

## **Independent Auditor's Report to the Directors of Mid and South Essex NHS Foundation Trust in respect of Mid Essex Hospital Services NHS Trust**

### **Qualified opinion on the financial statements**

We have audited the financial statements of Mid Essex Hospital Services NHS Trust (the Trust) for the year ended 31 March 2020, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2019-20 Government Financial Reporting Manual as contained in the Department of Health and Social Care's Group Accounting Manual 2019-20.

In our opinion, except for the possible effects of the matters 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 Mid Essex Hospital Services NHS Trust as at 31 March 2020 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the Department of Health and Social Care's Group Accounting Manual 2019-20; and
- have been prepared in accordance with the Health and Social Care Act 2012.

### **Basis for qualified opinion on financial statements**

In response to the effects of Covid-19 pandemic, management did not carry out the counting of physical inventories at the end of the year. As a result, we were unable to observe such procedures and were unable to obtain sufficient appropriate evidence concerning the inventory quantities held at 31 March 2020, which are included in the Statement of Financial Position at £6.92m, by using other audit procedures. Consequently, we were unable to determine whether any adjustment to this amount was necessary.

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 for the audit of the financial statements 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 Financial Reporting Council'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 qualified opinion.

### **Emphasis of matter - basis of preparation of financial statements**

As explained in Note 1.2 to the financial statements, the Trust was dissolved on 1 April 2020 having been acquired, along with Basildon and Thurrock University Hospitals NHS Foundation Trust, by Southend University Hospital NHS Foundation Trust, with the combined organisation now known as Mid and South Essex NHS Foundation Trust. The demised Trust's financial statements have, however, been prepared on a going concern basis in accordance with the requirements of the Group Accounting Manual 2019-20. Our opinion is not modified in respect of this matter.

### **Emphasis of matter - material valuation uncertainty related to property assets**

As explained in Note 17 to the financial statements, the Royal Institute of Chartered Surveyors (RICS) has issued a valuation practice alert, whereby the valuers are required to consider material uncertainties related to the valuation of property assets where the level of valuation certainty is substantially reduced as a result of the impact of Covid-19. Based on the information received from the Trust's external valuer, Management has concluded that there are material valuation uncertainties in relation to the property assets, which should be properly considered when assessing the values reported in the Statement of Financial Position. Our opinion is not modified in respect of this matter.

## Other information

The Accountable Officer is 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.

## Opinion on information in the Remuneration and Staff Report

We have also audited the information in the Remuneration and Staff Report that is subject to audit, being:

- the table of salaries and allowances of senior managers and related narrative notes;
- the table of pension benefits of senior managers and related narrative notes;
- the tables of exit packages and related notes;
- the analysis of staff numbers and related notes; and
- the table of pay multiples and related narrative notes.

In our opinion the parts of the Remuneration and Staff Report to be audited have been properly prepared in accordance with the Department of Health and Social Care's Group Accounting Manual 2019-20.

## Matters on which we are required to report by exception

### *Qualified conclusion on use of resources*

On the basis of our work, having regard to the guidance issued by the Comptroller & Auditor General in April 2020, with the exception of the matter reported in the Basis for qualified conclusion on use of resources section of our report, we are satisfied that, in all significant respects, the Trust has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

### *Basis for qualified conclusion on use of resources*

For 2019/20, the Trust had set a deficit budget of £47.2m (which was a deficit of £65.7m before central funding of £18.3m and disallowable items of £0.2m). The outturn achieved for the year was a deficit of £46.5m (being £65.2m deficit before central funding of £18.3m and disallowable items of £0.3m), which meant the Trust met the control total for the year by £0.5m and qualified for the planned central funding. The deficit increased the negative net assets brought forward at the start of the year to £56.6m.

Internal Audit performed a detailed review of the Trust's financial governance, which was reported to the Audit Committee. This review showed an improvement in the Trust's financial governance. In addition, the Head of Internal Audit issued a positive opinion for the Trust, this including a reasonable assurance conclusion in respect of the CIPs arrangements. This shows an improvement for the Trust compared to the previous period.

The Trust had significant loans from the Department of Health and Social Care, with £196m as at 31 March 2020. After the announcement by the Department of Health and Social Care (DHSC) these will all be converted to Public Dividend Capital in the new year.

The significant cumulative deficit and the negative net asset position is evidence of weaknesses in proper arrangements regarding sustainable resource deployment.

## ***Report to the Secretary of State***

On 16 June 2020 we reported to the Secretary of State under section 30 of the Local Audit and Accountability Act 2014 that the Trust has breached its statutory breakeven duty and that as a result the Trust has incurred unlawful expenditure.

### **Other matters**

We have nothing to report in respect of the following other matters which the Local Audit and Accountability Act 2014 requires us to report to you if:

- in our opinion the Annual Governance statement does not comply with the guidance issued by NHS Improvement; or
- except as reported above, we refer a matter to the Secretary of State under section 30 of the Local Audit and Accountability Act 2014 because we have reason to believe that the Trust, or an officer of the Trust, is about to make, or has made, a decision which involves or would involve the body incurring unlawful expenditure, or is about to take, or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency; or
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014; or
- we make a written recommendation to the Trust under section 24 of the Local Audit and Accountability Act 2014.

### **Responsibilities of the Directors and the Accountable Officer**

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, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Trust's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Trust or to cease operations, or have no realistic alternative but to do so.

As explained in the Statement of the Chief Executive's responsibilities as the accountable officer of the Trust, the Chief Executive is responsible for ensuring that value for money is achieved from the resources available to the Trust.

### **Auditor's responsibilities for the audit of the financial statements**

In respect of our 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

### **Auditor's other responsibilities**

We are also required under section 21(3)(c), as amended by schedule 13 paragraph 10(a), of the Local Audit and Accountability Act 2014 to be satisfied that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Section 21(5)(b) of the Local Audit and Accountability Act 2014 requires that our report must not contain our opinion if we are satisfied that proper arrangements are in place.

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.

As set out in the Matters on which we report by exception section of our report there are certain other matters which we are required to report by exception.

### **Certificate**

We certify that we have completed the audit of the accounts of Mid Essex Hospital Services NHS Trust in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

### **Use of our report**

This report is made solely to the Board of Directors of Mid and South Essex NHS Foundation Trust, as a body, in respect of Mid Essex Hospital Services NHS Trust. 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 Trust and the Board of Directors of the Trust, as a body, for our audit work, this report, or for the opinions we have formed.



David Eagles  
For and on behalf of BDO LLP, Statutory Auditor  
Ipswich, UK

25 June 2020

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