

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

Report on the financial statements

Opinion on the financial statements

We have audited the financial statements of Cumbria, Northumberland, Tyne and Wear NHS Foundation Trust ('the Trust') and its subsidiaries ('the Group') for the year ended 31 March 2020 which comprise the Trust and Group Statement of Comprehensive Income, the Trust and Group Statement of Financial Position, the Trust and Group Statement of Changes in Taxpayers' Equity, the Trust and Group Statement of Cash Flows 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 HM Treasury's Financial Reporting Manual 2019/20 as contained in the Department of Health and Social Care Group Accounting Manual 2019/20, and the Accounts Direction issued under the National Health Service Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Trust and Group as at 31 March 2020 and of the Trust's and 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 2019/20; 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.

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 the 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) that we identified. These matters included 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>Property valuations (Trust)</p> <p><i>Land and buildings are the Trust's highest value assets and Note 14.1 to the financial statements discloses information on the Trust's holding of property, plant and equipment (PPE). This includes £127.2m of land and buildings held at current value at 31 March 2020. These assets are subject to periodic revaluation in line with the requirements of the Group Accounting Manual (GAM). Note 1.6 to the financial statements describes the Trust's accounting policy with respect to the valuation of land and buildings and note 14.1 discloses further information on the balance.</i></p> <p>The significant risk of material misstatement is further increased due to the additional estimation uncertainty arising from the Covid-19 pandemic.</p> <p>Management engage a valuation expert ('the valuer') to provide the Trust with current values of property and land in accordance with Royal Institution of Chartered Surveyors (RICS) requirements. Changes in the value of property may impact on the Trust Statement of Comprehensive Income depending on the circumstances and the specific accounting requirements of the Group Accounting Manual. The valuations require judgement and a high level of estimation in determining current values.</p>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the skills, experience and qualifications of the valuer, and considering the appropriateness of the instructions to the valuer from the Trust. • Obtaining an updated understanding of the basis of valuation applied by the valuer in the year. This included understanding and evaluating the methodology applied to estimate the gross replacement cost of the Trust's operational land and buildings on a modern equivalent asset basis. Specifically, we evaluated the Trust's application of a 'single-site' valuation methodology which covers its existing hospital sites in the North, South and the West. • Sample testing the completeness and accuracy of underlying data provided by the Trust and used by the valuer as part of their valuations. • Testing the accuracy of how valuation movements were presented and disclosed in the financial statements. • Making enquiries with the valuer to understand the nature of the material valuation uncertainty disclosed in his valuation report. • Using relevant market and cost data to assess the reasonableness of the valuation as at 31 March 2020. In doing so, we also considered relevant valuation indices including those prepared by Gerald Eve to assess the effect of any potential material valuation uncertainty related to the Covid-19 pandemic. • Considering the work of an expert commissioned by Mazars to provide a view on the implications of the pandemic on relevant cost indices used for Depreciated Replacement Cost (DRC) valuations. <p>Key observations</p> <p>We obtained sufficient appropriate evidence to conclude that the valuation of PPE included in the financial statements is reasonable.</p>
<p>Revenue recognition (Trust)</p> <p><i>The Trust recognised £379.7 million of revenue (operating income from patient care activities and other operating income) in the Statement of Comprehensive Income. The Trust's primary source of revenue is through contracts with commissioning bodies in respect of the provision of healthcare services. Note 3 to the financial statements provide further information on the nature and source of the Trust's revenue.</i></p> <p>Auditing standards include a rebuttable presumption that there is a significant risk in relation to the timing of revenue recognition, and in relation to judgements made by</p>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Evaluating the Trust's accounting policy in respect of revenue recognition to ensure that it is in line with the requirements of the GAM. • Stratifying the population of revenue adjustment journals and assessing whether any contained indications of fraud through the presence of specific fraud characteristics. • Testing a sample of revenue around the year end by agreeing the transactions to appropriate source documentation and obtaining assurance that each item was recorded in the correct financial year and at the correct value. • Testing a sample of year end receivables by agreeing the transactions to appropriate source documentation and obtaining assurance that each item was recorded in the correct financial year and at the correct value.

management as to when revenue has been earned. The pressure to manage revenue to deliver forecast performance in a challenging economic environment increases the risk of fraudulent financial reporting leading to material misstatement and means that we are unable to rebut the presumption.

- Considering information provided by the Department of Health and Social Care in respect of year-end intra-NHS transactions. We identified any significant differences between the Trust's position and that of the counterparty and obtained assurance that the Trust's position was supported by appropriate evidence.

Key observations

We obtained sufficient appropriate evidence to conclude that revenue recognised in the financial statements is reasonable.

Our application of materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures, and in evaluating the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements as follows:

	Trust	Group
Overall materiality	£7.543m	£7.553m
Basis for determining materiality	2% of operating expenses from continuing operations.	
Rationale for benchmark applied	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.	
Performance materiality	£6.035m	£6.042m
Reporting threshold	£0.226m	£0.227m

The range of financial statement materiality across components, audited to the lower of local statutory audit materiality and materiality capped for group audit purposes, was between £0.863 million and £7.543 million, all being below group financial statement materiality].

An overview of the scope of our audit

As part of designing our audit, we determined materiality and assessed the risk of material misstatement in the financial statements. In particular, we looked at where the Accounting Officer made subjective judgements such as making assumptions on significant accounting estimates.

We gained an understanding of the legal and regulatory framework applicable to the Trust and the Group and the sector in which they operate. We considered the risk of acts by the Trust and Group which were contrary to the applicable laws and regulations including fraud. We designed our audit procedures to respond to those identified risks, including non-compliance with laws and regulations (irregularities) that are material to the financial statements.

We focused on laws and regulations that could give rise to a material misstatement in the financial statements, including, but not limited to, the National Health Service Act 2006.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of our risk assessment, our understanding of the Trust's and the Group's accounting processes and controls and their environments, and considered qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items. There were no changes to the scope of the current year audit from the scope in the prior year."

Our tests included, but were not limited to:

- 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 irregularities including fraud or error;
- review of minutes of board meetings in the year;
- discussions with the Trust's internal auditor; and
- enquiries of management.

As a result of our procedures, we did not identify any key audit matters relating to irregularities, including fraud (other than the key audit matter on revenue recognition outlined above). The risks of material misstatement, including due to fraud, that had the greatest effect on our audit, including the allocation of resources and effort, are discussed under 'Key audit matters' within this report.

Our group audit scope included an audit of the Trust and Group financial statements. Based on our risk assessment, the Trust was subject to a full scope audit which was performed by the Group audit team, including those elements of the Trust's subsidiary company, NTW Solutions, where transactions were material to the group's net assets, revenues and expenses. Full-scope audit procedures were undertaken on Group components that account for 99.6% of the Group's net assets, revenues and expenses.

At the Group level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.

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 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.

We have nothing to report in these regards.

Responsibilities of the Accounting Officer for the financial statements

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 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 and Group to prepare financial statements on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

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. This description forms part of our auditor's report.

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 2019/20; 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 2019/20; or
- the Annual Governance Statement is misleading or is not consistent with our knowledge of the Trust and Group 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.

The Trust's arrangements for securing economy, efficiency and effectiveness in the use of resources

Matter on which we are required to report by exception

We are required to report to you if, in our opinion, we are not satisfied that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We have nothing to report in this respect.

Responsibilities of the Accounting Officer

The Chief Executive as Accounting Officer is 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 for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required by 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, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, 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 Comptroller and Auditor General 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 2020.

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.

Use of the audit report

This report is made solely to the Council of Governors of Cumbria, 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.

Certificate

We certify that we have completed the audit of Cumbria, Northumberland, Tyne and Wear NHS Foundation Trust and Cumbria, 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.

Signature: 
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For and on behalf of Mazars LLP

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