

Audit completion report

East Lancashire Hospitals NHS Trust
Year ended 31 March 2021

June 2021



Contents

- 01** Executive summary
- 02** Status of the audit
- 03** Audit approach
- 04** Significant findings
- 05** Internal control recommendations
- 06** Summary of misstatements
- 07** Value for Money

Appendix A: Draft management representation letter

Appendix B: Draft audit report

Appendix C: Independence

Appendix D: Other communications

This document is to be regarded as confidential to East Lancashire Hospitals NHS Trust. It has been prepared for the sole use of the Audit Committee as the appropriate committee charged with governance by the Board of Directors. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.



The Audit Committee
East Lancashire Hospitals NHS Trust
Trust Headquarters
Royal Blackburn Teaching Hospital
Haslingden Road
Blackburn
BB2 3HH

10 June 2021

Dear Committee Members

Audit Completion Report – Year ended 31 March 2021

We are pleased to present our Audit Completion Report for the year ended 31 March 2021. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks, key audit matters and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we issued on 8 April 2021. We have reviewed the significant audit risks and other areas of management judgement included in our Audit Strategy Memorandum and during the course of the audit we have made the following change:

- Following additional guidance issued by the National Audit Office and NHS England/Improvement we have concluded that the significant risk included in our Audit Strategy Memorandum relating to Going Concern is no longer a significant risk. The guidance issued since we issued our Audit Strategy Memorandum clarified that the focus of going concern and the related audit work related primarily to the continuous provision of services by the Trust and this has led to us downgrading our assessment of the risk in that area from significant to standard.

We would like to express our thanks for the assistance of the Trust's finance team during our audit..

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07721 234043.

Yours faithfully

Karen Murray
Mazars LLP

Mazars LLP
One St Peter's Square
Manchester
M2 3DE

01

Section 01:

Executive summary

1. Executive summary

Principal conclusions and significant findings

As outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 4 of this report we have set out our conclusions and significant findings from our audit, including our conclusions on the significant audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of controls;
- Revenue recognition;
- Valuation of Property, Plant & Equipment;
- Provisions; and
- Accounting for PFI.

Section 5 sets out internal control recommendations and section 6 sets out the adjusted and unadjusted audit misstatements along with other post-audit adjustments made to the financial statements by the Trust.

Status and audit opinion

At the time of preparing this report, there are some matters remaining outstanding as outlined in section 2. We will provide an update to you in relation to the matters outstanding through a follow up letter.

Subject to the satisfactory conclusion of the remaining audit work, we have the following conclusions:



Audit opinion

We anticipate issuing an audit opinion incorporating a limitation of scope qualification on the financial statements. The limitation of scope relates to the circumstances in the prior year audit where the previous auditor was not able to attend a stocktake due to the Covid-19 restrictions. Our proposed audit opinion is included in the draft auditor's report in Appendix B.



Value for Money arrangements

We have not yet completed our value for money arrangements work and will report our findings in our Auditor's Annual Report later in the year. Further detail on our value for money arrangements work is provided in section 7 of this report.



Reporting to the group auditor

We anticipate reporting to the National Audit Office (NAO) that the Trust's consolidation data is consistent with the financial statements.

COVID-19 impacts

The impact of the COVID-19 pandemic on the audit was significant and this was particularly so for us in the first year of our audit appointment. Although we have had the full co-operation of the finance team and Trust management through the audit, the remote working of our audit team and the Trust's staff has inevitably meant that the audit work took longer to complete and finalise than would ordinarily be the case. This has added to the additional time required for both the Trust and ourselves to complete a 'first-year' audit with additional audit procedures required and an understandable learning curve as we establish a strong working relationship.

Executive summary

Status of audit

Audit approach

Significant findings

Internal control recommendations

Summary of misstatements

Value for Money

Appendices







02




Section 02:

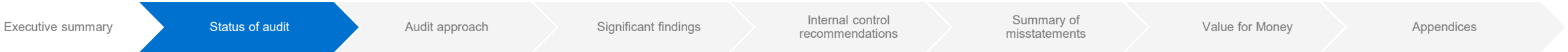
Status of the audit

2. Status of the audit

Our work is approaching completion and other than the matter referred to on page 15 there are currently no matters of which we are aware that would require modification of our audit opinion. The outstanding work will still be subject to partner file review and the matters below are reported as not likely to result in material adjustments pending that review process.

Audit area	Status	Description of the outstanding matters
Valuation of land & buildings		We are completing the complex elements of our work relating to the Trust's valuation of its land & buildings
Leases		We are awaiting one signed lease to conclude our leases work
Related party transactions		Final queries to resolve from our work on related party transactions
Remuneration report		The final elements of our work on the disclosure of the senior officer remuneration details included in the Annual Report is still to be completed.
Annual Report & Annual Governance Statement		We are awaiting a final version of the Annual Report and Annual Governance Statement following our review of the draft version.
Final accounts and letter of representation		We will complete our final review of the financial statements upon receipt of the signed version of the accounts and letter of representation.

-  Likely to result in material adjustment or significant change to disclosures within the financial statements.
-  Potential to result in material adjustment or significant change to disclosures within the financial statements.
-  Not considered likely to result in material adjustment or change to disclosures within the financial statements.



03

Section 03:

Audit approach

3. Audit approach

Changes to our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in April 2021. We have made the following changes to our audit approach since we presented our Audit Strategy Memorandum (ASM) which are outlined below.

Our ASM identified a significant audit risk relating to the Trust's going concern, reflecting the Trust's financial position, and the disclosures of material uncertainty relating to going concern that the Trust included in the prior year financial statements. Further guidance relating to the context of going concern was issued during the year, both to the Trust by NHS England/Improvement, and to auditors by the NAO. This guidance clarified that the context to going concern in the NHS was on continuous service provision and that material uncertainty disclosures and reporting would only be expected where there was material uncertainties relating to the continuous service provision by the Trust. Consequently we have reconsidered our audit planning conclusions and have revised our assessment of risk relating to going concern, reducing the audit risk from significant to standard. As a result this risk and related audit work is not included in our summary of significant findings in section 4.

Materiality

Our provisional materiality at the planning stage of the audit was set at £8,900k, using a benchmark of 1.5% of gross operating expenditure.

Our final assessment of materiality, based on the final financial statements, is £10,000k using the same benchmark of gross operating expenditure. The increase in materiality from our planning stage reflects the increases in the Group and Trust gross operating expenditure compared to the previous year.

Reliance on internal audit

We utilised the work performed by internal audit to inform our risk assessment. We did not rely on any internal audit work for the purposes of our external audit.

Use of experts

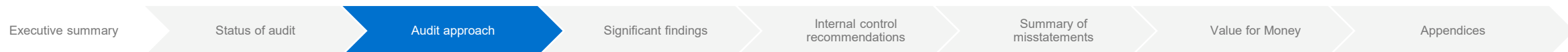
Management makes use of experts in specific areas when preparing the Trust's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management's expert	Our expert
Property valuations	Cushman & Wakefield	We reviewed market trend information to consider the reasonableness of movements in valuations.
Cash equivalent transfer values of pensions as disclosed in the Remuneration Report	NHS Pensions Agency	PwC actuarial experts provided a review of the NHS Pensions Agency.

Service organisations

The table below summarises the service organisations used by the Trust and our planned audit approach.

Item of account	Service organisation	Audit approach
Payroll	ESR IBM & East Lancs Financial Services (ELFS)	Reviewed ESR ISAE3402 controls assurance report and ELFS ISAE3402 controls assurance report Reviewed and tested the data held by the Trust



04

Section 04: **Significant findings**

4. Significant findings

In this section we outline the significant findings from our audit. These findings include:

- our audit conclusions regarding other significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 15 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant risks

Management override of controls	Description of the risk
	In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.
	<p>How we addressed this risk</p> <p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> • Accounting estimates impacting amounts included in the financial statements; • Consideration of identified significant transactions outside the normal course of business; and • Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
	<p>Audit conclusion</p> <p>Our work on estimates which are within the PP&E valuations is still to be concluded. However based on the other work completed on the risk of management override of controls there are no matters identified to report.</p>

4. Significant findings

Risk of fraud in revenue recognition	<p>Description of the risk</p> <p>The risk of fraud in revenue recognition is presumed to be a significant risk on all audits due to the potential to inappropriately shift the timing and basis of revenue recognition as well as the potential to record fictitious revenues or fail to record actual revenues.</p> <p>For the Trust we deem the risk to relate specifically to the recognition of income around the year end.</p> <hr/> <p>How we addressed this risk</p> <p>We evaluated the design and implementation of controls the Trust has in place which mitigate the risk of income being recognised in the wrong year. In addition we undertook a range of substantive procedures including:</p> <ul style="list-style-type: none">• Evaluating the Trust’s accounting policy in respect of revenue recognition to ensure that it is in line with the requirements of the DHSC Group Accounting Manual.• Reconciling revenue recognised from NHSE/I and commissioners to the underlying notifications from those organisations.• Testing a sample of other revenue by agreeing the transactions to appropriate source documentation and obtaining assurance that each item was recorded in the correct financial year and at the correct value.• Considering information provided by the Department of Health and Social Care in respect of intra-NHS transactions. <hr/> <p>Audit conclusion</p> <p>Our work has not identified any matters to report relating to the Trust’s recognition of revenue in the year.</p>
---	---

4. Significant findings

Valuation of property, plant and equipment	<p>Description of the risk</p> <p>Land and buildings are the Trust’s highest value assets.</p> <p>The Trust’s holding of PP&E includes a portfolio of land and building assets that are held at current value. Management engage a valuation expert (‘the valuer’) to provide the Trust with valuations in accordance with Royal Institution of Chartered Surveyors (RICS) requirements.</p> <p>We consider there to be a significant risk of material misstatement in relation to the valuation of the Trust’s land and buildings as a result of the:</p> <ul style="list-style-type: none"> • High degree of estimation uncertainty associated with the valuations; • Level of judgement applied by management and the valuer in estimating current values; and • Extent to which the valuations are reliant on complete and accurate source data on individual assets being provided to the valuer.
	<p>How we addressed this risk</p> <p>We evaluated the design and implementation of controls the Trust has in place which mitigate the risk.</p> <p>In addition our procedures included:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the skills, experience and qualifications of the valuer, and considering the appropriateness of the instructions to the valuer from the Trust. • Obtaining an understanding of the basis of valuation applied by the valuer in the year. This includes understanding and evaluating the methodology applied to estimate the gross replacement cost of the Trust’s operational land and buildings on a modern equivalent asset basis. • Sample testing the completeness and accuracy of underlying data provided by the Trust and used by the valuer as part of their valuations. • Testing the accuracy of how valuation movements were presented and disclosed in the financial statements. • Using relevant market and cost data to assess the reasonableness of the valuation as at 31 March 2021. • Considering the impact of any material valuation uncertainties highlighted by the valuer in their report and any associated disclosures in the Trust’s financial statements.

<p>Audit conclusion</p> <p>Our work on the revaluation of the Trust’s land and buildings is still to be completed. In particular we have queries outstanding relating to:</p> <ul style="list-style-type: none"> • the comparable land sales that inform the valuer’s land valuation; • the derivation of obsolescence factors that relate to the Trust’s modern equivalent asset (MEA); • the land area used for the MEA site; • comparable market evidence to support assets valued on an EUV basis; • changes from the prior year asset elements and obsolescence factors; and • the confirmation of the floor areas used for the Royal Blackburn site ‘phase 6’ newly constructed asset.



4. Significant findings

Key areas of management judgement

Accounting for provisions	Description of the management judgement
	<p>The Trust accounts for provisions which by their nature are based on judgements and assumptions; creating an increased level of estimation uncertainty. As well as reflecting the valuation of provisions included in the accounts, this enhanced risk reflects the risk that the Trust's accounting for provisions may not be complete or accounted for incorrectly under the GAM.</p>
	<p>How our audit addressed this area of management judgement</p> <p>We will review the basis of a sample of provisions, including corroboration of the underlying assumptions and methodologies used by management to calculate the year-end values</p> <p>Based on our knowledge of the Trust and the wider sector we will consider whether there the provisions are complete or whether there are any unrecorded liabilities in respect of provisions.</p>
	<p>Audit conclusion</p> <p>Our work on the Trust's provisions provided the planned assurance and has not identified any matters to report.</p>

Accounting for PFI	Description of the management judgement
	<p>The Trust's main hospital sites were financed using PFI, and the Trust applies a management judgement to recognise those assets in its financial statements. The accounting for PFI assets involves the use of complex models and assumptions.</p>
	<p>How our audit addressed this area of management judgement</p> <p>We will review the Trust's judgements relating to its recognition of the PFI assets in the context of the agreements and the requirements of the financial reporting framework. We will review the detailed accounting estimates and disclosures in the financial statements for compliance with the requirements of the GAM.</p>
	<p>Audit conclusion</p> <p>Our work on the Trust's PFI accounting treatment provided the planned assurance and has not identified any matters to report.</p>



4. Significant findings

Qualitative aspects of the Trust's accounting practices

We have reviewed the Trust's accounting policies and disclosures and concluded they comply with Department of Health and Social Care Group Accounting Manual 2020/21, appropriately tailored to the Trust's circumstances.

Draft accounts were received from the Trust on 27 April 2021 in line with the DHSC timetable. The quality of the initial draft accounts was good, and our initial review comments did not identify any material omissions or corrections that were required. The Trust prepared and shared supporting working papers and evidence through the audit.

Significant matters discussed with management

During the audit we maintained a regular dialogue with management. In addition to our significant risks and other areas of audit focus reported earlier in this section, among the matters discussed through these conversations were:

Valuation and accounting treatment of consumable inventory provided by DHSC

We discussed the Trust's treatment and valuation of the consumables provided by DHSC. Known as 'push-stock', the Trust has included the entire cost of these items in its operating expenditure and has not included any value in its inventory balance. We are satisfied from our discussions and audit procedures that this treatment is consistent with the requirements of the GAM and has not led to any material errors in the Trust accounts.

Recognition of items of inventories

The Trust recognises items of inventory that are described as 'theatre trays'. These trays contain items that are used in carrying out medical procedures and are reused over several years before requiring replacement. The Trust amended its approach to valuing these items and the carrying value of £0.5m is calculated at 1/6th of the cost, reflecting that the equipment has a useful life of 6 years. We discussed the Trust's approach and accounting policy in recognising these items under accounting standard IAS2. In our view these items are not correctly treated as inventory, which would require the items to be consumed in the production process or the delivery of services. In our view these items are not consumed, and as the Trust considers that they have a useful life of 6 years they are not current assets. We have discussed this issue with the Trust and we have identified a non-material unadjusted misstatement to reflect what we believe the appropriate accounting

treatment should be for these items. This is reported in section 6.

Valuation of the annual leave accrual

To reflect the significant impact of Covid-19 on the pattern of Trust staff taking annual leave the Trust has adapted its previous approach to calculating the accrual that reflects the value of leave remaining untaken at the end of the financial year. In previous years the Trust has not recognised such an accrual on the grounds of immateriality. This year, given the increased value of the untaken leave the Trust recognised this accrual. We discussed the approach with the Trust and obtained evidence to satisfy ourselves that the value included as an accrual was based on a reasonable estimate of the cost of untaken leave at the end of the financial year.

Classification of intangible assets

Our testing identified that an intangible asset purchased in the year was actually a tangible asset and was misclassified. We discussed the classification issues with management, and the Trust consequently reviewed a larger sample of intangible asset additions to establish whether other assets were similarly misclassified. This identified some additional misclassifications. In line with our audit methodology we have extrapolated the impact of these over the remaining intangible asset additions and have reported a non-material unadjusted misstatement in section 6.

Bank reconciliation process

We discussed the Trust's year end bank reconciliation processes, and in particular the treatment of items which had been paid before the year end but for which the bank processed the payments after the year end. This discussion identified that the Trust has overstated its bank balance and its trade payables balance by £2.4m. This is reported in section 6 as an adjusted misstatement.

Significant difficulties during the audit

Completing a first year audit in the Covid-19 pandemic has been challenging for both ourselves and the Trust, and we have outlined the challenges of the pandemic earlier in the report. We have had the full co-operation of and support from management through the audit and this has helped support the progress of the audit.

Executive summary

Status of audit

Audit approach

Significant findings

Internal control
recommendations

Summary of
misstatements

Value for Money

Appendices

05

Section 05:

Internal control recommendations

5. Internal control recommendations

The purpose of our audit was to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	0
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	0
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	3

5. Internal control recommendations

Other recommendations in internal control – Level 3

Description of deficiency

Our testing and the Trust’s subsequent review of intangible asset additions in the year identified that some items were classified as intangible assets when they were tangible assets. While this focused on the additions and this is the significant majority of the intangible asset balance, the Trust may have similar items included in the residual, non-material, balance of intangible assets.

Potential effects

The balance sheet may be overstating intangible assets and understating tangible assets.

Recommendation

The Trust should review the classification of all intangible assets on the fixed asset register to establish whether they are tangible or intangible assets.

Management response

Agreed. Amendments will be made in 2021-22 for the misclassifications identified for 2020-21 alongside a full review of the classification of intangible assets. In addition, processes will be reviewed to ensure future intangible asset additions are correctly classified.

Description of deficiency

Our testing of the Trust’s bank reconciliation process identified that the Trust processed a year end journal to correct the ledger and financial statements for the items which were requested paid by BACS before the year end but which were processed by the bank after the year end. In making these adjustments the Trust increased the bank and creditors balance to recognise those transactions for which the cash had not left the bank account at the year end. This treatment is incorrect and the adjustment should be to reduce the bank balance to reflect that the payments have been accounted for in the financial year.

Potential effects

The bank and trade payables balances are both overstated by the same amount.

Recommendation

The Trust should ensure its year end procedures ensure that the year end bank balance reflects payments sent for payment before the year end which are only processed by the bank after the year end.

Management response

Agreed. Related processes will be updated in 2021-22.

5. Internal control recommendations

Other recommendations in internal control – Level 3

Description of deficiency

The Trust’s payroll is administered by East Lancs Financial Services (ELFS). Among the controls that ELFS have in place is a reconciliation between the payroll system and the Trust’s general ledger. We understand from our audit enquiries that the Trust do not request a copy of that monthly reconciliation to satisfy themselves that the payroll has been completed and accurately transferred into the ledger each month.

Potential effects

The absence of the evidence of the payroll reconciliation means the Trust does not have evidence that ELFS have completely and accurately reconciled the payroll system and the ledger, and that any reconciling items are reasonable and resolved the following month.

Recommendation

The Trust should obtain and review the monthly payroll/ledger reconciliation from ELFS.

Management response

Agreed

06

Section 06:

Summary of misstatements

6. Summary of misstatements

This section outlines the misstatements identified during the course of the audit, above the trivial threshold for adjustment of £231k. The first table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and does not currently plan to adjust. Overleaf are the misstatements that have been adjusted by management during the course of the audit including the disclosure amendments.

Unadjusted misstatements

		SOCI		SOFP	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Property, Plant & Equipment			561	
	Cr: Inventories				561
	Description: The Trust has recognised items of inventory that do not appear to be current assets and do not meet the requirements of the accounting standard IAS2 to be recognised as inventory. We believe these would be most appropriately identified as items of equipment and recognised in the Property, Plant & Equipment balance.				
2	Dr: Property, Plant & Equipment			779	
	Cr: Intangible assets				779
	Description: The Trust has recognised items of intangible assets which are tangible assets, for example IT hardware. These should be classified as Property, Plant & Equipment.				
Total unadjusted misstatements		-	-	1,340	1,340

6. Summary of misstatements

Adjusted misstatements

		SOCI		SOFP	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Trade Payables			2,396	
	Cr: Cash & Bank				2,396
	Description				
	The Trust has incorrectly accounted for BACS payments made before the year end but which were processed by the bank after the year end. These payments should be recognised as being made and reducing the bank balance.				
Total adjusted misstatements				2,396	2,396

Disclosure amendments

During the course of our audit we have identified a number of disclosure adjustments required to the draft financial statements. The adjustments made include:

- Inclusion of detailed notes to support the Trust’s Intangible Assets (Note 11), Inventories (Note 13) and Capital Commitments (Note 26).
- Amendments to the minimum lease payments due in the lease disclosures in Note 7.
- Amendments to the audited information in the remuneration report in the Trust’s Annual Report.

In addition we note that the Trust, in Note 22.2 has disclosed its performance against its breakeven duty as required by NHSE/I reporting requirements. The Trust has disclosed the comparator performance for 2019/20 and then disclosed the previous years performance in 5 year bandings. The NHSE/I requirement is for the disclosure to cover each year back to 2009/10 individually, but as this would now include 10 individual years the Trust has reduced the disclosure to a five-year cumulative position for 2009/10 to 2013/14 and 2014/15 to 2018/19. We are reporting this as an unadjusted non-material disclosure in the financial statements.

07

Section 07:

Value for Money

7. Value for Money arrangements

Approach to Value for Money

We are required to consider whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **Financial sustainability** - How the Trust plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - How the Trust ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness** - How the Trust uses information about its costs and performance to improve the way it manages and delivers its services

At the planning stage of the audit, we undertake work to understand the arrangements that the Trust has in place under each of the reporting criteria and we identify risks of significant weaknesses in those arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest significant weaknesses in arrangements exist.

The table overleaf outlines the risks of significant weaknesses in arrangements that we have identified, the risk-based procedures we have undertaken, and the results of our work.

Where our risk-based procedures identify actual significant weaknesses in arrangements we are required to report these and make recommendations for improvement. Where such significant weaknesses are identified, we report these in the audit report.

The primary output of our work on the Trust arrangements is the commentary on those arrangements that forms part of the Auditor's Annual Report. We intend to issue the Auditor's Annual Report within 3 months of signing the audit opinion.

Status of our work

We are yet to complete our work in respect of the Trust arrangements for the year ended 31 March 2021, and this position is included in our draft audit report at Appendix B.

At the time of preparing this report we have not yet identified any significant weaknesses in arrangements.

We will complete our work shortly and will discuss our findings with management. Our commentary on the identified significant weaknesses and any recommendations arising will be reported to the Audit Committee in our Auditor's Annual Report.

Appendices

A: Draft management representation letter

B: Draft audit report

C: Independence

D: Other communications

Appendix A: Draft management representation letter

Karen Murray
Mazars LLP
One St Peter's Square
Manchester
M2 3DE

June 2021

Dear Karen

East Lancashire Hospitals NHS Trust and Group - audit for year ended 31 March 2021

This representation letter is provided in connection with your audit of the financial statements of East Lancashire Hospitals NHS Trust for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the Group Accounting Manual. I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Group Accounting Manual and relevant legislation and International Financial Reporting Standards (IFRS) as adapted and adopted by HM Treasury.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Trust you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Accounting Officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Executive summary

Status of audit

Audit approach

Significant findings

Internal control
recommendations

Summary of
misstatements

Value for Money

Appendices

Appendix A: Draft management representation letter (cont.)

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Board and relevant committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with Group Accounting Manual and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Trust's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Trust in making accounting estimates, including those measured at fair value, are reasonable.

I confirm that the Trust has considered the material uncertainties highlighted by the external valuer in their valuation report and has concluded that the valuations are reasonable.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Trust have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Group Accounting Manual and relevant legislation and IFRSs as adapted and adopted by HM Treasury.

Appendix A: Draft management representation letter (cont.)

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

We have complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Accounting Officer for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Trust involving; management and those charged with governance;
- employees who have significant roles in internal control; and
- others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Trust's financial statements communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Group Accounting Manual and relevant legislation and IFRSs.

I have disclosed to you the identity of the Trust's related parties and all related party relationships and transactions of which I am aware.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Executive summary

Status of audit

Audit approach

Significant findings

Internal control recommendations

Summary of misstatements

Value for Money

Appendices

Appendix A: Draft management representation letter (cont.)

Service Concession Arrangements

I am not aware of any service concession arrangements that you have not been made aware of.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Group Accounting Manual, relevant legislation and IFRSs require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Covid-19

We confirm that we have carried out an assessment of the potential impact of the Covid-19 virus pandemic on the Trust, including the impact of mitigation measures and uncertainties.

Going concern

To the best of my knowledge there is nothing to indicate that the Trust will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Specific Representations

I confirm that the value of consumables received from the Department of Health & Social Care during 2020/21 which remains unused at 31 March 2021 is immaterial to the Trust financial statements.

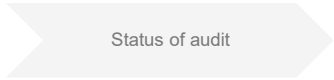
Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this letter as an Appendix.

Yours sincerely

Kevin McGee
Chief Executive and Accountable Officer

Executive summary



Status of audit

Audit approach

Significant findings

Internal control recommendations

Summary of misstatements

Value for Money



Appendices

Appendix A: Draft management representation letter (cont.)

Appendix – Unadjusted misstatements

		SOCl		SOFP	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Property, Plant & Equipment			561	
	Cr: Inventories				561
2	Dr: Property, Plant & Equipment			779	
	Cr: Intangible Assets				779
Total unadjusted misstatements		-	-	1,340	1,340

Appendix B: Draft audit report

Independent auditor’s report to the Directors of East Lancashire Hospitals NHS Trust

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the financial statements of East Lancashire Hospitals NHS Trust (‘the Trust’) for the year ended 31 March 2021, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Taxpayers’ Equity, the Statement of Cash Flows, and notes to the financial statements, including the summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards as interpreted and adapted by HM Treasury’s Financial Reporting Manual 2020/21 as contained in the Department of Health and Social Care Group Accounting Manual 2020/21, and the Accounts Direction issued by the Secretary of State with the approval of HM Treasury as relevant to NHS Trusts in England.

In our opinion, except for the possible effects of the matter described in the ‘Basis for qualified opinion’ section of our report, the financial statements:

- give a true and fair view of the financial position of the Trust as at 31 March 2021 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with the Department of Health and Social Care Group Accounting Manual 2020/21; and
- have been properly prepared in accordance with the requirements of the National Health Service Act 2006.

Basis for qualified opinion

The predecessor auditor was unable to obtain sufficient appropriate audit evidence about the existence and condition of the inventory balance held by the Trust at 31 March 2020 of £8.311 million because the predecessor auditor was unable to attend the year-end physical inventory counts due to COVID-19-related travel restrictions. Consequently, we were unable to determine whether any adjustment to this amount at 31 March 2020 was necessary, or whether there was any consequential effect on operating expenses in relation to inventory expenditure for the year ended 31 March 2021.

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities section of our report. We are independent of the Trust in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Appendix B: Draft audit report (cont.)

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Trust's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Directors and the Accountable Officer for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in Respect of the Accounts, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. The Directors are required to comply with the Department of Health and Social Care Group Accounting Manual 2020/21 and prepare the financial statements on a going concern basis, unless the Trust is informed of the intention for dissolution without transfer of services or function to another entity. The Directors are responsible for assessing each year whether or not it is appropriate for the Trust to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

As explained in the Statement of the Chief Executive's Responsibilities as the Accountable Officer of the Trust, the Accountable Officer is responsible for such internal control as the Accountable Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Accountable Officer is responsible for ensuring that the financial statements are prepared in a format directed by the Secretary of State.

Appendix B: Draft audit report (cont.)

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Trust, we identified that the principal risks of non-compliance with laws and regulations related to the National Health Service Act 2006 (as amended by the Health and Social Care Act 2012), and we considered the extent to which non-compliance might have a material effect on the financial statements.

We evaluated the Accounting Officer’s incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, and significant one-off or unusual transactions.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- discussing with management and the Audit Committee the policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the Trust which were contrary to applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management and the Audit Committee on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing; reviewing management judgements and assumptions in significant accounting estimates, and reviewing any significant one-off or unusual transactions.

Appendix B: Draft audit report (cont.)

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the Audit Committee. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

We are also required to conclude on whether the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the NAO in April 2021.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on the Trust's arrangements for securing economy, efficiency and effectiveness in the use of resources

Matter on which we are required to report by exception

We are required to report to you if, in our opinion, we are not satisfied that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have not completed our work on the Trust's arrangements. On the basis of our work to date, having regard to the guidance issued by the Comptroller and Auditor General in April 2021, we have not identified any significant weaknesses in arrangements for the year ended 31 March 2021.

We will report the outcome of our work on the Trust's arrangements in our commentary on those arrangements within the Auditor's Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception.

Responsibilities of the Accountable Officer

As explained in the Statement of the Chief Executive's Responsibilities as the Accountable Officer of the Trust, the Accountable Officer is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in the use of the Trust's resources.

Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 21(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, and to report where we have not been able to satisfy ourselves that it has done so. We are not required to consider, nor have we considered, whether all aspects of the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021.

Executive summary

Status of audit

Audit approach

Significant findings

Internal control recommendations

Summary of misstatements

Value for Money

Appendices

Appendix B: Draft audit report (cont.)

Report on other legal and regulatory requirements

Opinion on other matters prescribed by the Code of Audit Practice

In our opinion:

- the parts of the Remuneration and Staff Report subject to audit have been properly prepared in accordance with the Accounts Direction made under the National Health Service Act 2006; and
- the other information published together with the audited financial statements in the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance issued by NHS Improvement; or
- we refer a matter to the Secretary of State under section 30 of the Local Audit and Accountability Act; or
- we issue a report in the public interest under section 24 and schedule 7(1) of the Local Audit and Accountability Act 2014; or
- we make a written recommendation to the Trust under section 24 and schedule 7(2) of the Local Audit and Accountability Act 2014.

We have nothing to report in respect of these matters.

Use of the audit report

This report is made solely to the Board of Directors of East Lancashire Hospitals NHS Trust, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the Directors of the Trust those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors of the Trust, as a body, for our audit work, for this report, or for the opinions we have formed.

Executive summary

Status of audit

Audit approach

Significant findings

Internal control recommendations

Summary of misstatements

Value for Money

Appendices

Appendix B: Draft audit report (cont.)

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to satisfy ourselves that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

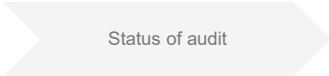
[Signature]

Karen Murray, Key Audit Partner
For and on behalf of Mazars LLP

One St Peter's Square
Manchester
M2 3DE

[Date] June 2021

Executive summary



Status of audit

Audit approach

Significant findings

Internal control
recommendations

Summary of
misstatements

Value for Money



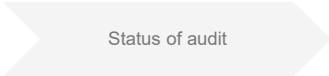
Appendices

Appendix C: Independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

Executive summary



Status of audit

Audit approach

Significant findings

Internal control recommendations

Summary of misstatements

Value for Money



Appendices

Appendix D: Other communications

Other communication	Response
Compliance with Laws and Regulations	We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations.
External confirmations	We did not experience any issues with respect to obtaining external confirmations.
Related parties	<p>We did not identify any significant matters relating to the audit of related parties.</p> <p>We will obtain written representations from management confirming that:</p> <ul style="list-style-type: none"> a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.
Going Concern	We have not identified any evidence to cause us to disagree with Those Charged With Governance that the Trust will be a going concern, and therefore we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements.

Appendix D: Other communications

Other communication	Response
<p>Subsequent events</p>	<p>We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor’s report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework.</p> <p>We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.</p>
<p>Matters related to fraud</p>	<p>We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition to the work performed by us, we will obtain written representations from management, and where appropriate Those Charged With Governance, confirming that</p> <ul style="list-style-type: none"> a. they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud; b. they have disclosed to the auditor the results of management’s assessment of the risk that the financial statements may be materially misstated as a result of fraud; c. they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving: <ul style="list-style-type: none"> i. Management; ii. Employees who have significant roles in internal control; or iii. Others where the fraud could have a material effect on the financial statements; and d. they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity’s financial statements communicated by employees, former employees, analysts, regulators or others.

Mazars

Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws.