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United Lincolnshire Hospitals NHS Trust

Annual Audit Letter

Year ended 31 March 2020

Government & Public Sector

July 2020

The Audit and Risk Committee
United Lincolnshire Hospitals NHS Trust
Lincoln County Hospital
Greetwell Road
Lincoln
LN2 5QY

July 2020

Report to the Audit and Risk Committee

Dear Ladies and Gentlemen,

We are pleased to present our Annual Audit Letter summarising the results of our audit for the year ended 31 March 2020. We look forward to presenting it to the Audit and Risk Committee of United Lincolnshire Hospitals NHS Trust on 27 July 2020.

Yours faithfully

PricewaterhouseCoopers LLP.

PricewaterhouseCoopers LLP

Reports and letters prepared by external auditors and addressed to directors or officers are prepared for the sole use of the NHS Trust and no responsibility is taken by auditors to any director or officer in their individual capacity, or to any third party.

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1. Introduction

The purpose of this document

This letter provides the Audit and Risk Committee of United Lincolnshire Hospitals NHS Trust ("the Trust") with a high-level summary of the results of our audit for the year ended 31 March 2020, in a form that is accessible for you and other interested stakeholders.

We have already reported the detailed findings from our audit work to the Audit and Risk Committee in the following reports:

- External Audit Progress Report, October 2019;
- External Audit Plan, January 2020;
- External Audit Progress Report, April 2020;
- Audit opinion on the financial statements for the year ended 31 March 2020; and
- Report to those charged with governance (ISA (UK) 260);

Scope of work

We performed our audit in accordance with the International Standards on Auditing (UK) ("ISAs (UK)") and the Comptroller and Auditor General's Code of Audit Practice ("the Code"), which was issued in April 2015. Our reports and audit letter are prepared in accordance with ISAs (UK), the Code, all associated Audit Guidance Notes issued by the National Audit Office, and relevant requirements of the NHS Act 2006.

The Board of Directors is responsible for preparing and publishing the Trust's financial statements, including the Annual Governance Statement.

The Board of Directors is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of the Trust's resources.

As auditors we need to:

- form an opinion on the financial statements;
- review the Trust's Annual Governance Statement; and
- form a conclusion on the arrangements in place to secure economy, efficiency and effectiveness in the use of the Trust's resources; and

We carried out our audit work in line with our 2019/20 Audit Plan that we issued in January 2020.

2. Audit findings

Financial statements

We completed our audit work over the financial statements during May/June 2020 and issued an unqualified audit opinion on the financial statements on 19 June 2020.

The Directors included additional disclosures within the Performance Report and in note 1.2 of the financial statements in respect of going concern and the Trust's financial position. These reflected that the Trust has historically been reliant on external cash support from the Department of Health and Social Care and there remains uncertainty over what cash may be required, and where the cash may be available from, once the block contracting arrangements cease. We included in our audit report a 'material uncertainty paragraph relating to going concern' which draws the readers' attention to the disclosures in the financial statements.

The Directors also included additional disclosures with notes 1.28 and 18 of the financial statements in respect of a 'material valuation uncertainty paragraph' that was included by the Trust's valuer in their property valuation report. This clause highlights that less certainty, and consequently a higher degree of caution, should be attached to the valuation as a result of the Covid-19 pandemic. We included in our audit report an 'emphasis of matter material valuation uncertainty relating to property valuations paragraph' which draws the readers' attention to the disclosures in the financial statements. Note – such paragraphs are not a qualification of the audit opinion.

We identified four uncorrected misstatements for reporting to the Audit and Risk Committee as part of our audit, and these are set out in Appendix 1 of this report. We also raised a number of control recommendations, which are summarised in Appendix 4.

We are also required to disclose, either in our auditor's report on the financial statements, or in this letter, 'enhanced auditor reporting' information about the scope of our work. This is included in Appendix 3.

Value for Money

Under the Code of Audit Practice, we must satisfy ourselves, by examination of the financial statements and otherwise, that the Trust made proper arrangements for securing economy, efficiency and effectiveness in its use of its resources. As part of our audit we are required to conclude on whether the Trust had in place, for the year ended 31 March 2020, proper arrangements to secure economy, efficiency and effectiveness in its use resources.

We issued an adverse conclusion on 19 June 2020 in respect of Value for Money. This was mainly because of:

- the Trust's financial position including financial special measures; and
- the Trust's clinical performance including clinical special measures.

We are also required to disclose, either in our auditor's report on the financial statements or in this letter, 'enhanced auditor reporting' information about the scope of our work relating to the Value for Money work that we perform. This is included in Appendix 2.

Annual Governance Statement

The aim of the Annual Governance Statement ("AGS") is to give a sense of how successfully the Trust has coped with the challenges it faced, drawing on evidence on governance, risk management and controls. We reviewed the AGS and considered whether it complied with relevant guidance and whether it was misleading or inconsistent with what we know about the Trust.

We found no areas of concern to report in this context.

Quality Account

In accordance with instructions received from NHS Improvement dated 23 March 2020, you did not require any assurance services in relation to your Quality Account for the year ending 31 March 2020, and accordingly we have not provided any.

Appendices

Appendix 1: Summary of uncorrected misstatements

We found the following misstatements during the audit that were not corrected by management. Both management and the Audit and Risk Committee were satisfied that these misstatements remained uncorrected as they did not have a material impact on the financial statements.

No	Description of misstatement (factual, judgemental, projected)		Income statement		Balance sheet		Cash flow	
			Dr	Cr	Dr	Cr	Inflow	Outflow
1	**Dr PPE** **Cr Depreciation** **Being an adjustment to correct depreciation in the 2018/19 financial statements for the overstated valuation**	**J**		£1,223,571	£1,223,571			
2	**Dr PPE** **Cr Depreciation** **Being an adjustment to correct depreciation in the 2019/20 financial statements for the overstated valuation**	**J**		£371,260	£371,260			
3	**Dr PPE** **Cr Operating Expenditure** **Being an adjustment to increase PPE in the 2018/19 financial statements due to the additional deduction made for future fire works based on actual work rather than assessed work at the time**	**J**		£4,181,529	£4,181,529			
4	**Dr PPE** **Cr I&E Reserve** **Being an adjustment to increase PPE in the 1 April 2018 Statement of Financial Position due to the**	**J**		£2,420,690	£2,420,690			

additional deduction made for future fire works based on actual work rather than assessed work at the time						
Total uncorrected misstatements	0	8,197,050	8,197,050	0	0	0
The above uncorrected misstatements relate to both the 2019/20 and 2018/19 financial statements as well as the opening position adjustment as at 1 April 2018. The rows below split this impact across these periods.						
Net impact on the 2018/19 income statement of uncorrected items		5,405,100				
Net impact on the 2019/20 income statement of uncorrected items		371,260				
Net impact on the 1 April 2018 Opening I&E Reserve position		2,420,690				

Appendix 2: Summary of adjusted misstatements

In addition to the above, we also identified the below listed matters during the audit. These have been adjusted for within the financial statements with no impact on the Trust's achievement of its Control Total.

No	Description of misstatement		Income statement		Balance sheet		Cash flow	
			Dr	Cr	Dr	Cr	Inflow	Outflow
1	**Dr I&E Reserve/Revaluation Reserve**	**J**			£36,962,000			
	Cr PPE					£36,962,000		
	Being an adjustment to the opening Statement of Financial Position as at 1 April 2018 to reflect the impairment entries for the fire enforcement work.							
2	**Dr PPE**	**J**			£21,972,000			
	Cr Operating Expenditure			£16,254,000				
	Cr Revaluation Reserve					£5,718,000		
	Being an adjustment to reverse the impairment entries incorrectly entered within the 2018/19 financial statements.							
3	**Dr PPE**	**J**			£14,989,000			
	Cr Operating Expenditure			£10,589,000				
	Cr Revaluation Reserve					£4,400,000		
	Being an adjustment to reverse the impairment entries incorrectly entered within the 2019/20 financial statements.							
Total corrected misstatements			0	£26,843,000	£73,923,000	£47,080,000	0	0

Appendix 3: 'Enhanced auditor reporting' relating to our work on 'Value for Money'

We are required to provide 'Enhanced auditor reporting' in relation to the work supporting our conclusion on whether the Trust had in place, for the year ended 31 March 2020, proper arrangements to secure economy, efficiency and effectiveness in its use of resources. As permitted by Auditor Guidance Note 7 'Auditor reporting', issued by the NAO in December 2017, we have elected to include this reporting in this letter.

The scope of our audit

The scope of our work is determined by the requirements outlined in Auditor Guidance Note 3 'Auditor's work on Value for Money (VFM) arrangements' (AGN 03) issued by the NAO in November 2017.

As part of designing our work on VFM, we considered materiality and assessed the risks of the Trust not having put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

AGN 03 requires us to use the following evaluation criterion to form our opinion:

> "In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

In order to help us consider this overall evaluation criterion, the NAO have outlined the following sub-criteria which are intended to guide our work and reach an overall judgement;

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

These criteria are not separate and we are not required to reach a distinct judgement against each one.

How we tailored the scope of our work

We tailored the scope of our work to ensure that we performed enough work to be able to report on whether the Trust had put in place proper arrangements to secure economy, efficiency and effectiveness in its Use of Resources.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in forming the conclusion on whether the Trust had in place proper arrangements to secure economy, efficiency and effectiveness in its use resources and include the most significant assessed risks of failing to put in place proper arrangements identified by the auditors, including those which had the greatest effect on:

- the overall audit strategy;
- the allocation of resources in our work; and
- and directing the efforts of the engagement team.

These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our work on arrangements to secure value for money as a whole, and in forming our conclusion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks we identified.

Key audit matter	*How our audit addressed the Key audit matter*
Financial Sustainability and Going Concern At the end of March 2020, the Trust reported an adjusted financial performance deficit of £42.3m for the year which meant the Trust achieved its control total with NHS Improvement. However, this achievement was dependent on the Trust's receipt of non-recurrent financial support from the Lincolnshire Clinical Commissioning Groups (CCGs) totalling £24.7m. As a result of the Trust's achievement of its control total, the Trust was able to gain access to £28.9m of linked financial funding. The exclusion of these balances shows an underlying deficit of £102.4m. Spending on agency staff totalled £44m, which is significantly above the Trust's cap of £21m. The Trust submitted a financial plan for 2020/21 to NHS Improvement in March 2020 that outlined an initial deficit plan of £72.9 million against a control total offer of £52.9m. However, the impact of Covid-19 has meant that this plan did not become operational and has instead been replaced by a block contract for at least part of 2020/21 with an adjustment made to ensure the Trust achieves a break-even position. The Trust would still have to manage a proportion of the gap between the control total and the draft financial plan should this become operational during the latter part of 2020/21.	We read and discussed with management: • the Trust Board papers for insight on the financial performance and quality performance of the Trust; • information on the NHSI website and CQC website for updates from reports undertaken in respect of the Trust's performance. • the cash flow forecast to March 2021; and • the cost improvement plans for 2020/21 and delivery of the 2019/20 plan.

Backlog of Capital Expenditure There is a capital expenditure backlog of £236 million. This includes £102 million which is either required to meet statutory obligations or mandatory to be compliant with relevant laws and regulations. The financial plan for 2020/21 is for £22.3 million of capital spend, and the Trust is reliant on external funding to undertake its capital programme.	We read and took into account: • the latest backlog maintenance capital expenditure report; and • the capital plan for 2020/21.
Clinical performance against constitutional standards During the year, the Trust has reported that it has failed to meet the national priority targets in relation to A&E 4 hour waits, 18-week Referral to Treatment and 62-day cancer waits. Action plans have been put in place, although these are yet to result in evidence of sustained improvements in performance.	We read and took into account: • actions plans put in place in response to the failure to achieve constitutional standards; and • performance data issued on the constitutional targets.
Care Quality Commission (CQC) inspections The Care Quality Commission (CQC) inspected the Trust in October 2016 and issued a report in April 2017 with an overall rating of 'inadequate'. The report highlighted concerns in respect of safety, effectiveness, responsiveness and leadership. The Trust was placed in clinical special measures in April 2017. A re-inspection in 2018 identified an improvement in clinical performance resulting in the overall Trust rating moving to 'requires improvement'. However, the Pilgrim Hospital site remained inadequate. Further inspections performed in 2019 concluded that the Trust remained as 'requires improvement' but emergency departments within Lincoln and Pilgrim Hospital sites were rated as 'inadequate'. These 'inadequate' ratings were maintained following unannounced inspections in January 2020.	We read and considered the CQC website for updates on the previous inspections. We discussed with management the actions being taken to resolve the weaknesses identified in the reports.

Results of our work

The Code of Audit Practice issued by the National Audit Office, and applicable to the financial year 2019/20, requires us to report to you our conclusion relating to proper arrangements, having regard to the relevant criteria outlined above.

Based on our risk assessment and work performed, we issued a modified value for money conclusion. This is due to the following significant matters identified as part of our work:

- At the end of March 2020, the Trust reported an adjusted financial performance deficit of £42.3m for the year which meant the Trust achieved its control total with NHS Improvement. However, this achievement was dependent on the Trust's receipt of non-recurrent financial support from the Lincolnshire Clinical Commissioning Groups (CCGs) totalling £24.7m. As a result of the Trust's achievement of its control total, the Trust was able to gain access to £28.9m of linked financial funding. The exclusion of these balances shows an underlying deficit of £102.4m. Spending on agency staff totalled £44m, which is significantly above the Trust's cap of £21m.

- The Trust submitted a financial plan for 2020/21 to NHS Improvement in March 2020 that outlined an initial deficit plan of £72.9 million against a control total offer of £52.9m. However, the impact of Covid-19 has meant that this plan did not become operational and has instead been replaced by a block contract for at least part of 2020/21 with an adjustment made to ensure the Trust achieves a break-even position. The Trust would still have to manage a proportion of the gap between the control total and the draft financial plan should this become operational during the latter part of 2020/21.

- There is a capital expenditure backlog of £236 million. This includes £102 million which is either required to meet statutory obligations or mandatory to be compliant with relevant laws and regulations. The financial plan for 2020/21 is for £22.3 million of capital spend, and the Trust is reliant on external funding to undertake its capital programme.

- During the year, the Trust has reported that it has failed to meet the national priority targets in relation to A&E 4 hour waits, 18-week Referral to Treatment and 62-day cancer waits. Action plans have been put in place, although these are yet to result in evidence of sustained improvements in performance.

- The Care Quality Commission (CQC) inspected the Trust in October 2016 and issued a report in April 2017 with an overall rating of inadequate. The report highlighted concerns in respect of safety, effectiveness, responsiveness and leadership. The Trust was placed in clinical special measures in April 2017. A re-inspection in 2018 identified an improvement in clinical performance resulting in the overall Trust rating moving to requires improvement. However, the Pilgrim Hospital site remained inadequate. Further inspections performed in 2019 concluded that the Trust remained as requires improvement but emergency departments within Lincoln and Pilgrim Hospital sites were rated as inadequate. These inadequate ratings were maintained following unannounced inspections in January 2020.

Based on the above matters, we concluded there was evidence of:

- weakness in proper arrangements for understanding and using appropriate cost and performance information to support informed decision making and performance management;
- weaknesses in arrangements for planning and deploying workforce to deliver the Trust's priorities effectively; and
- weaknesses in proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

Overall, we have concluded that United Lincolnshire Hospitals NHS Trust has not put in place proper arrangements for securing economy, efficiency and effectiveness in the use of its resources for the year ended 31 March 2020 resulting in an adverse conclusion.

Appendix 4: 'Enhanced auditor reporting' relating to our work on the financial statements

We are required to provide 'Enhanced auditor reporting' in relation to the work supporting our conclusion on the financial statements for the year ended 31 March 2020. As required by Auditor Guidance Note 7 'Auditor reporting', issued by the NAO in December 2017, we are including this reporting in this letter.

Overview

- Overall Trust materiality: £10,784,960 (2018: £8,949,840) which represents 2 % of total income. Income is made up of operating income from patient care activities and other operating income per the statement of comprehensive income in the financial statements

- All work was performed by a single audit team who assessed the risks of material misstatement, taking into account the nature, likelihood and potential magnitude of any misstatement and determined the extent of testing we needed to do over each balance in the financial statements.
- During our audit we visited Lincoln General Hospital and performed the majority of our audit of the financial information remotely as the COVID-19 pandemic affected working arrangements for staff. Our audit covered the Annual Report and Accounts for the Trust only.

- Fraud in revenue and expenditure recognition
- Valuation of the Trust's estate
- Going Concern
- Covid-19

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, including those which had the greatest effect on:

- the overall audit strategy;
- the allocation of resources in our work; and
- and directing the efforts of the engagement team.

These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our work on the 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. This is not a complete list of all risks identified by our audit.

Key audit matter	***How our audit addressed the key audit matter***
Management override of control ISA (UK) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk that management may override controls in order to manipulate the financial statements. For the current year this has included focusing on how the Trust has performed against its planned deficit position due to the added pressures this presents.	We have performed the following procedures: • Tested the appropriateness of journal entries using Computer Assisted Audit Techniques; • Tested accounting estimates for bias and evaluated whether circumstances producing any bias, represent a risk of material misstatement due to fraud; • Considered the increased opportunity during the response to the COVID-19 pandemic for controls to be bypassed or overridden due to staff absences and remote working; • Evaluated the business rationale underlying significant transactions; and • Performed 'unpredictable' procedures on related party transactions, immaterial journals, capitalised staff costs and revenue/expenditure transaction data. The results of our testing was satisfactory, and we identified no material issues.

Fraud in revenue and expenditure recognition

Under ISAs (UK) 240 there is a (rebuttable) presumption that there are risks of fraud in revenue recognition. We extend this presumption to the recognition of expenditure in the NHS in general.

The main source of revenue for the Trust is from contracts with commissioning bodies in respect to healthcare services, under which revenue is recognised when, and to the extent that, healthcare services are provided to patients. We considered this area to be a significant risk within our audit plan in relation to clinical income and challenges identified with the financial health of local commissioners and their ability to pay contracted values billed by the Trust.

The focus of our risk fraud in expenditure recognition is the expenditure stream suppliers and services, particularly focusing on the accruals and provisions, as these are judgemental areas that management can use to improve financial performance.

We focused on these areas because there is a heightened risk due to:

- the Trust being under increasing financial pressure. There is an incentive for the Trust to recognise as much revenue as possible in 2019/20 and defer expenditure to 2020/21 so as to reduce the underlying deficit reported and reduce the reliance on non-recurrent funding from the Lincolnshire CCGs. This risk is heightened due to the control total set and the financial incentives issued by NHS Improvement for achieving this control total.
- Covid-19 at the end of the financial year resulting in a significant increase in the volume of expenditure transactions around year end and restrictions on staff capacity to process financial transactions.

We:

- obtained an understanding of key revenue and expenditure controls and have evaluated these controls;
- evaluated and tested the accounting policy for income and expenditure recognition to ensure that it is consistent with the requirements of the GAM;
- tested intra NHS confirmations of balances and any disputed amounts to consider any implications on your accounts;
- performed detailed testing of revenue and expenditure transactions, focussing on the areas we considered to be of greatest risk;
- obtained evidence of the settlement agreements reached by the Trust for its two main commissioning contracts;
- performed work in respect of accounting estimates which impact expenditure, including provisions and accruals; and
- undertook testing over an enhanced period of time on invoices paid and unpaid invoices post the year-end date to identify whether expenditure has been appropriately captured in the 2019/20 or 2020/21 accounting period. This testing also reflected the heightened risk of error at year end due to Covid-19.

We were satisfied that revenue and expenditure amounts recognised within your accounts were materially correct and that disclosures were in line with the GAM.

Valuation of the Trust’s estate

Property, plant and equipment (PPE) represents one of the largest balances in the Trust’s Statement of Financial Position. The Trust measures its properties at fair value. This involves a range of assumptions and the use of external valuation expertise, provided by Cushman and Wakefield. ISA (UK) 500 and 540 require us, respectively to undertake certain procedures on the use of external expert valuers and processes and assumptions underlying fair value estimates. Specific areas of risk include:

- The accuracy and completeness of source data such as detailed information on assets.
- The Trust’s assumptions underlying the classification of properties and estimates useful life. This includes the location factors chosen for properties; and
- The valuer’s methodology, assumptions and underlying data used.

We have undertaken the following specific procedures:

- checked the accuracy and completeness of a sample of the input data on which the valuation is based;
- challenged how management has satisfied itself that the key assumptions driving the revaluation of the Trust’s land, buildings and dwellings at 31 March 2020 are appropriate for the circumstances of the Trust;
- reviewed the methodology and assumptions used by the Trust’s external valuer. Our assessment of the methodology and assumptions was undertaken in consultation with our own internal valuation specialist and considered the professional capabilities of the Trust’s external valuer; and
- checked the valuation information has been appropriately input into the Fixed Asset Register and recorded in the financial statements.

A material issue was identified relating to the Fire Enforcement Notices placed on the Trust’s hospital buildings in 2017/18. A hypothetical purchaser of the assets would reduce the purchase price accordingly if significant defects were identified. As the Trust has been subject to a fire safety order since 2017, a deduction should have made for the future value of works remaining at the date of the valuation. No deduction was made in 2017/18 and an incorrect deduction was made in 2018/19. The Trust was required to restate the Statement of Financial Position as at 1 April 2018 to take account of the previous impairment. The impact of this was to reduce the PPE valuation by £37.0m with a corresponding deduction within the Income & Expenditure and Revaluation Reserves. The Trust was then required to restate the impairment balances disclosed within the 2018/19 and 2019/20 financial statements. In 2018/19, this resulted in a reversal of impairments of £22.0m and, in 2019/20, this resulted in a reversal of impairments of £15.0m.

The Trust’s valuer has also included a material uncertainty paragraph in their valuation report which means that less certainty can be attached to the valuation than would otherwise be the case, as a result of the impact of the Covid-19 pandemic. Our Audit Report therefore included a ‘emphasis of matter material valuation uncertainty relating to property valuations paragraph’ which draws the readers’ attention to the disclosures in the financial statements.

Going concern The Trust's financial statements are prepared on the assumption that it is a going concern and will continue its operations for the foreseeable future. Due to the Trust operating at a deficit, and the resulting challenges this presents for its cash flow, we have performed additional work on management's assumptions for applying the going concern basis when producing the financial statements. We also focused on the disclosures made in the financial statements to ensure that they fully reflect any material uncertainties that exist over the future financial position.	We undertook the following specific procedures: • continued to review correspondence with NHSI and assess the impact on the Trust, particularly in relation to the future funding arrangements following the impact of the Covid-19 pandemic; • understood the Trust's 2020/21 financial plan (pre Covid-19); • obtained the Trust's Cost Improvement Plan performance for 2019/20 and understood the initial plan for 2020/21 prior to Covid-19; and • worked with the Trust to ensure disclosures around the financial sustainability of the organisation are clear and transparent within the financial statements and Annual Report. Our audit work identified areas for improvement in the going concern disclosure in the financial statements which the Trust amended for. Our audit report also included a 'material uncertainty paragraph relating to going concern' to draw the readers' attention to these disclosures in the financial statements.
Covid-19 During the course of the audit, both management and the engagement team considered the impact that the ongoing COVID-19 pandemic has had on the activities, suppliers and wider economy of the Trust and its financial statements. Management's assessment is that there was not a significant impact on the outturn financial position, because the Trust's operations only significantly changed in scope during March 2020 and the Trust was able to reclaim COVID-19 related costs. Due to the significance of the pandemic, the financial statements have recognised the impact as a non-adjusting post balance sheet event in the financial statements. The actions the Trust took in response have been disclosed as part of its Annual Governance Statement in the Annual Report. As a result of this, we determined that the impact of COVID-19 should be a key audit matter.	We performed the following procedures to address the impact that COVID-19 has on the financial statements: • Evaluated and challenged management's assessment of the pandemic and its impact on valuations and going concern. This included using our own valuations experts to consider the assumptions underpinning the Trust's valuation including the 'material valuation uncertainty paragraph'. • Performed extended sample testing of non-pay expenditure transactions posted after 31 March 2020 to address the heightened risk that transactions may have been posted to the wrong period. • Assessed the disclosures made by management and ensured that the impact of the pandemic was reflected in the Annual Report, and in the accounting policies and as a non-adjusting post balance sheet event in the financial statements. • Held regular discussions with the Trust's finance team to understand the impact of the COVID-19 pandemic on the Trust. • Read the Board paper prepared by the Trust setting out how financial governance has been maintained during the COVID-19 pandemic. Our audit report included an 'emphasis of matter material valuation uncertainty relating to property valuations paragraph' which draws the readers' attention to the disclosures in the financial statements

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Trust, the accounting processes and controls, and the environment in which the Trust operates.

Due to the impact of the COVID-19 pandemic, the audit was primarily conducted remotely by working with Trust finance staff and other Trust employees who are based at United Lincolnshire Hospitals NHS Trust's largest site in Lincoln (Lincoln General Hospital).

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 and to evaluate 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 a whole as follows:

Overall materiality	£10,784,960 (2019: £8,949,840)
How we determined it	2% of revenue* in the annual plan (2019: 2% of revenue)
Rationale for benchmark applied	Consistent with last year, we have applied this benchmark, a generally accepted auditing practice, in the absence of indicators that an alternative benchmark would be appropriate.

*Revenue includes operating income from patient care activities and other operating income.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £300,000 (2019: £300,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Appendix 5: Summary of recommendations (financial statements audit)

Significant control deficiency	Recommendation	Management's response
Buildings valuation – the Trust's valuer did not request, and the Trust did not provide its valuer with, an assessment of the remaining work to be performed in relation to the fire enforcement notices in 2017/18 or 2018/19.	Ensure that a formal survey is undertaken, in each year where enforcement works remain incomplete, and is provided to the Trust's valuer to inform their valuations of the Trust's buildings.	The Trust provided this information to the valuer in 2019/20 and will continue to do so in subsequent years where applicable.

<u>Other control matters</u>

Other control deficiencies	Recommendation	Management's response
Payroll reconciliation – the Trust does not produce a full reconciliation to show what other expenditure is captured in the payroll trial balances codes in addition to the ESR payroll feed. We have been able to reconcile the balances to within £400,000.	Ensure that the Trust is able to fully reconcile the expenditure within the trial balance codes for payroll.	A reconciliation process will be introduced
Floor area adjustment – the PPE valuation for 2019/20 land and buildings provided by the Trust's valuer did not incorporate changes made in the Gross Internal Area (GIA) for assets that had been refurbished. The financial impact of the two components increased GIA was below our reporting threshold.	Ensure that the Trust's valuers are provided with notification of work completed on refurbished assets, including any changes in GIA, to ensure these are reflected in the valuation.	A check will be carried out to pick up any in-year changes on an annual basis.

Income invoices – an invoice was raised in period 10 based on an estimated amount due which was then later credited and re-issued with the correct amount once this became known.	The Trust should review their approach for accruing income and whether it would be more efficient to use an initial journal rather than raising an invoice.	This process will be investigated and amendments made in line with the recommendation.
Prepayment Calculation – one prepayment balance tested was for a contract commencing in July 2018 for 5 years. A 12-month charge was taken to the Statement of Comprehensive Income in 2018/19 but only a 9-month charge in 2019/20. The net balance of the prepayment is therefore correct, but the Statement of Comprehensive Income is understated by £8,000 in 2019/20.	Remind employees of the importance of correctly allocating expenditure to the right financial periods where prepayments arise.	A reminder to ensure that costs are correctly allocated to the appropriate financial period will be issued to employees.
Operating expenditure - an invoice was received directly into a Trust Department in February 2018 for an agency finder's fee (£15,000) but the invoice was not passed onto the Finance Department until April 2019. This resulted in the expenditure being incorrectly recognised in the wrong financial period. Our additional testing remains on-going in response to this matter but has not identified any further issues to-date.	Remind employees outside of finance of the importance of passing on any invoices received directly into their departments on a timely basis.	Finance Managers to be asked to remind Divisions that any invoices received should be immediately passed to Finance. Finance Managers should also be informed of any significant costs incurred/to be incurred.