



# **Audit Findings Report**

## *The Clatterbridge Cancer Centre NHS Foundation Trust*

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Year ended 31 March 2019

21 May 2019



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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 The Clatterbridge Cancer Centre NHS Foundation Trust ('the Trust') and the preparation of the Group's financial statements for the year ended 31 March 2019 for those charged with governance.

<b>Financial Statements</b>	<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"> <li>the Trust's and Group's financial statements give a true and fair view of the financial position of the Trust's and Group's income and expenditure for the year; and</li> <li>The Trust's and Group's financial statements, and the parts of the Remuneration Report and the Staff Report to be audited, have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and as interpreted and adapted by the Accounts Directions issued under the National Health Service Act 2006, the NHS foundation trust annual reporting manual 2018/19 and the Department of Health and Social Care group accounting manual 2018/19.</li> </ul> <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 on site during April and May. Our findings are summarised on pages 4 to 16.</p> <p>We have identified two audit differences, which management has chosen not to adjust the financial statements for. Several audit adjustments relating to disclosure notes were also required. These are all detailed in Appendix C.</p> <p>We have also raised one recommendation for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters:</p> <ul style="list-style-type: none"> <li>receipt of management representation letter;</li> <li>resolution of our outstanding audit queries; and</li> <li>review of the final set of financial statements.</li> </ul> <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 anticipated audit report opinion will be unmodified.</p>
<b>Value for Money arrangements</b>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report by exception 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 the Trust has 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 17 to 19.</p>
<b>Statutory duties</b>	<p>The National Health Service Act 2006 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> <li>report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li> <li>To certify the closure of the audit.</li> </ul>	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

## Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

# 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 are required to be discussed with management and the Audit Committee.

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 and Group'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;

## 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.

	Group Amount (£m)	Trust Amount (£m)	Qualitative factors considered
Materiality for the financial statements	2.397	2.373	<ul style="list-style-type: none"> <li>• This equates to 1.8% of your prior year gross operating costs for the year and is considered to be the level above which users of the accounts would wish to be aware in the context of overall expenditure.</li> </ul>
Performance materiality	1.797	1.779	<ul style="list-style-type: none"> <li>• Assessed to be 75% of financial statement materiality.</li> </ul>
Trivial matters	0.119	0.118	<ul style="list-style-type: none"> <li>• This equates to 5% of materiality.</li> </ul>
Materiality for specific transactions, balances or disclosures	N/A	0.015	<ul style="list-style-type: none"> <li>• We have set a lower materiality for the remuneration report as it has been determined due to the increased interest to the user of the accounts.</li> </ul>

## Audit approach (continued)

- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross operating costs to assess the significance of the component and to determine the planned audit response.
- Controls testing of the Trust's expenditure system; 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 not had to alter or change our audit plan, as communicated to you in February 2019.

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 23<sup>rd</sup> May 2019. These outstanding items include:

- receipt of management representation letter;
- resolution of our outstanding audit queries; and
- review of the final set of financial statements.

Materiality calculations remain the same as reported in our audit plan. We detail in the table below our determination of materiality for the Trust and the Group.

# 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

The Trust has achieved a surplus in 2018/19 and is projecting surpluses over the next 3 years. We have not identified any events or conditions that affect the Trust's ability to continue as a going concern.

## Going concern commentary

## Auditor commentary

### Management's assessment process

Management prepared a financial plan for the Trust for 2019/20. The financial plan included a forecast SOCI, SOFP and cash flow.

Income included within the plan was based on a variety of sources, e.g. signed commissioning contracts. The plan also included key assumptions of inflation (both pay and non pay), which are based on NHSI planning assumptions.

Management have concluded that the use of the going concern basis is appropriate. In addition, management did not identify any material uncertainties related to events or conditions which may cast significant doubt about the going concern assumption.

We are satisfied with the adequacy of management's processes for the preparation of the 2019/20 financial plan. The preparation of the financial plan was overseen by the Director of Finance and the Trust has a good historic track of preparing reliable financial forecasts.

## Work performed

We evaluated management's assessment of the Trust's ability to continue as a going concern and to determine whether or not a material uncertainty exists.

Based on our review, we concur with management's assessment of the Trust's ability to continue as a going concern.

We also agree that no material uncertainties related to events or conditions which may cast significant doubt about the going concern assumption exist.

## Concluding comments

Our audit opinion in relation to going concern is not modified.

# Significant findings

## Risks identified in our Audit Plan

## Commentary

### Fraudulent revenue recognition

Trust's 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 group and 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
- Block contract income element of education & training contracts

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 group 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.

We have:

- evaluated the group'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 group's system for accounting for income from patient care and other operating revenue, and evaluating 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 group 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 group's commissioners
- evaluated the group's estimates and the judgments made by management on contract income variations 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
- Agreed PSF 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;
- Tested, on a sample basis, additions to deferred research and development income in the current year to ensure the accuracy of deferring the income.

Our audit work has not identified any issues in respect of fraudulent transactions within revenue recognition or the risk identified. This conclusion is subject to the completion of audit work relating to other income sample testing.

# Significant findings

## Risks identified in our Audit Plan

## Commentary

### Management override of controls

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.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

We therefore identified management override of controls as a significant risk, which was one of the most significant assessed risks of material misstatement.

We have:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determining 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 applied made by management and consider their reasonableness
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of the journal entries has not identified any significant issues.

# Significant findings

## Risks identified in our Audit Plan

## Commentary

### Valuation of land and buildings

The Trust re-values its land and buildings annually to ensure that the current value is not materially different from fair value. This represents a significant estimate by management in the financial statements.

In valuing the Trust's estate, management have made the assumption that the main hospital site and satellite radiotherapy clinic, if needed to be replaced, would be rebuilt to modern conditions. The Trust commissioned Cushman and Wakefield to revalue the Trust's estate at 31 March 2019 on a desktop basis.

We identified the valuation of land and buildings, in particular revaluations of the main hospital site and satellite clinic, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

In addressing the valuation risk we have:

- evaluating management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- understanding the basis on which the valuation was carried out and critically assessing the valuer's report;
- obtained management's assessment of the valuation of property, plant and equipment and understanding the valuation process, including key controls used by management;
- assessed the competence, objectivity and expertise of management's valuer, including using the work of an auditor's expert to assess whether we could place reliance on management's expert valuer's work;
- challenging the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
- for the land and buildings assets revalued in the year, agreed the valuation from the valuer's report to asset register and the financial statements;
- assessing and challenging the overall reasonableness of the valuation movement;
- challenged the assumptions made by management in relation to the modern equivalent asset valuation and the appropriateness of the related alternative single site valuation methodology;
- agreed the total valuation adjustments made to the fixed asset register and the financial statements to the valuation report provided by the Trust's valuer.

Our audit work has not identified any issues in respect of valuation of land and buildings.

**At the time of writing we still need to complete our challenge of the information and assumptions used by the valuer.**



# Significant findings

Risks identified in our Audit Plan	Commentary
<b>Incomplete or inaccurate financial information transferred to the new general ledger</b>  In February 2019, the Trust implemented a new cloud based general ledger system for the 2018/19 financial year. When implementing a new significant accounting system, it is important to ensure that sufficient controls have been designed and operate to ensure the integrity of the data. There is also a risk over the completeness and accuracy of the data transfer from the previous ledger system.  We therefore identified the completeness and accuracy of the transfer of financial information to the new general ledger system as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.	<p>We have</p> <ul style="list-style-type: none"><li>• completed an information technology (IT) environment review to document, evaluate and test the IT controls operating within the new general ledger system;</li><li>• mapped the closing balances from the 2017/18 general ledger to the opening balance position in the new ledger for 2018/19 to ensure accuracy and completeness of the financial information; and</li><li>• 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.</li></ul> <p>Our work has not identified any errors in the information transfer between the two ledgers.</p>

# Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Commentary	Auditor view
<b>Clarification of RICS guidance</b>	<p>During the 2018/19 year, RICS issued clarification to its guidance on the estimation of useful lives of assets. This clarification has led the Trust's valuer to revise their estimates in this area.</p> <p>There has been a lot of debate in the sector regarding whether this change constitutes a change in estimate or an accounting error.</p> <p>When assets are revalued, the accumulated depreciation is reversed out, so there is no cumulative depreciation error to be considered. However, the amount of depreciation charged against an asset in previous years will change how any gains or losses from the revaluation of that asset affect the Trust's reserve balances.</p> <p>Management's view is that this is a change in the estimate of the useful lives used, and should be corrected prospectively in the Trust's financial statements.</p> <p>The National Audit Office issued guidance in late April to auditors, which set out their view that the change should typically be accounted for as a change in estimate unless there was evidence of management misuse of information. In many cases, this would mean no prior period adjustment was required. However, it would require an adjustment to depreciation in the current period.</p>	<p>Management have performed analysis to demonstrate that, had the revised economic lives provided by the valuer as part of the valuation at 31 March 2019 been used as the basis for the depreciation charge in 2018/19, this charge would have been £0.373m higher. We have reviewed this analysis, and consider this to be a reasonable estimate.</p> <p>We have considered the potential impact of any errors in depreciation in previous years on the Trust's opening reserve balances. The Trust has been unable to estimate the prior period impact on reserves but based on the 2018/19 impact it is possible that the value just exceeds our financial statements materiality of £2.373 million. Determining whether a classification misstatement is material involves the evaluation of qualitative considerations and there may be circumstances where the auditor concludes that a classification misstatement is not material in the context of the financial statements as a whole, even though it may exceed the materiality level applied in evaluating other misstatements. In this instance, the prior period impact is only on reserves, which the Trust is not able to draw on, and does not impact on the Trust's achievement of the Trust's financial performance targets. Based on these qualitative factors, we have satisfied ourselves that there is not a risk of material error in relation to this issue.</p>

# Significant findings arising from the group audit

Our audit approach was a risk-based approach founded on a thorough understanding of the group's business, its environment and risk profile and in particular included:

- Evaluation of identified components to assess the significance of each component and to determine the planned audit response based on a measure of materiality and significance of the component as a percentage of the group's total income, assets and liabilities. Our approach included an audit of one or more classes of transactions, account balances or disclosures for components evaluated as significant and for non significant components we perform analytical procedures at the group level.
- We have performed specific procedures on the assets and liabilities and the income and expenditure of Clatterbridge Propcare Services Limited, The Clatterbridge Pharmacy Limited and The Clatterbridge Cancer Charity; and
- We have performed analytical procedures at the group level for Clatterbridge Private Clinic LLP.


Component	Component auditor	Findings	Group audit impact
The Clatterbridge Cancer Charity	Grant Thornton UK LLP	No matters identified.	No impact upon group audit.
Clatterbridge Private Clinic LLP	RSM UK Audit LLP	No matters identified.	No impact upon group audit.
The Clatterbridge Pharmacy Ltd	Grant Thornton UK LLP	No matters identified.	No impact upon group audit.
Clatterbridge PropCare Services Limited	Grant Thornton UK LLP	No matters identified.	No impact upon group audit.

# Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary
Significant events or transactions that occurred during the year	The building of the new hospital continues to progress. We tested the significant level of capital expenditure and the associated loans, which are financing the build. We did not identify any issues to report in these areas.
Business conditions affecting the group, and business plans and strategies that may affect the risks of material misstatement	No such issues were identified.
Concerns about management's consultations with other accountants on accounting or auditing matters	No such issues were identified.
Discussions or correspondence with management in connection with the initial or recurring appointment of the auditor regarding accounting practices, the application of auditing standards, or fees for audit or other services	We were appointed as auditors of the Trust in 2013 for the three financial years from 2013/14, which was extended by 2 years to 2017/18. A further 1 year extension was agreed for 2018/19. We agreed and signed an addendum letter to the external audit contract with the Trust. This letter sets out the respective roles and responsibilities of management and auditors.
Significant matters on which there was disagreement with management, except for initial differences of opinion because of incomplete facts or preliminary information that are later resolved by the auditor obtaining additional relevant facts or information	No such issues were identified. All technical queries on financial reporting matters relating to useful asset lives and the classification of the Propcare loan under IFRS 9 were resolved.
Other matters that are significant to the oversight of the financial reporting process	The draft accounts were submitted to us late by two days and contained a higher than expected number of omissions and errors within the disclosures and accounting policies.



# Significant findings - accounting policies

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<p>The Trust's and Group's accounting policy note 1.4.1 deals with revenue recognition.</p> <p>Where income is derived from contracts with customers, it is accounted for under IFRS 15.</p> <p>Revenue in respect of goods/services provided is recognised when (or as) performance obligations are satisfied by transferring promised goods/services to the customer and is measured at the amount of the transaction price allocated to those performance obligations.</p> <p>The main source of income for the Trust is contracts with commissioners for health care services. A performance obligation relating to delivery of a spell of health care is generally satisfied over time as healthcare is received and consumed simultaneously by the customer as the Trust performs it. The customer in such a contract is the commissioner, but the customer benefits as services are provided to their patient. Even where a contract could be broken down into separate performance obligations, healthcare generally aligns with paragraph 22(b) of the Standard entailing a delivery of a series of goods or services that are substantially the same and have a similar pattern of transfer. At the year end, the Trust accrues income relating to activity delivered in that year, where a patient care spell is incomplete.</p> <p>Where research contracts fall under IFRS 15, revenue is recognised as and when performance obligations are satisfied.</p>	<p>The Trust's policy is appropriate under relevant accounting framework</p> <p>Policies are adequately disclosed within the accounts and we have not been made aware of any new material revenue streams which would require additional policies to be put in place</p> <p>The Trust exercises judgement in arriving at the income due for part complete spells. The income for this has been agreed to the third party confirmation using the intra-NHS agreement of balances exercise.</p>	 <b>Green</b>

## Assessment

- Marginal accounting policy which could potentially be open to challenge by regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

# Significant findings - accounting policies

Accounting area	Summary of policy	Comments	Assessment
<b>Judgements and estimates</b>	<p>Accounting policy 1.2 covers critical judgements. These include:</p> <ul style="list-style-type: none"> <li>• Deferred income</li> <li>• Assessment of leases</li> <li>• Clatterbridge Propcare Service Limited – VAT recovery and asset valuation</li> <li>• Clatterbridge Propcare Service Limited – accounting for the financial asset / liability</li> <li>• Provisions</li> <li>• Clinical negligence costs</li> <li>• Estimation of remaining economic lives of assets</li> <li>• Impairment review</li> </ul>	<p>We identified an issue in relation to estimation of useful economic lives, which is set out in page 10.</p> <p>Our audit work found no other issues to report regarding the:</p> <ul style="list-style-type: none"> <li>• appropriateness of policy under relevant accounting framework</li> <li>• extent of judgement involved</li> <li>• potential financial statement impact of different assumptions</li> <li>• adequacy of disclosure of accounting policies.</li> </ul>	 <b>Amber</b>
<b>Other critical policies</b>	The Trust has adopted the standard accounting policies as set out in the GAM.	<p>We have reviewed the Trust's policies against the requirements of the Group Accounting Manual. Other than the disclosure issues reported in Appendix B, the Trust has appropriately tailored the standard accounting policies to its individual circumstances.</p>	 <b>Amber</b>

## Assessment

- Marginal accounting policy which could potentially be open to challenge by regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

# 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
<b>Matters in relation to fraud</b>	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
<b>Matters in relation to related parties</b>	We are not aware of any related parties or related party transactions which have not been disclosed.
<b>Matters in relation to laws and regulations</b>	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.
<b>Written representations</b>	<p>A letter of representation has been requested from the Trust, including specific representations in respect of the Group, which is included in the Audit Committee papers.</p> <p>Specific representations have been requested from management in respect of the fair value of the financial guarantee provided by the Trust to Laing O'Rourke on behalf of Clatterbridge Propcare Services Limited.</p>
<b>Confirmation requests from third parties</b>	We requested from management permission to send confirmation requests to all of the group's banks and investment institutions. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
<b>Disclosures</b>	Our review identified a number of additional disclosures required which have been agreed with management (see Appendix C).
<b>Audit evidence and explanations/significant difficulties</b>	<p>Most information and explanations requested from management have been provided albeit some of this was provided at a late stage in the audit.</p> <p>We have a small amount of work outstanding and some outstanding information requests, which will need to be resolved before we can issue our opinion.</p>

# Other responsibilities under the Code

Issue	Commentary
<b>Other information</b>	<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.</p>
<b>Auditable elements of Remuneration Report and Staff Report</b>	<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.</p>
<b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> <li>• If the Annual Governance Statement does not meet the disclosure requirements set out in the NHS foundation trust annual reporting manual 2018/19 is misleading or inconsistent with the information of which we are aware from our audit</li> <li>• 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 group acquired in the course of performing our audit, or otherwise misleading.</li> <li>• If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters.</p>
<b>Review of accounts consolidation schedules and specified procedures on behalf of the group auditor</b>	<p>We are required to give a separate audit opinion on the group 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>Work is ongoing in this area but to date there are no unadjusted inconsistencies between the financial statements and the accounts consolidation schedules which we are required to report in our opinion on the consolidation schedules.</p>
<b>Certification of the closure of the audit</b>	<p>We intend to certify the closure of the 2018/19 audit of the Trust in the audit opinion.</p>



# Value for Money

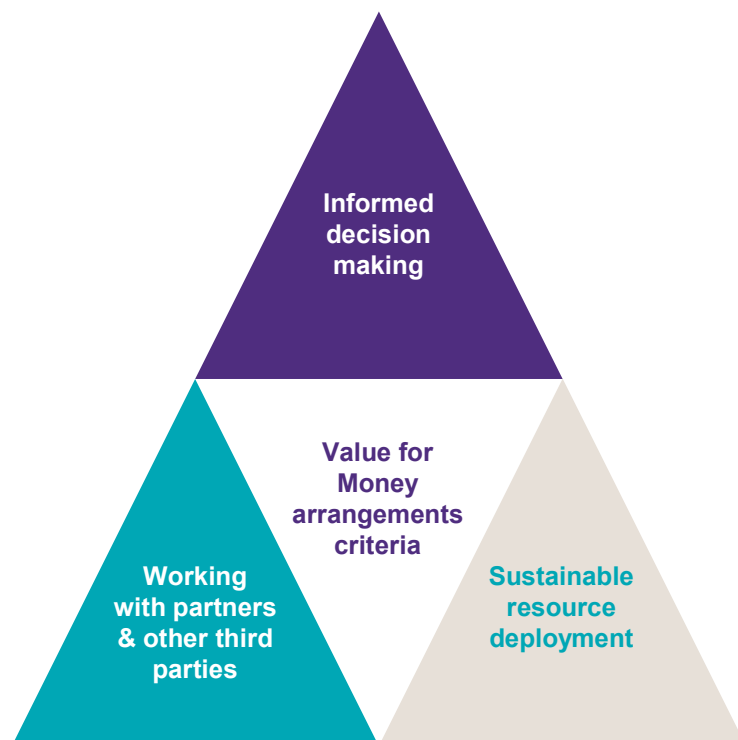
## Background to our VFM approach

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 2017. 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 February 2019 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan in February.

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.

# 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. We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on page 18.

## 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.

## 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.

## 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
<b>Financial sustainability and resilience</b>		
<p>Whilst the Trust delivered a surplus in 2017-18 and is forecasting another surplus for 2018-19, a number of complex accounting and operational arrangements have occurred over the last couple of years. The setting up of the Propcare subsidiary and the transfer of the haemato-oncology service have led to increased complexity operationally and in the accounting treatments. There has also been an increase in borrowings required as a result of these projects. The collapse of Carillion and the issues with the building of the new Royal Hospital has also had an impact upon the building of the Trust's new hospital site in Liverpool.</p> <p>We monitored and reviewed the Trust's financial position and considered the year end outturn position to secure PSF funding. We considered the adequacy of cash resources and level of borrowing in the context of the 2019-20 budget position.</p> <p>We also reviewed the Trust's project and financial management and reporting arrangements relating to the construction of the new hospital. This included monitoring and controls to ensure project costs are properly managed and reported against the agreed contract price.</p>	<p>The Trust achieved its 2018-19 planned surplus and outturn as well as achieving the maximum amount of PSF funding.</p> <p>The Trust's 3 year operation plan is forecasting surpluses in each of the 3 years to 2021-22, with planned surpluses of £3.49m, £0.57m and £2.5m respectively between 2019-20 and 2021-22.</p> <p>The capital programme has been incorporated within the operational plan and the Trust's cash position is forecast to be healthy even after all the capital expenditure going after the building of the new hospital and the associated costs. The forecast cash balance in each of the 3 years are £15.4m, £11.4m and £11.5m, which remains healthy, especially taking account of the overall financial health across the NHS sector.</p> <p>We also reviewed the reported progress of the building project. It is noted that the adjoining Royal Liverpool new build scheme is facing delays to its completion date, mainly due to the collapse of Carillion. However, we found that the Trust and its subsidiary PropCare Limited have been proactive in assessing the impact, both financially and from a construction aspect, as well as mitigating the losses to the Group.</p>	<p>Based on our findings, we concluded that the Trust had proper arrangements in place for managing its finances in 2018/19.</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 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

## Audit and 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.

	Fees £	Threats identified	Safeguards
<b>Audit related</b>			
Review of the Trust's Quality Report	4,000	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 as the fee for this work is £4,000 in comparison to the total fee for the audit of £39,700 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.
Audit of the Clatterbridge Cancer Charity	4,350	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 as the fee for this work is £4,350 in comparison to the total fee for the audit of £39,700 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.

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 one recommendation for the group 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 2019/20 audit. The matters reported here are limited to those deficiencies 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	Management response
●	<p>The draft financial statements were submitted to us late by two days and the submitted version contained a higher than expected number of disclosure and internal consistency issues.</p> <p>Delay in submission and incomplete, and/ or high number of errors leads to delays in the audit and numerous adjustments.</p>	<p>We recommend that the Trust reviews its financial statements preparation process and the preparation time table.</p> <p>The Trust also needs to ensure there is a robust review process to ensure the accuracy, completeness and presentation of the financial statements.</p>	<p>The Trust recognises the issues raised during the audit. An action plan is being produced to address these for 2019/20, following the Trust undertaking a review of its internal processes for 2018/19.</p>

## Controls

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

# Follow up of prior year recommendations

We identified the following issues in the audit of the Trust’s 2017/18 financial statements, which resulted in two recommendations being reported in our 2017/18 Audit Findings report. We have followed up on our recommendations and found that management have not implemented all of our recommendations. See details below.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	The valuer changed the assumptions in his valuation report on the value of property, plant and equipment at 31 March 2017. This change was incorrect and resulted in a material misstatement in the 2016/17 financial statements which has been corrected via a prior period adjustment in the 2017/18 financial statements.	Management has stated that the Trust has reviewed the process and assumptions used for the valuation included in the 2018/19 Accounts. We are awaiting evidence of management’s review.
✓	Provisions and contingent liabilities for legal claims included some estimated costs that are not part of the potential settlement of the claims and so should not be included.	Management has taken action and changed calculation method to resolve this matter.

Assessment  
✓ Action completed  
X Not yet addressed

# 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

No adjusted misstatements which impact on the reported net expenditure for the year ending 31 March 2019 were identified.

## 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	Detail	Auditor recommendations	Adjusted?
Depreciation per Note 8.1 of the accounts	Depreciation charge for the year for buildings (£745k) was not zeroed out on revaluation	Amendment has been made by management	✓
Notes to SoFP	A number of the notes to the Statement of financial position did not agree back to the main statement	Various amendments have been made by management	✓
Notes to the accounts	A number of notes to the financial statements and accounting policies were missing from the accounts, which include; <ul style="list-style-type: none"> <li>• notes relating to the adoption/ impact of IFRS 9 and IFRS 15,</li> <li>• missing accounting policies,</li> <li>• missing related parties transactions,</li> <li>• incomplete retirement due to ill health note,</li> <li>• disclosure relating to asset lives missing in the accounting policies.</li> </ul>	Various amendments have been made by management	✓
Accounting policies	Within the critical judgements, we have asked management to set out the basis for their judgement that the Propcare loan should be classified as amortised cost under IFRS 9	Amendment has been made by management	✓
Cash Flow Statement	The Statement of Cash Flows for the year ended 2018/19 is materially accurate but some elements such as interest paid and received have not been adjusted for creditors and debtors respectively.	Issue is still being reviewed by the Trust at time of writing	

# Audit Adjustments

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Statement of Comprehensive Net Income £'000	Statement of Financial Position £' 000	Impact on adjusted net surplus/(deficit) £'000	Reason for not adjusting
<b>Clarification of RICS guidance</b>				
We consider the change in the approach taken by the Trust's valuer to determining the economic lives of assets to be indicative of an error in the estimates made in previous years.				Amount is below performance materiality
Management have performed analysis to demonstrate that, had the revised economic lives provided as part of the valuation at 31 March 2019 been used as the basis for the depreciation charge in 2018/19, this charge would have been understated as follows:				
• Dr Depreciation expense	373		373	
• Cr Property, Plant and Equipment (Accumulated Depreciation)		(373)		
<b>12 month expected credit loss on Propcare loan</b>				
Management has re-calculated the 12-month expected credit loss on the Propcare loan in accordance with IFRS 9.	130	(130)	130	Amount is below performance materiality
<b>Overall impact</b>	<b>503</b>	<b>(503)</b>	<b>503</b>	Amount is below performance materiality



# 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 2017/18 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
<p>The 2017-18 draft accounts included a deferred income balance of £1.1 million, which related to an arrangement fee for the loan commitment provided by the Trust to Clatterbridge Propcare Services Limited. We believe that the deferred income should have been netted off the financial asset, i.e. the loan. The arrangement fee should then be recognised as finance income as an adjustment to the loan's effective interest rate (EIR) in future years. If the commitment expires without making a loan, the commitment fee is recognised as revenue on expiry.</p> <p>The issue remains unadjusted in the 2018/19 financial statements.</p>	0	0	0	Amendment would not have a significant impact on the Trust's financial position.
<b>Overall impact</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	

## 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	£39,700	£43,200
<b>Total audit fees (excluding VAT)</b>	<b>£39,700</b>	<b>£43,200</b>

There is a £3,500 difference between the fees in the financial statements and final fee reported above. This relates to the fee for the additional audit work performed on the financial ledger migration and the impact of IFRS 9 and IFRS 15 on the Trust's accounts.

Fees for other services	Fees
<b>Audit related services:</b>	
• Review of the Trust's Quality Report	£4,000
• Audit of the Clatterbridge Cancer Charity	£4,350
<b>Total other fees</b>	<b>£8,350</b>

