



The Annual Audit Letter for North Bristol NHS Trust

Year ended 31 March 2020

August 2020



Contents



Your key Grant Thornton team members are:

Alex Walling

Key Audit Partner

T: 0117 305 7804

E: Alex.J.Walling@uk.gt.com

Jackson Murray

Director

T: 0117 305 7859

E: Jackson.Murray@uk.gt.com

Aditi Chandramouli

Manager

T: 0117 305 7643

E: Aditi.Chandramouli@uk.gt.com

Section

	Page
1. Executive Summary	3
2. Audit of the Financial Statements	5
3. Value for Money conclusion	11

Appendices

A Reports issued and fees	13
---------------------------	----

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at North Bristol NHS Trust (the Trust) and its subsidiary charity North Bristol NHS Trust Charitable Funds (the group) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the group and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Trust's Audit Committee as those charged with governance in our Audit Findings Report on 11 June 2020.

Our work

Materiality	We determined materiality for the audit of the Trust's financial statements to be £9,600,000, which is approximately 1.5% of the Trust's gross revenue expenditure. We determined materiality for the audit of the group's financial statements to be £9,650,000.
Financial Statements opinion	<p>We gave a qualified opinion on the group's financial statements on 24 June 2020. We qualified the audit opinion due to a limitation of scope relating to the group being unable to undertake some stocktakes at year end due to the Covid-19 pandemic and our team being unable to attend the group's stocktakes at year end. This was a national issue for all Trusts with material year-end stock balances.</p> <p>We included a going concern material uncertainty paragraph in our report on the group's financial statements to draw attention to the note which explains the basis on which the group has determined that it is still a going concern.</p> <p>We also included an emphasis of matter paragraph in our report on the uncertainty over asset valuations as at 31 March 2020 given the Covid-19 pandemic. This does not affect our opinion that the statements give a true and fair view of the Trust's financial position and its income and expenditure for the year.</p>
NHS Group consolidation template (WGA)	We also reported on the consistency of the financial statements consolidation template provided to the National Audit Office with the audited financial statements. We concluded that these were consistent.
Use of statutory powers	We referred a matter to the Secretary of State, as required by section 30 of the Act, on 17 April 2019 because the Trust was planning to breach its three year break even target.
Value for Money arrangements	We were satisfied that the Trust put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Directors of the Trust on 24 June 2020.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Trust and group's financial statements (section two)
- assess the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Trust and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Executive Summary

Quality Accounts	Due to the Covid-19 pandemic, the Department of Health and Social Care suspended the requirement for the Trust's Quality Accounts to be certified in 2019/20.
Certificate	We certified that we have completed the audit of the financial statements of North Bristol NHS Trust in accordance with the requirements of the Code of Audit Practice on 24 June 2020.

Working with the Trust

The outbreak of the Covid-19 coronavirus pandemic had a significant impact on the normal operations of the Trust.

Given the unprecedented financial and operational challenge the Department of Health and Social Care (DHSC) extended the deadline for preparation of the financial statements to 27 April 2020, with the option to extend up to 11 May 2020, and the date for audited financial statements to 25 June 2020.

Restrictions for non-essential travel meant both Trust and audit teams had to undertake the audit procedures remotely using screen sharing and video calling to confirm the completeness and accuracy of information produced by the entity.

These inherent restrictions in carrying out an audit entirely remotely resulted in the audit taking longer than we would normally have expected. We faced some challenges in receiving audit evidence however we worked hard with the Trust's finance team to ensure that sufficient evidence was provided, and this allowed the audit to be completed prior to the deadline.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Trust's staff during these extraordinary times.

Grant Thornton UK LLP
July 2020

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the group's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the group financial statements to be £9,650,000, which is approximately 1.5% of the group's gross revenue expenditure. We determined materiality for the audit of the Trust's financial statements to be £9,600,000, which is approximately 1.5% of the Trust's gross revenue expenditure. We used this benchmark as, in our view, users of the group and Trust's financial statements are most interested in where the group and Trust has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration salary disclosures.

We set a lower threshold of £300,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Annual Report to check it is consistent with our understanding of the Trust and with the financial statements included in the Annual Report on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the group's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Covid-19</p> <p>The global outbreak of the Covid-19 virus pandemic led to unprecedented uncertainty for all organisations. We expected this would have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> • 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 valuations; • 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. 	<p>We:</p> <ul style="list-style-type: none"> • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements. The draft financial statements were provided on 1 May 2020; • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; and • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations. 	<p>Due to the Covid-19 pandemic management were unable to complete all of their year-end stock takes and we were unable to attend any stocktakes that did take place. As we were unable to attend any stocktakes we were unable to obtain sufficient, appropriate evidence over the quantity of inventories and hence we included a limitation of scope in our audit opinion. This was a national issue for all Trusts with material year-end stock balances.</p> <p>Please also see page 9 for further information on the Emphasis of Matter within our audit opinion in respect of land and building valuations.</p>

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of internal 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.</p>	<p>We:</p> <ul style="list-style-type: none"> evaluated the design effectiveness of management controls over journals; analysed the journals listing and determined the criteria for selecting high risk unusual journals; tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration; and gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness. 	<p>No issues were identified in respect of journal entries posted in year or in relation to the presumed risk of management override.</p>
<p>Going concern material uncertainty disclosures</p> <p>We identified the adequacy of disclosures relating to material uncertainties that may cast doubt on the group and Trust's ability to continue as a going concern in the financial statements as a significant risk.</p>	<p>We:</p> <ul style="list-style-type: none"> considered the Directors' assessment of the group and Trust's ability to continue as a going concern; requested an updated cashflow forecast covering the period to 30 June 2021 from management and reviewed the key underlying assumptions, in line with national guidance issued by NHS England and NHS Improvement; and considered the adequacy of management's disclosures in respect of the material uncertainty in respect of the going concern assumption. 	<p>No issues were identified in respect of management's disclosures in respect of the material uncertainty in respect of the going concern assumption.</p> <p>We included reference to the material uncertainty disclosures within our audit opinion.</p>

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Revenue recognition (presumed risk under ISA 240)</p> <p>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.</p> <p>We rebutted this presumed risk for the block contract income element of patient care revenues which are derived from contracts agreed in advance at a set price under NHS Payments by Results.</p>	<p>We:</p> <ul style="list-style-type: none"> updated our understanding of the group's system for accounting for income from patient care activities and other operating revenue, and evaluated the design of the associated controls; formed an expectation of patient care income from commissioners based upon contracts and agreed a sample of the income from additional contract activity to correspondence from the Trust's commissioners which confirms their agreement to pay for the additional activity; selected a sample of non-healthcare revenue to test to supporting documentation and subsequent income receipt; reviewed the NHS Agreement of Balances exercise mismatch reports and investigated any mismatches over £300k, obtaining corroborating evidence as necessary; and confirmed the Provider Sustainability Funding and Financial Recovery Funding recognised by the Trust to year-end notification from NHS Improvement. 	<p>Adjustments were made to the Trust's draft financial statements for Agreement of Balances mismatches identified as part of the process. We also reported all unresolved Agreement of Balances mismatches over £300k.</p> <p>We identified a classification adjustment between NHS England income and Clinical Commissioning Groups income in the notes to the financial statements of £5.825m. This did not impact upon the Statement of Comprehensive Income and was adjusted in the audited version of the financial statements.</p> <p>We identified a variance of £373k between the year end value agreed with NHS England and the amount recognised in the Trust's financial statements. The financial statements were not adjusted on the grounds of materiality.</p>

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings</p> <p>The Trust revalues its land and buildings on a five-yearly basis to ensure the carrying value in the Trust and group financial statements is not materially different from current value at the financial statements date. In the 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.</p> <p>We therefore identified valuation of land and buildings as a significant risk.</p>	<p>We:</p> <ul style="list-style-type: none"> evaluated the competence, capabilities and objectivity of the valuation expert and wrote to the valuer to confirm the basis on which the valuation was carried out; engaged our own valuation expert to assess the instructions to the Trust's valuer, the valuer's report and the assumptions that underpin the valuation; challenged the assumptions and methodologies applied in the valuation of a sample of valuations to ensure that these were appropriate, including corroboration of the floor areas used by the valuer to the Trust's estate records; formed an expectation of valuation movements in the year based upon land and building indices provided to auditors via the National Audit Office and challenged and corroborated any movements not in line with our expectations; challenged the Trust on the basis for the Modern Equivalent Asset valuations; considered the appropriateness of the Trust's judgement that the PFI buildings should be valued net of VAT; and tested revaluations made during the year to see if they had been input correctly into the Trust's asset register and produced the correct accounting entries. 	<p>In line with RICS guidance, the Trust's valuer disclosed a material uncertainty in the valuation of the Trust's land and buildings at 31 March 2020 as a result of Covid-19. The Trust has included disclosures provided by NHS Improvement on this issue in Note 1.5. Our audit opinion included an Emphasis of Matter referring to this disclosure.</p> <p>We also identified an error in the accounting treatment for some assets that were subject to a downward valuation movement in year. Despite these assets having no revaluation reserve balance, the downward valuation was charged to reserves rather than in-year expenditure. This resulted in negative revaluation reserve balances of £1,023k which are not in accordance with the correct accounting treatment, with a corresponding understatement of in-year expenditure. The financial statements were not adjusted for this on the grounds of materiality.</p>

Audit of the Financial Statements

Audit opinion

We gave a qualified opinion due to limitation of scope on stock on the group's financial statements on 24 June 2020.

Preparation of the financial statements

The group presented us with draft financial statements in accordance with the updated NHS timetable. The majority of working papers to support the accounts were also provided at this time, although we experienced difficulty in obtaining some working papers and evidence through our audit. We will work with the Trust's finance team to identify areas of learning to be taken forward into future audits.

Issues arising from the audit of the financial statements

We reported the key issues and recommendations arising from our audit to the Trust's Audit Committee on 11 June 2020.

Annual Report, including the Annual Governance Statement

We are also required to review the Trust's Annual Report, including the Annual Governance Statement. It provided these on a timely basis with the draft financial statements with supporting evidence and following some minor amendments we did not report any issues.

Whole of Government Accounts (WGA)

We issued a group return to the National Audit Office in respect of Whole of Government Accounts, which did not identify any issues for the group auditor to consider.

Other statutory powers

We are also required to refer certain matters to the Secretary of State under section 30 of the Local Audit and Accountability Act 2014. On 17 April 2019 we reported to the Secretary of State that the Trust had set a deficit budget of £5.4m for 2019/20 and did not have a formal plan to return to in-year or cumulative financial balance in the year ending 31 March 2020.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of North Bristol NHS Trust in accordance with the requirements of the Code of Audit Practice on 24 June 2020.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Trust in June 2020, we agreed recommendations to address our findings.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Trust put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan and we responded to the risk	Findings and conclusions
<p>Trust's financial position and financial planning</p> <p>The Trust's revenue control total in 2019/20 was £5.4m. This position includes the assumed receipt of Provider Sustainability Funding (PSF), Financial Recovery Funding (FRF) and the return of Marginal Rate Emergency Tariff (MRET) funding totalling £24.9m. The 2019/20 position includes a challenging savings target of £25m.</p> <p>We identified the Trust's financial position and financial planning as a significant risk.</p> <p>We:</p> <ul style="list-style-type: none"> reviewed the Trust's arrangements for monitoring and managing delivery of budgets and savings plans for updating, agreeing and monitoring its financial plans and communicating key findings to the board; and reviewed the Trust's outturn position for 2019/20 and the arrangements for developing and agreeing the 2020/21 budgets, including the identification of savings plans and consider the level of risk within these plans. 	<p>The Trust Board receives a monthly finance report in private session that sets out performance against plan detailing income, pay, non-pay, savings, liquidity, the Balance Sheet and its financial position against the control total. Throughout the year the Trust had forecast it would achieve it's control total at the year end.</p> <p>Following the onset of the Covid-19 pandemic an adjustment to the control total of £1.4m was agreed with NHSE & I which represented the non-cash impact of an additional year end staff leave accrual which arose as a result of staff cancelling leave or undertaking additional hours to support the operational delivery impact of Covid-19. The adjusted deficit control total was £6.3m, and delivery of this provided access to PSF, FRF and MRET funding totalling £24.9m.</p> <p>The Trust delivered it's control total with a year end deficit of £6.2m for control total purposes and as a result received additional incentive FRF funding of £6.2m. This resulted in an outturn surplus of £50k.</p> <p>The Trust aimed to deliver £25m of savings and as at the year end had identified schemes to the value of £22.1m, with a full year effect of £18.7m (75% of target). 60% of savings were recurrent compared to 42% in 2018/19. The reliance upon non-recurrent savings increases pressure to deliver savings in subsequent years.</p> <p>The Trust ended the 2019/20 financial year with an underlying deficit of £47.4m (8% of total income), after allowing for non-recurrent funding such as PSF,FRF and MRET. In order to mitigate operational cost pressures, meet required efficiency requirements and to reduce the underlying deficit, significant transformational change is required. The Trust has set out to reduce this underlying deficit from £47.4m to £25.1m over the next four years its Financial Sustainability Plan, with significant savings of £115.3m required over this period.</p> <p>The Trust's financial planning for the year ahead was suspended in March 2020 with confirmation of a block payment approach for the first four months of 2020/21, where the Trust will receive a fixed level of income which will be topped up to cover additional Covid-19 related costs. How the Trust will be funded post July 2020 currently remains unknown.</p> <p>Whilst planning arrangements are suspended and funding beyond July is unknown, the Trust has assumed that the budgets for Directorates are as per the draft plan for financial management purposes. The Trust has begun to identify savings for 2020/21 and emerging plans have identified potential savings to the value of £21m, though the process was suspended following the Covid-19 outbreak.</p> <p>Taking the above information into account, we concluded that the risk was sufficiently mitigated and the Trust has proper arrangements for sustainable resource deployment.</p>

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and confirm there were no fees for the provision of non audit services.

Reports issued

Report	Date issued
Audit Plan	January 2020
Audit Findings Report	June 2020
Annual Audit Letter	August 2020

Fees

	Planned £	Actual fees £	2018/19 fees £
Statutory audit	68,200	68,200	62,000
Charitable fund	4,000	4,000	4,000
Total fees	72,200	72,200	66,000

Fees for non-audit services

Service	Fees £
Audit related services	Nil
- None	
Non-Audit related services	Nil
- None	

Non- audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The table above confirms that no non-audit services which were identified.



© 2020 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.