

# The Annual Audit Letter for Kent Community Health NHS Foundation Trust

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Year ended 31 March 2020

03 July 2020



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# Executive Summary

## Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Kent Community Health NHS Foundation Trust ( the Trust) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Trust 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 and Risk Committee as those charged with governance in our Audit Findings Report on 13 May 2020.

## Our work

<b>Materiality</b>	We determined materiality for the audit of the Trust's financial statements to be £4,900,000, which is 1.98% of the Trust's gross revenue expenditure.
<b>Financial Statements opinion</b>	We gave an unqualified opinion on the Trust's financial statements on 16 June 2020.
<b>NHS Group consolidation template (WGA)</b>	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.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.

## Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the National Health Service Act 2006 (the Act). Our key responsibilities are to:

- give an opinion on the Trust 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 financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

# Executive Summary

<b>Value for Money arrangements</b>	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 16 June 2020.
<b>Quality Report</b>	Due to the Covid-19 pandemic, the Department of Health and Social Care suspended the requirement for the Trust's Quality Report to be certified.
<b>Certificate</b>	We certified that we have completed the audit of the financial statements of Kent Community Health NHS Foundation Trust in accordance with the requirements of the Code of Audit Practice on 16 June 2020.

## Working with the Trust

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Trust, such as service capacity, cancelled appointments, staff sickness rates etc. Restrictions for non - essential travel has meant both Trust and audit teams have had to adopt to remote working arrangements; for example, remote accessing financial systems; video calling. This has proved more time consuming than carrying out an audit under normal circumstances and we have experienced some delays during the audit. Key working papers were provided at the start of the audit although there were minor delays in providing other working papers.

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**  
June 2020

# Audit of the Financial Statements

## Our audit approach

### Materiality

In our audit of the Trust'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 Trust's financial statements to be £4,900,000, which is 1.98% of the Trust's gross revenue expenditure. We used this benchmark as, in our view, users of the Trust's financial statements are most interested in where the Trust has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration at £100,000.

We set a lower threshold of £245,000, above which we reported errors to the Audit and Risk 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 Trust'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

## Key Audit Matters

These are the 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><b>Improper revenue recognition</b></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 have rebutted this presumed risk for the revenue streams of the Trust that are principally derived from contracts that are agreed in advance at a fixed price. We have determined these to be income from:</p> <ul style="list-style-type: none"> <li>• block contract income element of patient care revenues</li> <li>• education and training income</li> </ul> <p>We have not deemed it appropriate to rebut this presumed risk for all other material streams of patient care income and other operating revenue.</p> <p>We therefore identified occurrence and accuracy of all income and other operating income and existence of associated receivable balances as a significant risk, which was one of the most significant assessed risks of material misstatement</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• evaluated the Trust's accounting policy for recognition income from patient care activities and other operating revenue for appropriateness and compliance with the DHSC Group Accounting Manual 2019/20;</li> <li>• updated our understanding of the Trust's system for accounting for income from patient care activities and other operating revenue, and evaluated the design of the associated controls;</li> <li>• used the analysis provided by the Department of Health to identify any significant differences in income balances with contracting NHS bodies, and investigating the validity of these differences;</li> <li>• agreed, on a sample basis, amounts recognised in income in the financial statements to signed contracts and invoices;</li> <li>• agreed a sample of the income from additional non-contract activity in the financial statements to any signed contract variations, invoices, and other supporting documentation, such as correspondence from the Trust's commissioners which confirms their agreement to pay for the additional activity and the value of the income.</li> </ul>	<p>Our audit work did not identify any issues in respect of revenue recognition</p>

# Audit of the Financial Statements

## Key Audit Matters - continued

These are the 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><b>Valuation of land and buildings</b></p> <p>The Trust revalues its land and buildings on a five-yearly basis to ensure the carrying value in the Trust financial statements is not materially different from current value at the financial statements date.</p> <p>Management have engaged the services of a valuer to estimate the current value as at 31 March 2020. The valuation of land and buildings is a key accounting estimate which is sensitive to changes in assumptions and market conditions.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p> <p>The valuer has declared a 'material valuation uncertainty' in the valuation report issued. This is on the basis of uncertainties in markets caused by COVID-19.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• reviewed management's processes and assumptions for the calculation of the estimate, including review of instructions issued to the valuation expert and the scope of their work;</li> <li>• considered the competence, expertise and objectivity of the management expert used;</li> <li>• tested the revaluations made during the year to ensure they were input correctly into your asset register;</li> <li>• challenged valuers assumptions, evaluate and document the relevance and reasonableness of the valuer's findings or conclusions, and their consistency with other audit evidence.</li> </ul>	<p>Our audit work did not identify any issues in respect of the valuation of property, plant and equipment.</p>

# Audit of the Financial Statements

## Key Audit Matters - continued

These are the 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><b>COVID-19</b></p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including, and not limited to:</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates</li> <li>• Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties have arisen; and</li> <li>• 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.</li> </ul>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• documented and understood the implications that the Covid-19 pandemic has on the Trust's ability to prepare the financial statements and updates to financial forecasts;</li> <li>• liaison with other audit suppliers, regulators, and government departments to co-ordinate practical cross sector responses to issues as and when they arise</li> <li>• evaluated the adequacy of the disclosures in the financial statements relating to the impact of the Covid-19 pandemic.</li> <li>• evaluated whether sufficient audit evidence can be obtained in the absence of physical verification of assets through remote technology</li> <li>• evaluated whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances</li> <li>• evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment and</li> <li>• reviewed the Trust's Local and Corporate Risk Register, for risks identified from COVID-19</li> </ul>	<p>Our audit work did not identify any issues in respect of COVID-19</p>



# Audit of the Financial Statements

## **Audit opinion**

We gave an unqualified opinion on the Trust's financial statements on 16 June 2020.

## **Preparation of the financial statements**

The Trust presented us with draft financial statements in accordance with the national deadline and pandemic lockdown restrictions that existed at the time, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries remotely during the course of the audit.

## **Issues arising from the audit of the financial statements**

We reported the key issues from our audit to the Trust's Audit and Risk Committee on 13 May 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.

## **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 schedule 10 (6) of the National Health Service Act 2006. We have not exercised our statutory powers.

## **Certificate of closure of the audit**

We certified that we have completed the audit of the financial statements of Kent Community Health NHS Foundation Trust in accordance with the requirements of the Code of Audit Practice on 16 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.

We have not identified any significant risk during our risk assessment.

## 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.

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.

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# A. Reports issued and fees

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

## Reports issued

Report	Date issued
Audit Plan/Audit Plan Addendum	12 February 2020 21 April 2020
Audit Findings Report	13 May 2020
Annual Audit Letter	3 July 2020

## Fees

	Planned £	Actual fees £	2018/19 fees £
Statutory audit	50,500	52,700	45,650
Charitable fund	1,500	1,500	1,500
Non-audit services (Quality Report)	6,000	1,000	8,000
<b>Total</b>	<b>58,000</b>	<b>55,200</b>	<b>55,150</b>

### Details of variations in final fees from the proposed fee per the audit plan £58,000

- Fees per financial statements £45,650
- Additional PPE valuation work of expert proposed £1,850 (proposed in audit plan)
- Additional overall quality work £2,200 (proposed in audit plan)
- Additional work due to Covid-19 £3,000 (proposed in audit plan addendum)
- Reduced for no IFRS16 work £800 (proposed in audit plan)
- Reduced for no Quality Report and reflecting early work £1,000 (proposed in audit plan)

## Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Trust. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Trust's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Trust's policy on the allotment of non-audit work to your auditor.

