

## **Independent auditor's report to the Council of Governors of Northumberland, Tyne and Wear NHS Foundation Trust**

### **Opinion**

We have audited the financial statements of Northumberland, Tyne and Wear NHS Foundation Trust ('the Trust') and Northumberland, Tyne and Wear NHS Foundation Trust Group ('the Group') for the year ended 31 March 2018. The financial statements comprise the Statement of Comprehensive Income (Trust and Group), the Statement of Financial Position (Trust and Group), the Statement of Changes in Taxpayers' Equity (Trust and Group), the Statement of Cash Flows (Trust and Group), and notes to the financial statements, including the summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Government Financial Reporting Manual 2017/18 as contained in the Department of Health and Social Care Group Accounting Manual 2017/18, and the Accounts Direction issued under section 25(2) of Schedule 7 of the National Health Service Act 2006.

In our opinion the financial statements:

- give a true and fair view of the state of the Trust's and of the Group's affairs as at 31 March 2018 and of the Trust's and of the Group's income and expenditure for the year then ended;
- have been properly prepared in accordance with the Department of Health and Social Care Group Accounting Manual 2017/18; and
- have been properly prepared in accordance with the requirements of the National Health Service Act 2006.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Trust and Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Use of the audit report**

This report is made solely to the Council of Governors of Northumberland, Tyne and Wear NHS Foundation Trust as a body in accordance with Schedule 10(4) of the National Health Service Act 2006. Our audit work has been undertaken so that we might state to the Council of Governors of the Trust those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council of Governors of the Trust as a body for our audit work, for this report, or for the opinions we have formed.

### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Accounting Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Accounting Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Trust's or Group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	Our response and key observations
<p><b>Revenue recognition (Trust)</b></p> <p>There is a risk of fraud in the financial reporting relating to revenue recognition due to the potential to inappropriately record revenue in the wrong period.</p>	<p>We undertook a range of substantive procedures including:</p> <ul style="list-style-type: none"><li>• testing of income around the year-end to ensure transactions are recognised in the correct financial year;</li><li>• testing year-end receivables to ensure transactions are recognised in the correct financial year;</li><li>• reviewing intra-NHS reconciliations and data matches provided by the Department of Health and Social Care/NHSI;</li><li>• review of management oversight of material accounting estimates, review of changes to accounting policies and challenge/testing of material accounting estimates; and</li><li>• testing of adjustment journals, selected using specific risk characteristics.</li></ul> <p>Our work provided the assurance we sought in respect of this key audit matter.</p>
<p><b>Property valuations (Trust)</b></p> <p>Land and buildings are the Trust's highest value assets. Management engage Cushman &amp; Wakefield, as an expert, to assist in determining the fair value of property to be included in the financial statements. There is a high degree of estimation uncertainty and changes in the value of property may impact on the Statement of Comprehensive Income depending on the circumstances and the specific accounting requirements of the Department and Health and Social Care Group Accounting Manual.</p>	<p>We liaised with management to update our understanding on the approach taken by the Trust in its valuation of land and buildings.</p> <p>We reviewed and considered:</p> <ul style="list-style-type: none"><li>• the scope and terms of the engagement with Cushman &amp; Wakefield; and</li><li>• how management use the Cushman &amp; Wakefield's report to value land and buildings in the financial statements.</li></ul> <p>We wrote to Cushman &amp; Wakefield to obtain information on the methodology and their procedures to ensure objectivity and quality.</p> <p>We tested a sample of valuation movements to gain assurance that the accounting treatment is appropriate, and also considered evidence of regional valuation trends.</p> <p>Our work provided the assurance we sought in respect of this key audit matter.</p>

## Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on the financial statements and our audit. Materiality is used so we can plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free from material misstatement. The level of materiality we set is based on our assessment of the magnitude of misstatements that individually or in aggregate, could reasonably be expected to have influence on the economic decisions the users of the financial statements may take based on the information included in the financial statements.

Based on our professional judgement, we determined materiality for Northumberland, Tyne and Wear NHS Foundation Trust and Group for the financial statements as a whole as follows:

<b>Overall materiality</b>	£4.437m for the Trust and the Group.
<b>Basis for determining materiality</b>	Approximately 1.5% of operating expenses of continuing operations.
<b>Rationale for benchmark applied</b>	Operating expenses of continuing operations was chosen as the appropriate benchmark for overall materiality as this is a key measure of financial performance for users of the financial statements.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £133,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

## An overview of the scope of our audit

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Trust's and Group's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Accounting Officer and the overall presentation of the financial statements. The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are discussed in the "Key audit matters" section of this report. In addition we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## Opinion on other matters prescribed by the Code of Audit Practice

In our opinion:

- the parts of the Remuneration and Staff Report subject to audit have been properly prepared in accordance with the requirements of the NHS Foundation Trust Annual Reporting Manual 2017/18; and
- the other information published together with the audited financial statements in the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

### Annual Governance Statement

We are required to report to you if, in our opinion:

- the Annual Governance Statement does not comply with the NHS Foundation Trust Annual Reporting Manual 2017/18 ; or
- the Annual Governance Statement is misleading or is not consistent with our knowledge of the Trust and other information of which we are aware from our audit of the financial statements.

We have nothing to report in respect of these matters.

### Reports to the regulator and in the public interest

We are required to report to you if:

- we refer a matter to the regulator under Schedule 10(6) of the National Health Service Act 2006 because we have a reason to believe that the Trust, or a director or officer of the Trust, is about to make, or has made, a decision involving unlawful expenditure, or is about to take, or has taken, unlawful action likely to cause a loss or deficiency; or
- we issue a report in the public interest under Schedule 10(3) of the National Health Service Act 2006.

We have nothing to report in respect of these matters.

### Use of resources

We are required to report to you if the Trust has not put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We have nothing to report in respect of this matter.

### Other information

We are required to read the other information and report to you if the other information is:

- materially inconsistent with the audited financial statements or our knowledge obtained in the course of performing our audit; or
- otherwise appears to be materially misstated.

We have not identified any such material inconsistencies or misstatements.

We are also required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

## **Responsibilities of the Accounting Officer**

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Accounting Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Accounting Officer is required to comply with the Department of Health and Social Care Group Accounting Manual and prepare the financial statements on a going concern basis, unless the Trust or Group is informed of the intention for dissolution without transfer of services or function to another entity. The Accounting Officer is responsible for assessing each year whether or not it is appropriate for the Trust or Group to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

The Chief Executive as Accounting Officer is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the Trust's use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

## **Auditor's responsibilities**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## **Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We are also required under Schedule 10(1) of the National Health Service Act 2006 to satisfy ourselves that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General (C&AG), having regard to the guidance on the specified criterion issued by the C&AG in November 2017, as to whether the Trust had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Trust put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary.

## Certificate

We certify that we have completed the audit of the financial statements of Northumberland, Tyne and Wear NHS Foundation Trust and Northumberland, Tyne and Wear NHS Foundation Trust Group in accordance with the requirements of chapter 5 of part 2 of the National Health Service Act 2006 and the Code of Audit Practice.

A handwritten signature in black ink that reads "Gareth Davies". The signature is written in a cursive style with a large initial 'G'.

Gareth Davies  
For and on behalf of Mazars LLP

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23 May 2018