## Assessment of the control environment

<b>Significant control deficiencies</b>	0
<b>Other control deficiencies</b>	0

We have included no recommendations in relation to the control environment.

The Trust outsources an element of its control environment to the following service organisations. For each, we rely on the findings of the service auditors assessment of the local control environment as part of our audit approach.

- SBS – the Trust outsources creditors, debtors and bank reconciliations to SBS. The service auditor issued an unqualified opinion.
- IBM – the Trust uses the ESR system. The service auditor issued an unqualified opinion.

## Representations

You are required to provide us with representations on specific matters such as your going concern assertion. We provided a draft of this representation letter to the Deputy Director of Finance & Resources on 2 June 2020. 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 not asking management to provide any specific representations.

## Accounts Production

We received complete draft accounts by 11 May 2020 in accordance with NHSI's deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of GAM. We thank the finance team for their co-operation throughout the visit which allowed the audit to progress and complete within the allocated timeframe.

## Risks

### Significant Risks

Risks	Risk change	Our findings
1. Valuation of Land & Building assets (PPE-V)]	No change ■	The valuation utilised in the Statements is reasonable.
2. Revenue Recognition	No change ■	The results of our testing were satisfactory. We considered the amount of revenue recognised to be acceptable
3. Management override of control	No change ■	We did not note any instances of management override of control
4. Fraudulent expenditure recognition	No change ■	The results of our testing were satisfactory. We considered the amount of expenditure recognised to be acceptable.

### Other Matters

5. Going concern	No Change ■	The Trust has delivered its control totals
6. Disclosure of impact of IFRS 16	New for 2019/20	Due to the impact of COVID19, NHSE/I removed the requirement to disclose the impact of IFRS 16 in the 2019/20 accounts. This has now been deferred to 2020/21.

### Key accounting judgements

A. Valuation of land and buildings	Neutral	There has been an increase in the value of land and buildings as a result of the in year valuation.
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## Section one

# Financial statements audit – our summary findings



## Scepticism Challenge

**Compliance with ISA 260:** 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.

**Brexit disclosures: Annual report:** In the course of our audit work we assessed the quality of your disclosures in the Annual Report in relation to Brexit in addition to assessing the quality of disclosures generally. Given the limited impact of Brexit in year, the level of disclosure was appropriate.

**Compliance with the Audit Code:** Your audit is undertaken to comply with the Local Audit and Accountability Act 2014 which gives the NAO the responsibility to prepared an Audit Code (the Code), which places responsibilities in addition to those derived from audit standards on us. We have discharged these responsibilities as follows:

Type	Status	Response
<b>Our declaration of independence</b>		No matters to report. The engagement team and others in the firm, as appropriate, have complied with relevant ethical requirements regarding independence.
<b>Make a referral to the Secretary of State</b>		If we identify that potential unlawful expenditure might be incurred then we are required to make a referral to the Secretary of State. We have not identified any such matters.
<b>Issue a report in the public interest</b>		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.
<b>Provide a statement to the NAO on your consolidation schedule</b>		This “Whole of Government Accounts” requirement is fulfilled when we check your summarisation scheduled are consistent with your annual accounts. We have completed that work and found no matters to report.
<b>Provide a summary of our key use of resources risks</b>		We are required to reach a conclusion on your use of resources. We have not identified any significant risks.
<b>Issue our annual audit letter</b>		We are required to publish an annual audit letter which covers the work carried out since the previous letter was issued. It provides a clear, readily understandable commentary on the results of our work and highlights any issues that we wish to draw to the attention of the public.
<b>Certify the audit as complete</b>		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.



### 1 Valuation of land and building assets (PPE –V)

#### Significant audit risk

##### The risk

- The GAM requires DHSC bodies (including Trusts) to follow the revaluation model.
- The value of the Trust's land and buildings at 31 March 2019 was £26m.
- The Trust is due to undertake a full revaluation of its land and buildings in year. The last full revaluation took place in 2017/18
- This is significant judgement involved in determining the appropriate basis for the Valuation (EUV or DRC) for each asset according to the degree of specialization, as well as assumptions used in the overall valuation.

#### Planned response

- Property Plant and Equipment (Value assertion).

##### Control design:

- We will obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred.
- We assess the risk of the valuation changing materially during the year, or between the date of valuation and the year end.

##### Assessing Valuer's credentials:

- We may utilise our internal specialist to critically assess the methodology used by the valuer, considering whether the valuations are in accordance with the RICS Valuation Professional standards "the red book" and relevant accounting standards.
- We will challenge the key assumptions upon which the valuations were based for a sample of properties, by making a comparison to our own assumption ranges derived from market data..
- We will discuss with the Valuer to understand the assumptions and methodologies used in valuing various assets revalued during 2019-20 and the market evidence to support the assumptions.
- We will agree observable inputs used in the valuations, such as land size, floor space etc.
- We will critically assess the disclosures made in relationship to the estimates and valuations made for PPE.

#### Outcome from audit work

**Review of the Trust's Valuer:** We critically assessed the competence, capability, objectivity and independence of the Trust's external valuer and the overall methodology used against the requirements of the Department of Health Group Accounting Manual 2019/20.

**Review of the Valuation Report:** We critically assessed the content of the valuation report, the terms of engagement and the instructions issued to the valuer to confirm consistency with the requirements of the Department of Health Group Accounting Manual 2019/20. The valuation was carried out as at 31 March 2020 using the BCIS price indices of 330 for the valuation movement. The District Valuer has included in their valuation report a material uncertainty paragraph due to the impact of Covid19 on valuations. The latest update of this indices shows this to be 336 which indicates a movement of 0.2% - This currently doesn't indicate that Covid19 has had a significant impact on these valuation indices, however these indices will continue to be subject to change, but as it stands the Trust has prepared a valuation in line with the information available as at 31 March 2020, and to date information does not indicate a risk of material misstatement on these valuations.

**Review of the information provided to the valuer:** We considered the accuracy of the information provided to the valuer to underlying records of the Trust's estate.

**Accounting Movements:** We reconciled the valuation report and associated movements in value back to the property, plant and equipment disclosure and related accounting movements. We identified an audit adjustment as a result of this work, details of which can be found in Appendix 4, and

**Disclosures:** We considered the adequacy of the disclosures about the key judgements and degree of estimation involved in concluding on the values of the assets held by the Trust.

# Financial statements audit – significant risks



## Revenue recognition (Significant risk that professional standards require us to assess in all cases)

### Significant audit risk

#### The risk

- 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.
- We have classified Operating income from Patient Care Activities and Other Income as a significant risk to respond to this requirement.

### Planned response

Completeness and Existence of Operating Income from Patient Care Activities and Other Income.

- For the NHS Income from Patient Activities, we will confirm the recognition of income and cut-off using the NHS Agreement of Balances exercise, including the Month 9 process as a control.
- In relation to non-NHS income, we will remain alert to the fraud risk through our audit of other income.
- We will agree contract income from Non-NHS bodies and agree the cash remittance of the payments.
- We will ensure that the income cut-off is sound and that income is accounted for in the correct accounting period.

### Outcome from audit work

Focussing on the completeness and existence of operating income, we:

- Reviewed the information provided by the Trust as part of the Agreement of Balances (AoB) exercise to ensure it was consistent with the information in the financial statements;
- Identified any mismatches with other NHS organisations and sought explanations for mismatches over £115,000 or significant cumulative mismatches;
- Agreed any disputed income or receivables over £115,000 to documentation which supports the Trust's estimates;
- Ensured significant adjustments to balances agreed with other NHS organisations are reflected in the accounts;
- Agreed any individually significant accrued or deferred income balances to confirm they are recorded appropriately;
- We have confirmed that for non-NHS patient care, income has been fully received in cash; and
- We have sample tested other income to cash.

No issues have been identified that bring into doubt revenue recognition.

# Financial statements audit – significant risks



③ Management override of control (Significant risk that professional standards require us to assess in all cases)

## Significant audit risk

### The risk

- Professional standards 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.

### Planned response

- Our audit methodology incorporates the risk of management override as a default significant risk.
- In line with our methodology, test the operating effectiveness of controls over journal entries and post closing adjustments.
- Assess the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.
- Assess the appropriateness of the accounting for significant transactions that are outside the Trust's normal course of business, or are otherwise unusual.
- Understand the judgement management reached which led to receipt of Provider Sustainability Fund (PSF);
- Consider accounting judgements which impact the reported outturn position;
- Reconcile the year end outturn to in year financial reporting to ensure that divergence in performance can be justified; and
- Consider the year end cut off processed to ensure that revenue and expenditure items have been reflected in the correct period.

### Outcome from audit work

- Assessed the operating effectiveness of controls over journal entries in year, identified and assessed the appropriateness of specific high risk journals related to assessed high risk criteria, and reviewed any significant post closing adjustments made.
- Assessed the appropriateness of any changes made compared to the prior year with regards to underlying methods and assumptions used to prepare accounting estimates. Most notably this has been carried out in our assessment of the valuation methodologies and estimates utilised with regards to land and buildings (See significant risk 1).
- We did not identify any specific significant transactions that were outside the Trust's normal course of business.
- Understood management's judgements in relation to PSF funding, agreed the PSF funding recognised to confirmation from NHS Improvement.
- Reviewed accounting judgements which impacted the reported outturn position, including provisions and accruals.
- Reviewed a sample of transactions posted around year end to ensure that revenue and expenditure items have been reflected in the correct period.

No instances of fraud were identified.



#### 4 Fraudulent expenditure recognition (Significant risk that professional standards require us to assess in all cases)

### Significant audit risk

#### The risk

- In the public sector, auditors also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period). This may arise due to the audited body manipulating expenditure to meet externally set targets. As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk of material misstatements due to fraud related to revenue recognition and so the auditor has regard to this when planning and performing audit procedures.
- We have rebutted this for payroll costs, so only applies to non-pay expenditure

### Planned response

- Completeness and Existence of Operating expenses –non-pay (Circa £49m)
- We will review the cut-off to ensure that expenditure is reflected in the correct accounting period, we will substantively test the balance sheet accruals and creditors position to ensure that these are materially complete;
- We will assess the pressure upon the Trust to achieve a particular year end outturn position;
- We will consider the extent that budgetary controls have been in operation throughout the year and have been found to operate effectively;
- We will carry out testing of purchase controls and substantive testing over the non-pay expenditure incurred during the year.
- We will consider the application of appropriate segregation of duties between those responsible for monitoring budgets (e.g. General Managers) and those preparing the Financial statements (Finance Team) which helps to prevent fraudulent manipulation of expenditure; and
- We will test that senior staff are not remunerated based upon financial results, nor is the funding made available to the Trust based upon the results presented in the financial statements.

### Outcome from audit work

We have:

- Tested the design and operating effectiveness of process level controls over expenditure;
- Inspected a sample of invoices and expenditure transactions from both the ledger and the Trust's bank transactions in the period prior to and following 31 March 2020 to determine whether expenditure was recognised in the correct accounting period;
- Considered the completeness of the accrued expenditure balance at year end and tested a sample of accrued expenditure to ensure accounted for in the 2019/20 period appropriately;
- Assessed a sample of journal entries related to expenditure where the account combinations appeared unusual or a possible manipulation of the year end position. These included journals moving expenditure items between expenditure codes and journals related to the year end;
- Sample tested a number of expenditure items and agreed to supporting documentation, including those journal entries noted above;
- Reviewed the information provided by the Trust as part of the Agreement of Balances (AoB) exercise to ensure it is consistent with the information in the financial statements;
- Identified any mismatches with other NHS organisations and sought explanations for mismatches over £115,000 or significant cumulative mismatches; and
- Agreed any disputed expenditure or payables over £115,000 to documentation which supports the Trust's estimate.

# Financial statements audit – other areas of focus



## Other area of focus – Disclosure of impact of forthcoming standards (IFRS16)

### The risk

- IFRS 16 (Leases) is being applied by HM Treasury in the Government Financial Reporting Manual (FRm) from 1 April 2020. This will require disclosure in the Trust's accounting policies in 2019/20 and the Trust will be required to report transactions from 1 April 2020, meaning it is important that the Trust is able to start collating reliable data for comparable figures ahead of that date.
- There are complex accounting requirements underlying the determination of quantitative amounts in disclosures.
- Disclosure likely to be subject to scrutiny from users of the accounts.

### Outcome from audit work

IFRS 16 will be deferred for a further year and there are only limited disclosure requirements for 2019/20. As such, we have not undertaken any work on this area of audit focus.

## Other area of focus – Going concern

### The risk

The GAM directs that your financial statements will be prepared on a going concern basis unless services are being transferred outside of the public sector or being discontinued.

- Risks to your financial position are expressed through disclosure in the financial statements (which need to be complete and balanced) and consideration in our use of resources responsibilities.
- Key analysis of your future financial performance is contained in your submissions to NHSI which forecast both current and future years expected financial performance.

### Outcome from audit work

- We confirm that the accounting policies adopted by the Trust are in line with the GAM; and
- We consider that the Directors have reflected on the uncertainties and reflected these within the financial statements where material.
- We have no issues to report in respect of an amended opinion.
- We have no issues to report in respect of the future financial plans, although we reflect that COVID19 currently has led to contract negotiations being paused.

## Section one

# Financial statements audit - mandated risks



### Scepticism Challenge

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.	While LTH is not a listed entity and the overall audit is considered low risk you do have varied revenue streams we have therefore included this risk within our work Please see page 11 for the work undertaken in relation to this risk.
Fraudulent expenditure recognition	Practice Note 10 suggests that auditors in the public sector should consider whether there is a fraud risk arising from the recognition of expenditure.	We have highlighted within our audit risk assessment our focus on your key items of expenditure. Please see page 13 for the work undertaken in relation to this risk.
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, including testing of journal entries, accounting estimates and significant transaction outside the normal course of business, no instances of fraud were identified.  Please see page 12 for the work undertaken in relation to this risk.

**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 £2.3m, performance materiality of £1.725m with an audit differences posting threshold of £115k.

## Section one

# Financial statements audit - judgements

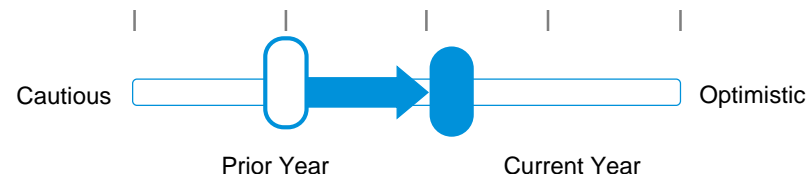


### Scepticism Challenge

#### 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.

Cautious means a smaller asset or bigger liability; optimistic is the reverse. We have only considered material judgements for the purpose of our reporting here.



Asset/liability class	Our view of management judgement	Balance (£m)	YoY change (£m)	Our view of disclosure of judgements & estimates	Further comments
Valuation of land and buildings		30.8	1.5		The value in the financial statements is reasonable, with the movement reflective of the in-year valuation. In 2018/19 we assessed the value as cautious due to no revaluation being undertaken in year. For 2019/20, the value of the assets have increased as a result of the valuation. Build values have also increased since the date of the valuation, therefore we consider the valuation to be neutral.



## Section one

# Financial statements audit - other matters



## Scepticism Challenge

### 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. 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 GAM.

### 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 £41,000 plus VAT (£40,000 in 2018/19). This fee has been updated since our audit plan agreed by the Audit Committee in January 2020 due the reduced audit requirements on IFRS 16. The revised fee for the year is £39,500. We have not completed any non-audit work at the Trust during the year OR We have not performed any non-audit work outside of that already disclosed to you as part of our audit planning.



# Value for Money

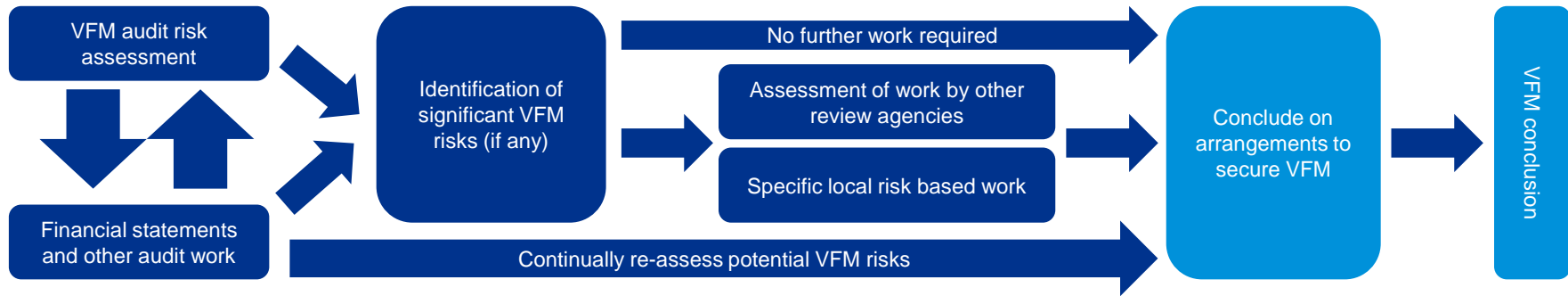
Section two

# Value for Money



Scepticism Challenge

For 2019/20 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 did not identify any significant VFM risks and provide a summary below of the routine work required to issue our VFM conclusion, which is that we are satisfied that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020, based upon the criteria of informed decision making, sustainable resource deployment and working with partners and third parties.



Risk	Why	Finding from the audit
<p>We reviewed the 2019/20 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>As part of our risk assessment we reviewed various matters, including:</p> <ul style="list-style-type: none"> <li>• core assumptions in the 2020/21 Annual Plan.</li> <li>• recurrent cost improvement schemes are identified and delivered</li> <li>• planned VS actual outturn.</li> <li>• Management’s assessment of the Trust’s ability to continue as a going concern.</li> <li>• partnership arrangements / relationships with key third parties.</li> <li>• Outcomes of the CQC well-led report.</li> <li>• The impact of COVID19 on our VFM opinion – given the impact of this was mainly limited to the final two weeks of the financial year, it has not had a significant impact on our VFM opinion for 2019/20.</li> </ul>



# Appendix

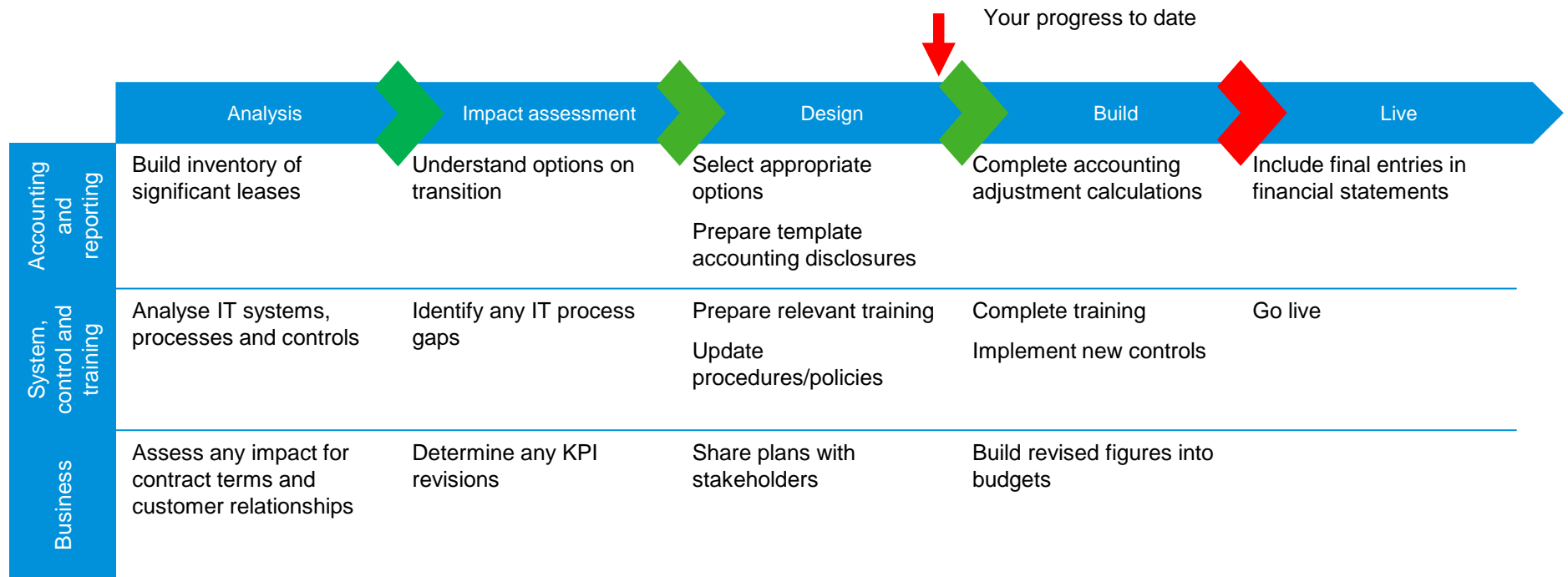
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# Readiness for IFRS 16 (Leases)



The implementation of the new lease accounting standards has been deferred to 1 April 2021 with only limited disclosure requirements for 2019/20. For IFRS 16 full analysis is required of expenditure that could constitute an lease (such as operating leases for buildings that were previously not held on the balance sheet). We have outlined below the typical stages a transition programme would go through and based on our planning and interim audit work have indicated that as a result, largely, of the timing of guidance and date of implementation, the Trust is at an early stage of this.



# Revision to the Going Concern auditing standard

In September 2019 the FRC published a revised UK auditing standard for Going Concern ISA UK 570. This responds to recent enforcement cases and well-publicised corporate failures where the most recent auditor's report had not included a material uncertainty on going concern. The revised standard is applicable for periods commencing on or after **15 December 2019**, including short periods. We have not early adopted the standard for 31 December 2019 year-ends.

### The key changes

The key changes in comparison to the current standard are:

- Enhanced coverage of going concern in the audit report, including:
  - A positive statement from the auditor that the use of the going concern basis is appropriate and the auditor has not identified a material uncertainty on going concern.
- More detailed audit requirements on risk assessment procedures, including on the entity and its environment; the applicable financial reporting framework; and the entity's system of internal control.
- Additional audit procedures when events or conditions are identified which have not been identified or disclosed to the auditors by management.
- Under the new standard detailed substantive procedures will be required in all cases, whereas in the current standard there are reduced requirements if no events or conditions are identified that may cast significant doubt on the entity's ability to continue as a going concern.
- Requirement to consider reporting material uncertainties to external regulatory and enforcement authorities.

NHS bodies are directed to prepare accounts on a going concern basis unless otherwise instructed, for example unless services are being transferred outside of the public sector or being discontinued. We set out below the key impacts:

**Risk assessment procedures and related activities:** In addition to work which the auditor previously undertook understanding the entity and its environment, the new standard requires auditors to perform more detailed risk assessment procedures including specific work on the entity's system of internal control and risk assessment processes as they specifically pertain to going concern. This will include greater scrutiny over areas such as cash flow management and borrowing arrangements.

**Removal of the gateway to assess whether events or conditions exist:** The auditor will perform an evaluation of management's going concern assessment in all cases, not only when events or conditions which may cast significant doubt as to the entity's ability to continue as a going concern have been identified.

**Increased challenge due to change in emphasis in the report:** The FRC intends that auditors increase their scrutiny of going concern. Whilst much of our detailed work will remain unchanged with continued emphasis to robustly challenge management's assessment of going concern which includes thoroughly testing the adequacy of the supporting evidence, evaluating the risk of management bias. The change in the nature of the report is likely to result in more challenges being raised. This will mean the Trust will need to specifically design, perform and document its own assessment of Going Concern.

## Appendix 3

# Recommendations raised and followed up



### **2019/20 recommendations raised:**

We have raised no recommendations in relation to our 2019/20 audit work

### **2018/19 recommendations followed up:**

We had no recommendations to follow up in relation to our 2018/19 audit.

# 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 £300K are shown below:

There are no unadjusted audit differences to report.

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.

- 1) Although the accounting entries had been put through the general ledger correctly, the disclosure of the in year revaluation had not been correctly reflected in Note 17 – Property, Plant and Equipment. This has now been amended to show that accumulated depreciation is nil on revalued assets at 31 March 2020.
- 2) Note 7.3 Limitation on auditors liability has been updated to show there is a limitation of £1 million for audit work carried out in financial years 2019/20 or 2018/19
- 3) Note 11.2 the split of future lease payments has been amended, although the total value remains the same.

We are required to report any inconsistencies greater than £300,000 between the signed audited accounts and the consolidation data and details of any unadjusted errors or uncertainties in the data provided for intra-group and intra-government balances and transactions regardless of whether a Trust is a sampled or non-sampled component. We have provided details of the inconsistencies that we are reporting to the NAO as follows:

Counter party	Type of balance/ transaction for LCH	Balance as per Trust (£'000)	Balance as per counter party (£'000)	Difference (£'000)	Comments on Difference
NPS033 – NHS Property Services	Payable	£753	£221	£532	As in prior years, there has been an issue with NHS Property Services invoicing for these services. From our audit work we are satisfied that LCH have accrued for the correct amount.



# Audit 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 Board of Directors/Audit Committee members

### Assessment of our objectivity and independence as auditor of Leeds Community Healthcare NHS Trust ('the Trust')

Professional ethical standards require us to provide to you at the conclusion 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 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 fees

We have considered the fees charged by us to the Trust and its affiliates for professional services provided by us during the reporting period. We have detailed the fees charged by us to the company and its related entities for significant professional services provided by us during the reporting period below, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2020 can be analysed as follows:

#### Component of audit (all fees exclude VAT)

	2019/20	2018/19
<b>Audit services – statutory audit</b>		
Financial Statements Audit	£39,500	£39,500
New Accounting Standards	-	£500
Sub-total	£39,500	£40,000
<b>Non audit fees</b>		
Audit related assurance services	-	-
All other assurance services	-	-
All other non-audit services	-	-
<b>Total fee for Trust</b>	<b>£39,500</b>	<b>£40,000</b>

This fee has been updated since our audit plan agreed by the Audit Committee in January 2020 due the reduced audit requirements on IFRS 16.

## Appendix 5

# Audit Independence



The ratio of non-audit fees to audit fees for the year was 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.

### **Independence and objectivity considerations relating to other matters**

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

### **Confirmation of audit independence**

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

This report is intended solely for the information of the Audit Committee of the Trust 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.

Yours faithfully

*KPMG LLP*

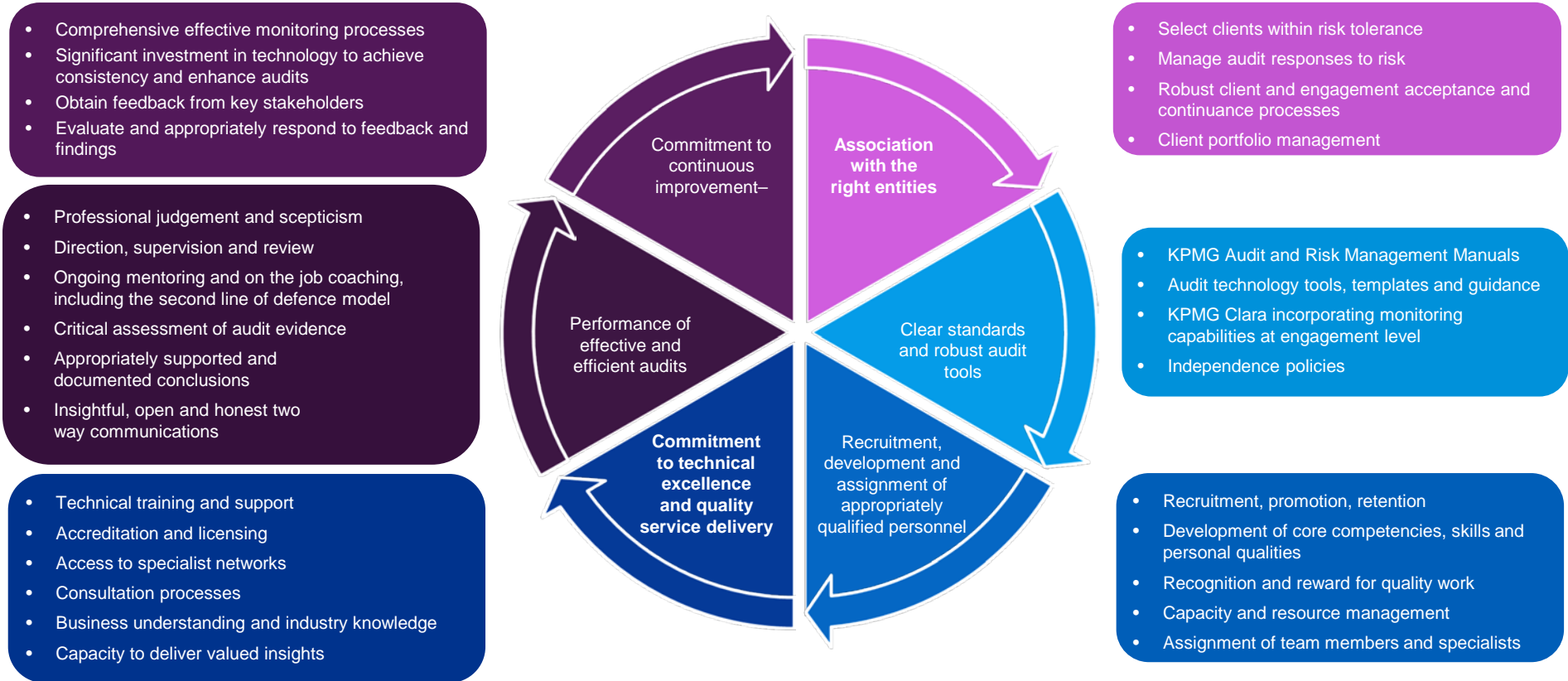
# KPMG's Audit quality framework



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.

Responsibility for quality starts at the top through our governance structures as the UK Board is supported by the Audit Oversight Committee, and accountability is reinforced through the complete chain of command in all our teams.





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