

The Audit Findings for Liverpool Heart and Chest Hospital NHS Foundation Trust

Year ended 31 March 2020

23 June 2020





The Coronavirus pandemic has presented an extraordinary challenge for us all. It is impacting on and will continue to affect all of our lives for some time to come. We want to start by thanking every single member of staff in the NHS for all you are doing to support patients – and your colleagues – in this hugely trying time.

You are the ones who are fighting the crisis head on. Over recent weeks we have heard some amazing stories about how staff across the NHS are going way over and above your normal roles. We are all eternally grateful for your efforts to keep our nation healthy and safe.

As well as looking after patients it is also vital that you look after yourselves too. Please do all you can to keep healthy and please take care of yourself, your colleagues and loved ones.

This is a moment in history which has reminded us how lucky we are to have you. You are stronger, braver and more appreciated than you will ever know.

We appreciate everything you are doing for this nation. We will not forget.

Thank you.

Grant Thornton UK LLP, June 2020

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NHS

#ThankYouNHS



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Liverpool Heart and Chest Hospital NHS Foundation Trust ('the Trust') and the preparation of the Trust's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19	<p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Trust. Over the last three months, the Trust has needed to transform its service provision, including diverting capacity into dealing with cases of Covid-19. The Trust has had to be agile in its response, ceasing to provide routine elective procedures and creating additional critical care space. Given the unprecedented operational challenge for Trusts, the Department of Health and Social Care (DHSC) extended the deadline for preparation of the financial statements up to 27 April 2020, with flexibility to extend to 11 May 2020, and the date for audited financial statements to 25 June 2020.</p>	<p>We have considered emerging guidance issued by the Financial Reporting Council, NHS Improvement and NHS England and actively contributed to audit firm and NAO technical meetings where the impact of the virus on the financial reporting disclosures and audit approach has been discussed.</p> <p>We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 2 April 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 10.</p> <p>Restrictions for non-essential travel has meant both Trust and audit teams have had to adapt to different working arrangements. This has involved working from home, requiring remote access to working papers and systems. Remote working has been facilitated through use of our Inflo electronic filing system. As an audit team we have considered alternative methods to verify the completeness and accuracy of information provided to us by the Trust, including use of video calls and screen-sharing software</p>
Financial Statements	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none">the Trust's financial statements give a true and fair view of the financial position of the Trust and the Trust's income and expenditure for the year; andthe Trust's financial statements, and the parts of the Remuneration and Staff Report to be audited, have been properly prepared in accordance with International Financial Reporting Standards, as interpreted and adapted by the Department of Health and Social Care (DHSC) and the DHSC group accounting manual 2019/20 (GAM). <p>We are also required to report whether other information published together with the audited financial statements in the Annual Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed remotely during April-June. Our findings are summarised on pages 6 to 18. We have identified one adjustment to the financial statements which that have resulted in a £2.4m adjustment to the Trust's surplus position. Audit adjustments are detailed in Appendix B. We have also raised recommendations for management as a result of our audit work in Appendix A.</p> <p>As a result of our review, we have identified a limitation of scope to our opinion, relating to the existence of inventory, as a result of the Trust and the audit team being unable to attend stock takes at year-end owing to physical distancing restrictions in place at this time. NHS I wrote to provider trusts in March 2020 to set out their acknowledgment that this was a consequence of the pandemic and not a matter that reflected on organisational performance or control.</p> <p>Similarly, as a result of the Covid-19 pandemic, the Trust's external property valuers have identified a material estimation uncertainty relating to market conditions and build costs which affect the year-end valuation of the Trust's land and buildings portfolio. Management have disclosed this material uncertainty in the final draft of the financial statements. We have referenced the disclosure of this material uncertainty in our audit opinion.</p> <p>Both of these issues are prevalent across the sector and have been recognised as acceptable reporting matters for 2019/20 by NHSI.</p> <p>We have also identified the requirement for a prior period adjustment in respect of VAT on the value of land and buildings – this is set out on page 13.</p>

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Liverpool Heart and Chest Hospital NHS Foundation Trust ('the Trust') and the preparation of the Trust's financial statements for the year ended 31 March 2020 for those charged with governance.

Financial Statements continued		<p>Our testing is now complete.</p> <p>We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.</p> <p>Our audit report opinion is qualified to reflect a limitation of scope over the year end stock balance, and will include an emphasis of matter paragraph, highlighting material uncertainty disclosures around year-end property valuations. The emphasis of matter paragraph does not represent a qualification of our audit opinion.</p>
Value for Money arrangements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Trust has not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>	<p>We have completed our risk based review of the Trust's value for money arrangements. We have concluded that Liverpool Heart and Chest Hospital NHS Foundation Trust does have proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We have nothing to report by exception. Our findings are summarised on pages 19 to 21.</p>
Statutory duties	<p>The National Health Service Act 2006 ('the Act') also requires us to:</p> <ul style="list-style-type: none">• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and• to certify the closure of the audit.	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the required work under the Code and have certified the completion of the audit.</p>

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff amidst the pressure they were under during these unprecedented times.

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Trust's business and is risk based, and in particular included:

- An evaluation of the Trust's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have had to alter our audit plan, as communicated to management in February 2020, to reflect our response to the Covid-19 pandemic, in which we identified a new significant financial statement level risk, relating to the global outbreak of the Covid-19 virus.

In addition, auditing standards require auditors to attend year end stock takes where inventory is a material balance. As a result of the lockdown we have been unable to attend any stock takes at NHS Trusts on a national level. We are therefore required to report a limitation of scope on the completeness of the stock balance within the financial statements. This will be reflected in our audit opinion.

The Trust is no longer required to obtain external assurance over its Quality Account for 2019/20.

Conclusion

We have completed our audit of your financial statements issued a qualified audit opinion (as mentioned on page 5).

Summary

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan.

We detail in the table below our determination of materiality for the Trust.

	Trust Amount (£)
Materiality for the financial statements	2,777,000
Performance materiality	2,083,000
Trivial matters	138,000
Materiality for senior officer remuneration	20,000

Going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary

Background and context

In accordance with the Department of Health Group Accounting Manual 2019-20 the financial statements have been prepared on a going concern basis as Directors do not either intend to apply to the Secretary of State for the dissolution of the Trust without the transfer of the services to another entity, or consider that such course of action will be necessary.

Prior to Covid-19 pandemic, the Trust had planned a surplus position of £1.872k (including PSF funding) for 2020-21 which was based on the centrally allocated Control Total. This was supported by receipt of income from the national Financial Recovery Fund. Whilst the pandemic has brought with it a number of risks and uncertainties with regards to activity, income and expenditure, these are mitigated by the revised funding mechanisms introduced by NHSI/E. The central funding mechanisms, whereby NHS bodies are fully funded is in place to 31 July, however, we understand this is expected to remain in place until October and possibly for the full financial year through to 31 March 2021.

NHS bodies have been informed that it is reasonable to assume that funding will continue to flow from 1 April 2021 to 30 June 2021 – i.e. at least 12 months from the date of our expected audit opinion. In the Trust's view, this provides surety around cash flows and confirmation that all expenditure during this period will be paid for.

The Trust is also required to disclose material uncertainties in respect of events or conditions that cast doubt upon the going concern ability of the NHS Foundation Trust. The Board of Directors do not believe there are any such items to be disclosed in the financial statements as at 31 March 2020 and management continues to adopt the going concern basis in preparing the financial statements.

Management's Assessment

Management has set out its assessment of going concern to the Board. This considers the Trust's financial position, financial planning, income and contracts and the arrangements that had been put into place by NHSI at that time i.e. a block payment being provided by NHSI for April to July 2020, and any additional expenditure on COVID-19 being funded. Whilst the position for the remainder of the year at that time was still to be confirmed, there was no indication that the Trust's assessment was unreasonable. Management did not identify any material uncertainty in relation to the going concern assumption.

Work performed

- Undertaking discussions with senior management regarding the financial standing and future direction of the Trust
- Determining whether the conclusions made by the management regarding not disclosing going concern material uncertainties as reported in the financial statements were prudent and appropriate
- We have reviewed management's assessment in the light of the context given above and assessed the underlying assumptions used to support management's preparation of the accounts on a going concern basis.

Going concern - continued

Going concern commentary

Work performed continued

- Reviewing cash flow forecasts up to June 2021 to assess the existence of any material uncertainties related to going concern
- Reviewing the cash flow forecasts and the reasonableness of the assumptions made, based on revised NHS funding mechanisms which are currently in place for 2020-21, and in the context of the NHSI/E letter of 27 May
- Verifying the disclosures within the financial statements comply with the reporting requirements detailed in the Department of Health and Social Care Group Accounting Manual 2019-20.

Conclusions

- The Trust planned a surplus financial position for 2020-21 of £1.872k prior to the 20-21 planning process ceasing as a result of the Covid-19 pandemic. This was supported by receipt of income from the national Financial Recovery Fund and included a requirement to deliver a £3.8m cost improvement programme (CIP). We have found management's assessment to be reasonable.
 - The Trust has projected cashflow forecasts until June 2021. Our review of these cash flows indicate, they have been undertaken under the current block contract funding basis and assumptions used are considered prudent and reasonable
 - Our work on disclosures within the financial statements indicates they comply with the reporting requirements detailed in the Department of Health and Social Care Group Accounting Manual 2019-20.
 - Note 1.2 in the financial statements confirms the accounts have been prepared on a going concern basis and includes reference to the current financial arrangements to give some context.
 - We cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty is not a guarantee that the Trust will continue in operation
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Significant risks

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan

Covid – 19

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;

- Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation
- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates
- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.

Commentary

We have:

- Documented our understanding of the implications that the Covid-19 pandemic has had on the Trust's ability to prepare the financial statements and updates to financial forecasts
- Liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise.

We have evaluated:

- the adequacy of the disclosures in the financial statements relating to the impact of the Covid-19 pandemic.
- whether sufficient audit evidence can be obtained in the absence of physical verification of assets through remote technology
- whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances .
- management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment.

The Trust's disclosures are in line with the DHSC guidance relating to the impact of the COVID-19 pandemic

Financial forecasts and the cashflow analysis of the Trust supports the ability for the Trust to prepare the accounts on a going concern basis.

We expect to include an emphasis of matter paragraph in our audit opinion in respect of the material estimation uncertainty identified by the external valuer as set out on page 13.

Auditing standards require auditors to attend year end stock takes where inventory is a material balance. As a result of the physical distancing measures we have been unable to attend any stock takes at NHS Trusts on a national level. We are therefore required to report a limitation of scope on the completeness of the stock balance within the financial statements. This will be included in our audit opinion. Management also advised the audit team that usual year-end stock counting procedures were not undertaken to verify the existence of inventories recognised in the draft financial statements. Management have included narrative to explain this in note 23 in the financial statements.

we have not identified any further issues in respect of this risk to be reported to those charged with governance.

Significant risks

Risks identified in our Audit Plan	Commentary
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Trust faces external pressures to meet agreed targets, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which is one of the most significant assessed risks of material misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none">• evaluated the design effectiveness of management controls over journals• analysed the journals listing and determine the criteria for selecting high risk unusual journals• tested unusual journals made during the year and after the draft accounts stage for appropriateness and corroboration• gained an understanding of the accounting estimates and critical judgements made by management and considered their reasonableness• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>Our testing of journals complete and has not identified any issues in respect of management override of controls</p>

Significant risks

Risks identified in our Audit Plan

Revenue recognition

Trusts are facing significant external pressure to restrain budget overspends and meet externally set financial targets, coupled with increasing patient demand and cost pressures. In this environment, we have considered the rebuttable presumed risk under ISA (UK) 240 that revenue may be misstated due to the improper recognition of revenue.

We have rebutted this presumed risk for the revenue streams of the Trust that are principally derived from contracts that are agreed in advance at a fixed price. We have determined these to be income from:

- Block contract income element of patient care revenues

We have not deemed it appropriate to rebut this presumed risk for all other material streams of patient care income and other operating revenue.

We have therefore identified the occurrence and accuracy of these income streams of the Trust and the existence of associated receivable balances as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.

Commentary

We have:

- evaluated the Trust's accounting policy for recognition of income from patient care activities and other operating revenue for appropriateness and compliance with the DHSC Group Accounting Manual 2018/19
- updated our understanding of the Trust's system for accounting for income from patient care and other operating revenue, and evaluated the design of the associated controls

Patient Care Income

- using the DHSC mismatch report, we have investigated unmatched revenue and receivable balances over the NAO £0.3m threshold, corroborating the unmatched balances used by the Trust to supporting evidence;
- agreed, on a sample basis, income from contract variations and year end receivables to signed contract variations, invoices or other supporting evidence such as correspondence from the Trust's commissioners
- evaluated the Trust's estimates and the judgments made by management with regard to corroborating evidence in order to arrive at the total income from contract variations recorded in the financial statements.

Other Operating Revenue

- agreed, on a sample basis, income and year end receivables from other operating revenue to invoices and cash payment or other supporting evidence
- Provider Sustainability Funding – agreed income recognised in Q1 – Q3 to NHS Improvement notifications and obtain supporting evidence that confirms the Trust has met NHS Improvement requirements for recognising Q4 income.

Our testing of contracts identified that the contract with Knowsley CCG for COPD and the contract with the Isle of Man were not signed. If there were any dispute regarding the receipt of income for these services this may impact on the Trust being able to pursue legal redress. It is therefore important that all contracts are signed.

Other than the issue above, our audit work has not identified any significant issues.

Significant risks

Risks identified in our Audit Plan

Valuation of land and buildings

The Trust revalued its land and buildings in 2018/19. Management made the assumption that hospital site, if it needed to be replaced, would be rebuilt to modern conditions on an alternative site. Our audit work identified that VAT had been incorrectly excluded from the valuation and the accounts were amended to correct this.

The Trust revalues its land and buildings on a minimum of a five-yearly basis to ensure the carrying value in the Trust financial statements is not materially different from current value at the financial statements date. In intervening years, such as 2019/20, the Trust requests a desktop valuation from its valuation expert. This valuation represents a significant estimate by management in the financial statements.

We identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

Commentary

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation expert
- written to the valuer to confirm the basis on which the valuation was carried out
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding
- tested a sample of revaluations made during the year to see if they had been input correctly into the Trust's asset register
- evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value
- followed up the VAT issue identified in 2018/19 to ensure asset valuations have been correctly brought forward and all transactions accounted for in line with guidance.

In 2018/19 the valuation of land and buildings was carried out on an alternative site basis for the first time. The Trust's valuers' report stated the VAT was excluded from their valuation of land and buildings. In our opinion the evidence provided to support that treatment was not sufficient to support full VAT recovery on a replacement build and management added back the VAT and amended the financial statements to correct the material misstatement .

In 2019/20 the valuers report stated that VAT was included in their valuation of land and buildings. Our testing identified that management had also added VAT onto the values in the report, meaning VAT was double counted. Management liaised with the valuer who confirmed VAT was included in their 2019/20 valuations and also advised that VAT had been included in the valuations for 2018/19 and the comment in their 2018/19 report that VAT was excluded was a typographical error. Therefore VAT was double counted in both 2018/19 and 2019/20. Management has processed a prior period adjustment to correct the 2018/19 figures and has also adjusted the 2019/20 figures to correct this year's misstatement.


We also identified that there are a number of fully depreciated assets in the Trust's fixed asset register. Whilst the gross book value of these assets is £20.381m, the net book value is nil so it has no impact on the value of property, plant and equipment in the Trust's balance sheet. The Trust should review these assets to assess whether they should be written off.

Other than the issues above, our review and testing in this area has not identified any other significant issues.

Significant risks

Risks identified in our Audit Plan	Commentary
<p>International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted)</p> <p>The public sector will implement this standard from 1 April 2020. It will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments.</p> <p>In accordance with IAS 8 and paragraph 1.2.5 of the Group Accounting Manual 2019/20, disclosures of the expected impact of IFRS 16 should be included in the Trust's 2019/20 financial statements.</p> <p>Update – as set out in our audit plan addendum issued on 2 April 2020 the implementation of IFRS 16 has been delayed for the public sector until 2021/22. However, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. The Trust has included this disclosure at note 1.25.</p>	<p>We have:</p> <ul style="list-style-type: none">evaluated the processes the Trust has adopted to assess the impact of IFRS16 on its 2020/21 financial statements and whether the estimated impact on assets, liabilities and reserves has been disclosed in the 2019/20 financial statements.assessed the completeness of the disclosures made by the Trust in its 2019/20 financial statements with reference to the DHSC Group Accounting Manual - IFRS 16 Supplement, HM Treasury IFRS 16 Lease - Application guidance and further guidance issued by NHS England and NHS Improvement. <p>Our review of this area has not identified any significant issues.</p>

Significant findings – judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Buildings – £64.858m (amended figure)	<p>Other land and buildings comprises £64.578m of specialised assets such as the Liverpool Heart and Chest Hospital sites, which are required to be valued at depreciated replacement cost (DRC) at year end, on a modern equivalent asset basis.</p> <p>Management have determined the amount of space and location required for ongoing service delivery in the light of their current and projected service needs and have instructed the valuer accordingly.</p> <p>The remainder of land and buildings (£0.280m) are not specialised in nature and are required to be valued in existing use (EUV) at year end.</p> <p>The Trust has engaged Cushman and Wakefield to complete a desktop valuation of land and buildings as at 31 March 2020. 100% of total land and buildings were revalued on via a desktop basis at 31 March 2020.</p> <p>Management's external valuation specialist disclosed in their report a material valuation uncertainty in respect of market evidence and build costs as a result of the Covid-19 pandemic and ensuing restrictions. Management has appropriately disclosed this in their accounts in note 1.9 Property, Plant and Equipment and in note 1.27 Sources of Estimation Uncertainty.</p> <p>We have included this as a key audit matter in our auditor's report.</p>	<p>We reviewed the detail of your assessment of the estimate, considering</p> <ul style="list-style-type: none"> an assessment of management's expert, Cushman and Wakefield the completeness and accuracy of the underlying information used to determine the estimate appropriateness of any alternative site assumptions reasonableness of increase/decrease in estimate adequacy of disclosure of estimate in the financial statements <p>We have included a key audit matter in our audit opinion in respect of the material estimation uncertainty identified by the external valuer.</p> <p>Page 13 sets out the issue identified in relation to VAT on land and buildings.</p>	 Amber

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	<p>A letter of representation has been requested from the Trust which we have requested include a specific representation from management in respect of the significant assumptions used in making accounting estimates for:</p> <ul style="list-style-type: none"> – the valuation of land and buildings and the treatment of VAT as at 31 March 2020.
Confirmation requests from third parties	We requested from management permission to send a confirmation requests to the Trust's bank however responses were not received so we undertook alternative procedures, including agreeing the bank balance to the bank statement and using video calling to verify the source and validity of the information provided.
Accounting practices	We have evaluated the appropriateness of the Trust's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided.

Other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix D</p>
Auditable elements of Remuneration Report and Staff Report	<p>We are required to give an opinion on whether the parts of the Remuneration Report and Staff Report subject to audit have been prepared properly in accordance with the requirements of the Act, directed by the Secretary of State with the consent of the Treasury.</p> <p>We have audited the elements of the Remuneration Report and Staff Report, as required by the Code. We identified a small number of errors in the salary and remuneration tables where figures had not carried through correctly from underlying workings and in one case the incorrect inflation rate was used. The tables have been corrected to amend these issues.</p> <p>We have not identified any issues that impact on our opinion.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <p>If the Annual Governance Statement does not meet the disclosure requirements set out in the NHS foundation Trust Annual reporting manual 2019/20 is misleading or inconsistent with the information of which we are aware from our audit</p> <p>The information in the annual report is materially inconsistent with the information in the audited financial statements or apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Trust acquired in the course of performing our audit, or otherwise misleading.</p> <p>If we have applied any of our statutory powers or duties.</p> <p>We identified a small number of omissions meaning the annual report did not fully comply with the requirements of the Foundation Trust Annual Reporting Manual. These were:</p> <ul style="list-style-type: none"> - that the directors should explain in the annual report their responsibility for preparing the annual report and accounts. - the separate section of the annual report describing the work of the audit committee in discharging its responsibilities should also include: <ul style="list-style-type: none"> the significant issues that the committee considered in relation to the financial statements how the significant issues that the committee considered in relation to the financial statements were addressed, and in respect of the external audit process, an explanation of how it has assessed the effectiveness of the external audit process. <p>The above items have been amended. We have nothing to report by exception.</p>

Other responsibilities under the Code - continued

Issue	Commentary
Review of accounts consolidation schedules and specified procedures on behalf of the group auditor	<p>We are required to give a separate audit opinion on the Trust accounts' consolidation schedules and to carry out specified procedures (on behalf of the NAO) on these schedules under group audit instructions. In the group audit instructions the Trust was selected as a non-sampled component.</p> <p>Our work is complete and has not identified any significant issues</p>
Certification of the closure of the audit	<p>We intend to certify the closure of the 2019/20 audit of Liverpool Heart and Chest Hospital NHS Foundation Trust in the audit report, as detailed in Appendix D.</p>

Value for Money

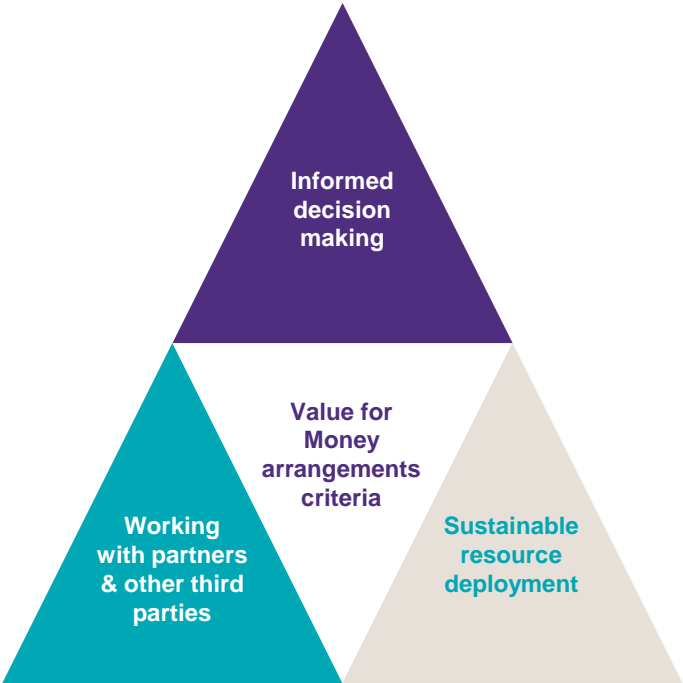
Background to our VFM approach

We are required to satisfy ourselves that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and report by exception where we are not satisfied. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Trust. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2019. AGN 03 identifies one single criterion for auditors to evaluate:

“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in January 2020 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated January 2020.

We have updated our VFM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VFM risks in relation to the Covid-19 pandemic.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Trust's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Trust's arrangements. In arriving at our conclusion, our main considerations were:

- reviewed the Trust's arrangements for updating, agreeing and monitoring its sustainability and operational plans, and for communicating key findings and actions to be taken as reported to the Board.
- met with officers to discuss the Trust's progress against its control total and savings plans.
- maintained a monitoring brief on the outturn for 2019/20 in comparison with its budget and forecast performance for the year and assessed the reasonableness of its financial plans for 2020/21.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Trust had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix D.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings	Conclusion
Financial Sustainability <p>The Trust continues to operate under significant financial pressures and has a financial plan in place to deliver the agreed target of £2.839m surplus. This surplus position includes £1.762m of Provider Sustainability Funding (PSF) which is national funding received on the condition of delivering the financial plan each quarter. The overall risk for the Trust is around the ability to meet its targets to achieve PSF support funding.</p>	<p>The Trust along with the wider Cheshire and Merseyside Health economy, continues to face an increasingly significant financial challenge in 2019/20 and beyond. The Trust has monitored its financial performance throughout 2019/20 with regular reports to Board on any emerging issues.</p> <p>For 2019/20 the Trust agreed a target delivery of a £2.839m surplus and delivered this. The Trust's control total was a £1.077m surplus which if met would mean the Trust would receive £1.762m FRF (formally PSF). The Trust achieved a surplus of £1.763m so received the FRF and in addition received in 2019/20 an additional payment of £165k PSF from reallocation of 18/19 PSF monies. The trust also achieved £3.1m of savings against a target of £3.8m.</p> <p>The Board received the financial plan for 20/21 on 31 March 2020. This has been superseded by the COVID-19 arrangements put into place by NHSI/DHSC. These arrangements currently confirm funding for April - July 2020 via a block payment. Arrangements for the remainder of the year have not yet been confirmed although NHS bodies have been informed that it is reasonable to assume that funding will continue to flow from 1 April 2021 to 30 June 2021 – i.e. at least 12 months from the date of our expected audit opinion. In the Trust's view, this provides surety around cash flows and confirmation that all expenditure during this period will be paid for. NHSI have also confirmed that expenditure on COVID-19 will be funded centrally.</p> <p>The trust will need to assess any further guidance/arrangements that are issued and the potential impact on its financial position. That said, the Trust are in a reasonable financial position and have been able to maintain this over recent years.</p>	<p>Based on the work we performed to address the significant risk, we are satisfied that the Trust has put in place proper arrangements.</p> <p>The Trust needs to continue to monitor expenditure and income and manage any further financial impact of COVID-19.</p>

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2019 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed at Appendix C

Audit related non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Trust. The following audit related non-audit services were identified from the beginning of the financial year to June 2020, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.




Audit related	Fees £	Threats identified	Safeguards
Independent examination of LHCH Charitable Fund	1,225	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence. The fee for this work is £1,225 in comparison to the total fee for the audit of the Trust of £49,875 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

In our Audit Plan issued in January 2020, we reported, our fees for the review of Trust's Quality Report was £4,125. Due to unprecedented challenges faced by the NHS as a result of the global Covid-19 pandemic, NHSI/E announced there is no requirement for external auditor assurance on the Quality Report for 2019-20. Therefore, no work was undertaken in this respect and there is no such fee for Quality Report work in 2019-20.




These services are consistent with the Trust's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee None of the services provided are subject to contingent fees.

Action plan

We have identified three recommendations for the Trust as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those issues that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
	Our testing of contracts identified that the contract with Knowsley CCG for COPD with the contract with the Isle of Man were not signed. If there were any dispute regarding the receipt of income for these services this may impact on the Trust being able to pursue legal redress. It is therefore important that all contracts are signed.	<p>The Trust should ensure all contracts are signed by all relevant parties.</p> <p>Management response</p> <p>5 year contract for community services ended in 18/19, extension not signed due to ongoing discussions regarding KPI measurement in 2019/20.</p> <p>As a result of the Covid-19 response, all contracts are currently suspended, with block payments for months 1-4 of the new financial year.</p> <p>Once the new financial regime for the remainder of the year is known, contracts will be agreed and signed with commissioners</p>
	Our testing of the existence of plant and machinery included verification of 25 ECG machines. The Trust were unable to provide evidence for one of the ECG machines.	<p>The Trust needs to ensure that it is able to verify the existence all assets on the asset register.</p> <p>Management response</p> <p>We recognise that this was a particularly challenging area, given other demands on clinical staff's time. The Trust will review the asset register in year, on conjunction with divisional heads to ensure that the asset register truly reflects what is in existence in the Trust.</p>
	We identified that there are a number of fully depreciated assets in the Trust's fixed asset register. Whilst the gross book value of these assets is £20.381m, the net book value is nil so it has no impact on the value of property, plant and equipment in the Trust's balance sheet. The Trust should review these assets to assess whether they should be written off.	<p>We will discuss the detail of this and action required with management as part of the 2020/21 audit so no management response is required in relation to this action at this time.</p>

Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Statement of Comprehensive Net Income	Statement of Financial Position £' 000
	£'000	
2018/19		
Reversal of VAT from 2018/19 – Impact on 2018/19 figures	10,015	(10,015)
2019/20		
Adjustment of land and buildings valuation 2019/20	2,820	(2,430).
Reduction in PDC payable (as a result of the above)	(393)	393
Overall impact on surplus/deficit	2,427	2,037
Reduction in impairment/reduction in valuation	(393)	
Overall impact on total comprehensive income and expenditure	2,037	(2,037)

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Auditor recommendations	Adjusted?
Annual report In our review of the Annual Report we identified it did not include all of the required elements in terms of the role of the audit committee or the directors statement of their responsibility for preparing the annual report and accounts. The annual report has been updated in respect of this and will be further updated after the audit committee has taken place to reflect those discussions.	The Trust needs to ensure the Annual Report is in line with updated guidance each year. Management response Going forward the updated guidance for the Annual Report will be formally reviewed by all relevant parties prior to submission in May to ensure that the Annual Report is reflective of the guidance.	✓
Remuneration Report We have audited the elements of the Remuneration Report and Staff Report, as required by the Code. We identified a small number of errors in the salary and remuneration tables where figures had not carried through correctly from underlying workings and in one case the incorrect inflation rate was used. The tables have been corrected to amend these issues.	The Trust should ensure all elements of the remuneration report are accurate. Management response The Remuneration report will be prepared earlier, allowing for more time to review and identify areas of inaccuracy prior to submission.	✓
Note 37.2 Financial Instruments There was an error in note 37.2 Financial Instruments. The amount for trade and other receivables had not mapped correctly and the figure was understated by £1.276m. Trade receivables in the trade receivables note 23.1 were correct. Note 37.2 has been amended.	The Trust should ensure any inconsistencies are picked up as part of their quality review process. Management response Additional time will be built into the accounts timetable in 2020/21 to allow for time to review and iron out inconsistencies prior to submission.	✓

Audit Adjustments

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements

Detail	Statement of Comprehensive Net Income £'000	Statement of Financial Position £' 000	Impact on adjusted net surplus/(deficit) £'000	Reason for not adjusting
In relation to the VAT issue in 2018/19 there was an amount that remained unadjusted because it was not material. However because of the prior period adjustment detailed in this report and the related corrections made to the figures – this unadjusted amount is no longer relevant.	(1,800)	1,800	(1,800)	Not material
Overall impact				

Fees

We confirm below our final fees charged for the audit and provision of non audit services.

Audit fees	Proposed fee	Final fee
Trust Audit	£49,875	TBC
Charitable Fund	£1,225	£1,225
Total audit fees (excluding VAT)	£51,100	TBC

The difference between the audit fee in the financial statements of £60k and the proposed fee above of £49,875 is 20% VAT. The financial statements figure is inclusive of VAT

The charity isn't consolidated and pays its own audit fee therefore the fee for the charity is in the charity accounts

Following the cancellation of the Quality Report audit work (see below) we have requested that audit fee disclosures are updated accordingly.

Non Audit fees

Following the cancellation of the external assurance requirement on the Quality Report, there are no non-audit fees to report in 2019-20.

Due to the additional work required as a result of Covid-19 and the impact of additional work in relation to the valuation of the Trust's land and buildings and the prior period adjustment we are in discussion with management regarding the final fee level which we would estimate as being fairly close to the overall fee envelope for 2019/20.

We will be discussing the impact on next year's audit fees of the new 2020-21 Audit Code. This is particularly in respect of the expended requirements for our VFM conclusion next year. We will discuss this with the Director of Finance and her team as part of our 2020-21 audit planning meetings later this year.

