Ashford and St. Peter's Hospitals NHS
NHS Foundation Trust

COUNCIL OF GOVERNORS
7th December 2011

TITLE	**External Audit Plan 2011/12**
EXECUTIVE SUMMARY	The Council of Governors is responsible for the appointment of the External Auditors. The Audit Committee (Non Executive Directors) must make a report to the Council of Governors in relation to the Auditor which should be made after the completion of the annual audit and should asses the auditor's work and fees to ensure that the work is of a sufficiently high standards and the fees are reasonable This will be scheduled for September in 2012.[1] The Audit Committee have received and agreed the External Audit Plan for 2011/12 (attached) which includes a commitment that the Auditor will update the Governors twice a year, with a summary of the work completed and the work planned for the following year. The Governors will receive an update in September and December 2012.
The Council is asked to:	Note the External Audit Plan
Submitted by:	Terry Price, Non Executive Director, Chair of Audit Committee John Headley , Director of Finance
Date:	7th November 2011
Decision:	For Noting

[1] Your Statutory Duties; A reference guide - Monitor

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External audit plan 2011/12

Ashford and St. Peter's Hospitals NHS Foundation Trust

12 October 2011

Content

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1. Meeting your expectations
2. Quality assurance and technical capacity

This report is addressed to Ashford and St.Peter's Hospitals NHS Foundation Trust (the Trust) and has been prepared for the sole use of the Trust. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Monitor has issued a document entitled Audit Code for NHS Foundation Trusts. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

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Section one

Executive summary

Purpose of this document

The purpose of this document is to outline to you the work we will complete for you in 2011/12 and how we will go about doing that. As an NHS Foundation Trust you are a public benefit corporation as defined by the Health & Social Care (Community Health & Standards) Act 2003. The statutory responsibilities and powers of appointed auditors are set out in Chapter 5 Part 2 of the Health Act 2006.

As the Board of Ashford and St. Peter's Hospitals NHS Foundation Trust (the Trust) you are accountable for the stewardship of public funds. It is our responsibility to carry out the audit in accordance with the Audit Code for NHS Foundation Trusts (the Code) and the Annual Reporting Manual (ARM) issued by your independent regulator, Monitor.

Our responsibilities and the work we undertake

Below we set out our responsibilities, and how our work will be delivered:

Our responsibility	2011/12 proposed work
To ensure **financial statements** are appropriately prepared in accordance with relevant directions and requirements and are based on proper accounting records. *(Section Two)*	■ We will complete our systems and governance audit to confirm the controls that are in place to facilitate the production of the annual accounts. We will also liaise closely with the Director of Finance and Deputy Director of Finance in respect of emerging accounting issues during the year. We will then undertake our detailed audit of the financial statements. ■ We will monitor your processes surrounding the achievement of financial balance to ensure that the Trust can report on a going concern basis. We will also seek your assurance via the management representations letter and our report produced to comply with International Standards on Auditing (ISA) 260 prior to our formal issue of our audit opinion on the financial statements and certificate on the audit. We must also review and consider the content of the annual report before issuing our audit opinion and audit certificate. ■ We will also provide a certification to the National Audit Office (NAO) to confirm that the balances you have prepared for consolidation into the Whole of Government Accounts (WGA) are not inconsistent with our other work. *The judgements from this work will be presented in the audit opinion included within your financial statements, to be issued in May 2012.*
To identify that you have made proper arrangements to secure economy, efficiency and effectiveness in your **use of resources.** *(Section Three)*	■ In 2011/12 you will be required to prepare an Annual Governance Statement (AGS) for the first time (replacing the Statement on Internal Control). We will ensure that it is consistent with our audit knowledge of the Trust and the guidance published by Monitor. ■ In addition to this we will consider the work and findings of other regulators and inspectors for evidence that you are using resources effectively, complete any work mandated by the Care Quality Commission and complete any other work we consider necessary to satisfy ourselves that you have made proper arrangements in your use of resources. *The judgements reached from this work will be presented in our audit certificate which demonstrates we were able to complete all necessary audit work. If we consider that the AGS is inconsistent with our knowledge or there is insufficient evidence to demonstrate appropriate use of resources, we qualify the audit certificate.*
To complete the mandated review of your **Quality Report** and issue an assurance opinion on overall arrangements and specific indicators. *(Section Four)*	In 2010/11 Monitor mandated that the Quality Report should be subject to an independent assurance process resulting in the issue of a limited assurance opinion on its content in line with *Detailed Guidance on External Assurance on the Quality Report*. In 2011/12, the mandated indicators are likely to be subject to audit and also issue of a limited assurance opinion. We do not anticipate these requirements changing. The local indicator (in 2010/11 you selected: Hip fractures to surgery within 36 hours of admission) will be subject to a dry-run exercise in 2011/12. In future years this will likely require a limited assurance opinion also. *The judgements from this work will be presented in an assurance opinion to be included in your Quality Report, to be issued in May 2012.*

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Section one
Executive summary

Sector wide context

The 2011/12 period continued to be a period of risk and change for the health service. Key national factors which impact on our work include:

- **Financial pressures:** the pressure on public finances is without doubt being felt within NHS services. The average growth funding provided to commissioners for 2011/12 was 2.2%. However, there remains the need to save £15-20bn by 2013-14. This has resulted in each NHS body needing to reflect on how it will generate further efficiencies in the services it provides, whilst continuing to ensure it provides quality care and invests to improve the safety, quality and access to the patient services it provides.
- **Changing commissioning arrangements:** while the final shape and timescale for transition to a new commissioning landscape is not yet clear, the Health Act will lay the statutory foundations for the creation of clinical commissioning consortia. Your GP consortia are taking an active role in commissioning and changes are already impacting on your activity levels. As these newly formed consortia continue to develop, they present you with specific risks as they establish their own core systems and continue to develop the future commissioning strategies.
- **New regulatory requirements:** whist there has yet to be any formal change to the powers or responsibilities of your regulators, the landscape is changing. Monitor has required you for the first time to self-certify your quality governance arrangements, the Care Quality Commission has announced it's intention to visit all health providers on an annual basis and the final form of economic regulation and potential failure regime for NHS FTs is still to be announced. It is important to maintain efficient and robust governance arrangements to respond to these changes.

It is against this national background that we have completed our audit planning.

The objective of our audit

Our objectives go beyond the delivery of the opinions and reflect our desire to exceed the Trust's expectations. We will:

- deliver a robust, efficient and cost effective audit, focusing on key issues and risks, with an appreciation of commercial sensitivities and of the overall environment in which the Trust operates;
- provide recommendations, insights, thought leadership, benchmarking and technical updates on current issues, internal control and accounting and regulatory developments which are relevant to you;
- report clearly within agreed timescales; and
- co-ordinate our work, as far as possible, with Chantrey Vellacott, your current internal auditors, to avoid duplication.

In delivering these objectives, we will work closely with your staff to ensure that our work is undertaken with the minimum of disruption to your everyday functions.

Other matters

We have designed the plan to ensure that you are able to understand our audit approach and those matters which accounting and audit standards require us to communicate to you. In the remainder of this plan there is:

- **Sections 2 to 4:** which outline our methodology and response to your risks to meet each of our Code responsibilities.
- **Section 5:** a description of our approach to the charity audit.
- **Section 6:** which indicates the management arrangements, fee and timing of our work.
- **Appendix A:** sets out the expectations of how our teams will work together.
- **Appendix B:** provides you an outline of our quality control procedures (to support the Audit Committee in one its key responsibilities to understand how it can be assured that the service it receives is of an appropriate standard).

We would also ask you to note that for the purpose of our work the definition of those charged with governance is the Audit Committee for the purposes of the Trusts financial statements and the Charitable Funds Committee for the Charitable Fund Accounts. The basis of our appointment to you is set out in our engagement letter dated 16 March 2011.

KPMG conforms to the highest governance standards at all times and we will ensure that any additional services are approved by the Audit Committee to ensure transparency. ISA 260 requires us to communicate at least once a year regarding all relationships between KPMG and the Trust that may be reasonably thought to have bearing on our independence. We confirm there are none at this time.

We may need to amend this plan in response to matters that come to our attention as work proceeds. We will bring any significant changes to the attention of the Trust. We have discussed and agreed the plan with the Director of Finance and it is now presented to the Audit Committee for approval.

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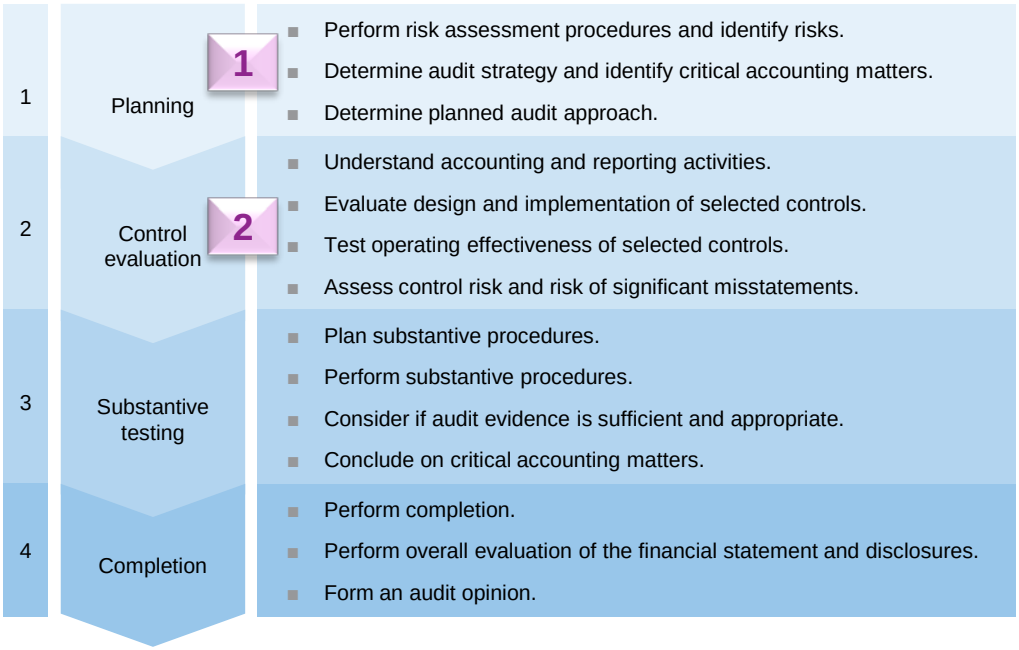
Section two
Financial statements

During our audit of your Financial Statements and Whole of Government Accounts return will work with you to meet your financial reporting responsibilities, and we will work with Chantrey Vellacott to ensure we can maximise our reliance on their work.

You are responsible for producing financial statements that comply with statutory requirements and Monitor's 2011/12 ARM. The final ARM for 2011/12 has not yet been released. As your external auditors we are required to satisfy ourselves that your financial statements comply with these statutory requirements and that proper practices have been observed in compiling the accounts. On the basis of our work we must issue an opinion on the financial statements. We must also read and consider the financial content of your annual report prior to issuing our opinion.

We have summarised the main stages of our review for you below:



1 Preliminary decision of controls or substantive approach for each audit objective.

2 Confirm decision on controls or substantive approach for each audit objective.

As part of this process, we work with the finance team to understand the accounts production process. Our procedures also include an assessment of your arrangements to deliver your responsibilities to prevent and detect fraud. The auditing standard for fraud, ISA 240 (revised), responds to the increased sensitivity to fraud and the importance given to auditors' work on fraud. Additionally, the Fraud Act 2006, the Government Review of Fraud 2006 and the UK Bribery Act 2010 may impact on your responsibilities to manage fraud. We will continue links with the Trust's Local Counter Fraud Specialist to ensure responsibilities for this are covered appropriately.

Liaising with internal audit

You have Chantrey Vellacott as your internal audit provider for the 2011/12 period. In order to maximise the effectiveness of the audit resources deployed on core financial systems and governance projects we have already agreed our internal audit protocol to understand the extent of testing that will be undertaken that we may be able to place reliance on.

Our approach to materiality

In order to understand our response to the financial statement risks identified it is important to understand how we proposed to apply materiality to our work. Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. In accordance with ISA 320 '*Audit materiality*', we plan and perform our audit to provide reasonable assurance that the financial statements are free of material misstatement and give a true and fair view.

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The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

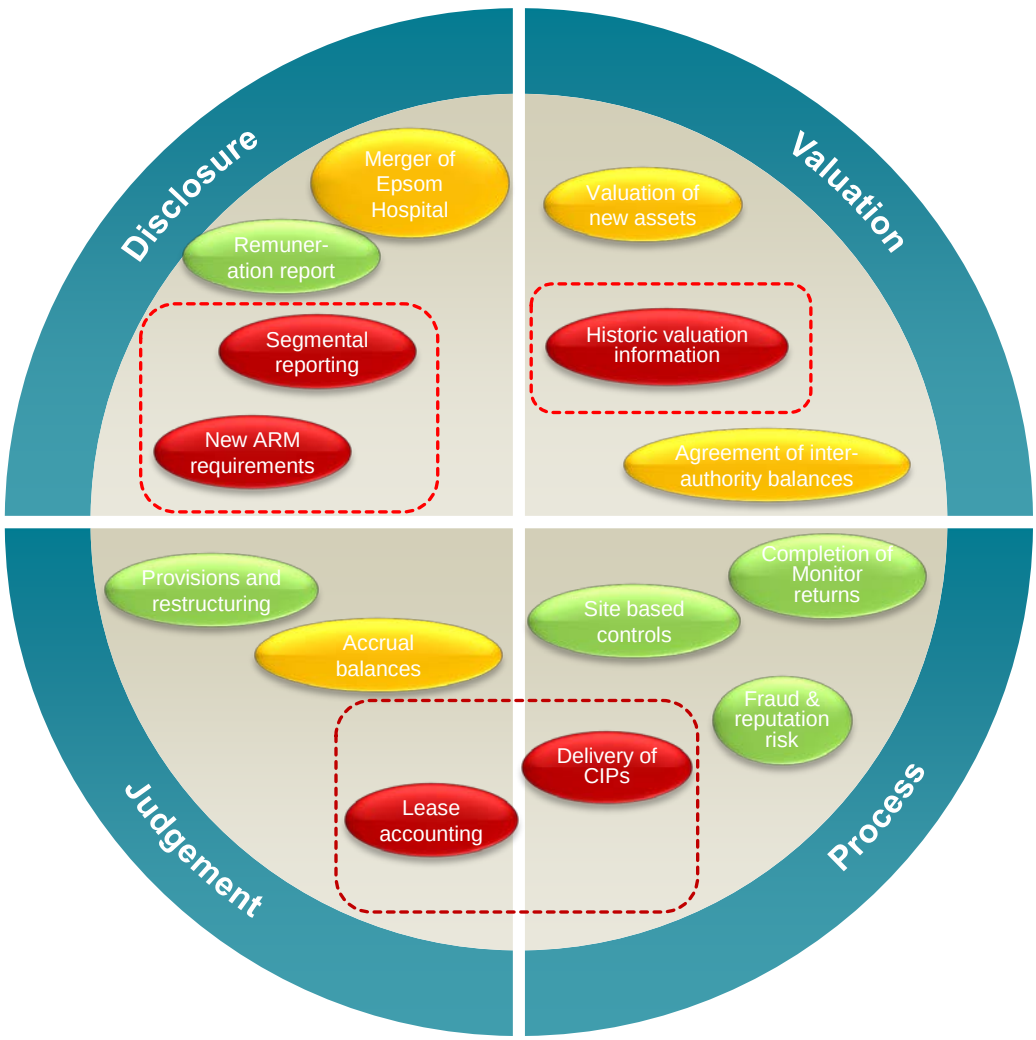
- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

An indicative level of materiality for year ending 31 March 2012 is likely to be £4.5million, based on the prior year annual accounts and on our understanding of the projected outturn of the current year. Individual materiality levels will be set for the Charity. This figure is a guide only. The overriding objective is to preserve the true and fair view presented by the financial statements and we will consider any audit differences, individually and cumulatively, in that context. We will report all uncorrected misstatements greater than £30,000, other than those that are clearly trivial, to the those charged with governance in accordance with the requirements of ISA 260.

Summary of response to financial statements opinion risks

We have undertaken our risk assessment which has been informed through discussion with management and our wider sector knowledge. Summarised opposite those risks that we have considered as part of our audit planning process, indicating whether these primarily impact disclosures, valuation, judgements or processes associated with the financial statements.

In identifying these risks we are ensuring that our audit work will focus on those which are judged to have a high impact. We have outlined over the page why we believe each of these are relevant to our financial statement responsibilities for 2011/12 and what work we will undertake to address the risk.



Note: Risk assessment
- High.
- Medium.
- Low.

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Section two
Financial statements

We have outlined below those areas we assessed as high risk in terms of their impact on our financial statements opinion:

Key audit risks	Impact on audit plan
Historic valuation information for property plant and equipment **Audit areas affected** ■ Revaluation reserve ■ Income and Expenditure reserve	■ During the 2010/11 audit we identified that historic valuation information relating to property, plant and equipment is overwritten following revaluations. By removing this information, the Trust was unable to account for the impact of changes in valuation relating to depreciation charges within the financial statements. ■ Management agreed to undertake a review of the fixed asset system in order to address this issue. ■ We will follow up on the review undertaken by the Trust as part of our interim audit and report to the Audit Committee on progress made.
Historic cost depreciation adjustment **Audit areas affected** ■ Revaluation reserve ■ Income and Expenditure reserve	■ During the 2010/11 audit we identified issues with the historic cost depreciation adjustment. A negative balance was held for equipment assets and no adjustment was charged for building assets. The error was not material for the 2010/11 audit but it will become material if the Trust does not address this issue. ■ This risk relates to the record keeping of the fixed asset register as identified above and management have agreed to undertake a review of the fixed asset system in order to address these issues. ■ We will follow up on the review undertaken by the Trust as part of our interim audit but also substantively test the historic cost depreciation adjustment as part of our year-end testing of the financial statements.
Segmental reporting **Audit areas affected** ■ Disclosure notes	■ In the 2010/11 financial statements the Trust did not apply IFRS8: Operating Segments as required by the Annual Reporting Manual (ARM) as the Trust was unable to produce financial information to a sufficient operational level. ■ The Trust Board agreed the Audit Committee will review the requirements of Segmental Reporting and provide a recommendation for the 2011/12 financial statements. ■ We will discuss the requirement for Segmental Reporting and the different reporting options with the Audit Committee.

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Section two
Financial statements

We have outlined below those areas we assessed as high risk in terms of their impact on our financial statements opinion:

Key audit risks	Impact on audit plan
New ARM requirements **Audit areas affected** ■ Accounts production ■ Audit timetable ■ Government grants ■ Donated assets	Monitor has indicated a number of planned changes to the ARM 2011/12 including: ■ Reducing the accounts production timetable with Trust submission on 20 April 2012 and reducing the audit period with expected auditor report deadline of 31 May 2012; and ■ Application of HM Treasury 2011/12 FReM in relation to government grants and donated assets where the income or asset will be recognised in the year received unless conditions are not met. ■ We will work closely with the Trust to ensure all deadlines are met and we anticipate undertaking testing on Month 9 balances as part of our interim audit visit. ■ We will also review the accounting treatment for government grants and donated assets as part of our interim visit.
Delivery of CIPs **Audit areas affected** ■ Financial standing	■ The Trust has an ambitious savings plan which as at Month 6 was behind plan. Delivery of the savings is vital for the financial stability of the Trust and its ability to act as a going concern. ■ We will review the progress made on the savings plans and will seeks assurances from the Trust over going concern.
Lease accounting **Audit areas affected** ■ Property, plant and equipment ■ Deferred liabilities	■ The Trust is funding the new office buildings through finance leases and also potentially entering into a managed equipment service which would result in a finance lease. There are specific requirements for accounting for finance leases which the Trust will need to comply with. ■ We will review the proposed accounting treatment for the finance leases as part of our interim audit.

The outcome of our audit procedures on these high priority issues will be reported back to you as part of our ISA 260. We would also be happy to provide you with further details of any of the issues outlined in our risk assessment on page 5.

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Section three
Use of resources

Our work focuses on reviewing your Annual Governance Statement, the findings of regulators and any areas we feel are necessary to review to enable us to reach a conclusion on the robustness of your use of resources. In 2011/12, the whole of the NHS FT sector will be required to produce an Annual Governance Statement rather than Statement of Internal Control

Background

We have a responsibility to satisfy ourselves that you have put in place proper arrangements to secure economy, efficiency and effectiveness in your use of resources. In meeting this responsibility we are required to review and, where appropriate, examine evidence and report on your corporate performance management and financial management arrangements.

Monitor's Audit Code requires us to specifically consider three prime sources of evidence – the AGS, work of regulators and any other work we identify as relevant – and reach a conclusion on the robustness of your arrangements in order to issue an unqualified audit certificate. We have summarised below the audit work we will perform in relation to these three areas.

Work we are required to undertake

From 2011/12, we need to include a consistency check between your AGS and the board statements required under the Compliance Framework relating to periods in the financial year, quality accounts and annual report . Importantly this year you confirm through your self-assessments under the Compliance Framework that you are meeting the standards set out within the Quality Governance Framework published by Monitor. We will ensure that we consider all of your high-level Board arrangements in these areas as part of our interim audit.

If our work in these areas raise no concerns, we will issue an unqualified audit certificate alongside the opinion on your financial statements, demonstrating that we were able to secure sufficient evidence to satisfy ourselves that your arrangements were robust.

If the AGS is not consistent with our knowledge of the Trust, we refer to this fact, and the supporting reasons, in the audit opinion and qualify the audit certificate. If the AGS is consistent with our knowledge but we cannot conclude that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, we must qualify the audit certificate.

Annual Governance Statement	Consideration of the work of regulators	Other work
You will produce an Annual Governance Statement as part of your financial statements. Our opinion will indicate whether we have found any evidence that this is inconsistent with our understanding of your operations. Key to this work will be our systems and governance audit in early 2012 and the work of Chantrey Vellacott with their Head of Internal Audit Opinion.	As part of the set up and planning process for the audit we have sought to understand the work of regulators, for example Monitor and the Care Quality Commission. We are routinely copied into your Board papers to ensure we remain up to date with this work stream. Our audit will consider the findings of other regulators in so far as it is relevant to our statutory functions, and we will provide you with a summary of our findings. Our other work will also encompass any work mandated by the Care Quality Commission.	We are required to perform other work that we regard as necessary to allow us to conclude on whether you have effectively, efficiently and economically exercised your functions. This provides us with discretion to deploy audit resources to address business issues that are considered to present a high organisational and audit risk in any particular period. We have not identified any such work which we believe is required in 2011/12.

Our audit process has been designed to ensure that we work with you throughout the year to provide you with feedback on this aspect of our work and where necessary raise performance improvement observations. Our ISA 260 will set out the results of this work.

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Quality Report

2011/12 is the second year that you will be required to publish a Quality Report with a Statement of Directors' Responsibilities and secure formal assurance from your external auditor. Our review of your Quality Report will follow the requirements set out by Monitor and will result in a limited assurance opinion being issued on the content of the Quality Report and specific data testing that we have undertaken on mandated indicators.

Background

As an NHS provider you are required by the Department of Health to publish an Annual Report which includes a Quality Report. Monitor then places a requirement on you to seek an assurance opinion on specific aspects of the Quality Report.

For 2011/12 it is anticipated that you will need to secure a limited assurance opinion on the content of your Quality Report (as was the case in 2010/11). We issued you with a clean limited assurance opinion on your 2010/11 Quality Report.

In relation to the published indicators, we also expect to be required to carry out sufficient work to provide a limited assurance opinion on the indicators that Monitor mandates (we believe this will be a choice of two indicators from a total of three). In 2010/11 we carried out a dry run exercise, but based on the work performed, believe we would have been able to issue a limited assurance opinion.

Key findings from 2010-11

You achieved a limited assurance opinion on the content of your Quality Report (which was the highest assurance possible) and we identified you needed to make improvements to your processes for assuring the quality of data underpinning the specified performance indicators.

For the locally selected indicator (in 2010/11 you selected hip fractures to surgery within 36 hours of admission), we anticipate being required to carry out a dry-run exercise again. Monitor may seek to require us to provide a limited assurance opinion in future years and we recommend you take action to confirm the view of governors as to which indicator should be selected.

2011-12 requirements

We are anticipating requirements to be as follows:

Limited assurance opinion on arrangements to prepare and publish the Quality Report

1. Review of the content of the Quality Report in line with Monitor guidance

- Board minutes
- Papers relating to quality reported to the Board
- Feedback from the commissioners
- Feedback from governors
- Feedback from LINks
- The Trust's Complaints Report
- The latest national staff survey
- The Head of Internal Audit's annual opinion
- CQC quality and risk profiles
- The latest national patient survey

Limited assurance opinion on arrangements for reporting mandated indicators (two of three – must include 62 day cancer target):

MRSA OR Clostridium Difficile AND 62 day cancer waiting time

Dry run exercise on locally selected indicator (indicator to be determined in early 2012)

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Section five
Charitable Funds

Alongside our audit of the Trust's financial statements, we have also been appointed to deliver the audit of the 2011/12 accounts of the Ashford and St. Peter's Hospitals NHS FT's Charitable Fund.

Our approach

The Charity is required to produce accounts in accordance with the Charities SORP 2005. We will perform a risk based audit on the Charity accounts focused on the key areas of risk, the key controls in place to mitigate these risks, and the key transactions.

From our discussions with management we will identify the significant risks facing the Charity and how they impact on our audit of the financial statements. These discussions will also be used to identify the significant balances and classes of transactions within the Charity accounts.

Where feasible we review and test the controls in place to mitigate these risks and regulate these classes of transactions. We then perform substantive audit procedures where necessary to confirm the reported balances.

Audit Highlights Memorandum

We will summarise the results of our audit and report them to you at the October 2012 Audit Committee. This will be in the form of an ISA 260, which will include details of any audit issues faced and their resolution, significant internal control issues and any other points we have identified. The Audit Committee is responsible for oversight of the charity and must ensure significant control issues and any other issues are resolved.

Although the aim of our audit work is to provide an audit opinion, during our work we will often make a number of observations about how the Charity's Funds are organised and operated. We will report these to management and summarise any significant issues in our audit highlights memorandum.

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Your audit team

Your audit team has been drawn from our specialist public sector assurance department and is led by two key members of staff:

- **Ross Tudor** –your Director has overall responsibility for the quality of the KPMG audit work and is the contact point within KPMG for Audit Committee, the Chief Executive, Director of Finance, Chief Nurse and Head of Corporate Affairs.
- **Eleanor Richards** – your manager is responsible for delivery of all our audit work. She is responsible for managing the completion of the different elements of our work, ensuring that they are coordinated and delivered in an effective manner.

The core audit team will be assisted by other KPMG staff, such as risk or information specialists as necessary to deliver the audit plan.

Engaging with stakeholders

We believe the test of a good audit team is how effectively they relate to the range of stakeholders at the Trust and adapt an appropriate style for each. We have set out the relationships and interfaces we will develop which we believe underpin an effective audit.

Stakeholder	Our approach
Finance team	■ Regular contact to plan, monitor and deliver the accounts and audit process. ■ Discussion of up coming technical issues. ■ Meetings to identify, confirm and report on audit findings. *This process helps us understand the Trust's proposed accounting treatment and avoids last minute 'surprises'.*
Executive Directors	■ Meetings to develop our risk assessment and understanding of issues facing the Trust. ■ Responsible for considering our draft audit reports and implementing audit recommendations. ■ Feedback on the audit process and team. *We will hold regular meetings with individual Directors to discuss and assess aspects of risk that the Trust faces. We use these discussions to inform and outline our audit approach.*
Audit Committee	■ Main audience for our reports including technical updates where we provide useful information on accounting and regulatory issues at each meeting. ■ Attendance to support our understanding of control issues as well as to present reports. ■ Review of external audit performance through key performance indicators. *We will contribute to a robust and constructive dialogue at the Trust's Audit Committee.*
Board of Governors	■ Our opinion addressed to Governors. ■ A source of assurance to Governors on Trust operations. *We will update the Governors twice a year, with a summary of the work completed and the work planned for the following year.*

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Audit management (cont.)

Audit fee

Our baseline annual audit fee for the core Trust audit is £57,500 excluding VAT (2010/11 – £137,750), Quality Accounts Opinion is £15,000 (2010/11 - £14,000) and for the Charity is £5,000 excluding VAT (2010/11 – £5,000):

Component of audit	2011/12 (Current Year	2010/11 (Prior year)
Accounts Opinion and Use of Resource Conclusion		
Financial Statements Audit	54,500	1 131,750
Whole of Government Accounts	3,000	6,000
Sub-total	57,500	137,750
Quality Accounts Opinion		
Quality Accounts Opinion	15,000	2 14,000
Sub-total	15,000	14,000
Total fee for Trust related audit work	72,500	14,000
Fee for Charitable Funds	5,000	5,000

The movement in fee can be explained as follows:

1. The audit fee in 2010/11 was significantly higher than 2010/11 due to the Trust being required to produce two sets of financial statements following authorisation to FT status in December 2010 and for two separate audits. We were also required to audit two separate WGA returns during 2010/11.

2. The increase of £1,000 in the Quality Accounts opinion fee relates to the need for us to provide public opinion on the mandated indicators for the first time in 2011/12.

This fee is for delivery of the following outputs to you in the 2011/12 accounting period:

- this audit plan;
- if necessary, an exception based systems and governance report;
- the opinion on the accounts and AGS;
- the audit certificate;
- the audit opinion of the Quality Accounts;
- the audit opinion and ISA 260 on the Charitable Funds; and
- our Audit Memorandum;

Our fee is contingent on:

- being able to fully rely on the work of your internal audit provider as agreed in the audit protocol between us and them;
- key documentation requests being provided on the agreed dates and audit queries being responded to without significant delay.

We have also assumed that there will be no significant changes to the regulatory framework you operate in and should we need to vary this fee proposed we first consult with both management and the Audit Committee.

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Audit management (cont.)

Timing of our work

We have summarised below the timeline for our work in 2011/12 to indicate when each component of the audit will be delivered and how this will be aligned to your Audit Committee dates.

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Appendix 1
Meeting your expectations

How we will conduct ourselves…

Listening to your concerns

- We will be proactive in developing relationships with staff throughout the Trust where our audit work requires their input.
- We will ensure that all letters are answered within 5 working days of receipt. All telephone messages received will receive a response within 24 hours, either by the individual concerned or Ross Tudor.
- We will ensure that all performance improvement observations, and in particular those relating to our performance management work, are included within our Annual Audit Letter having been agreed with the relevant Directors at the Trust.
- Ross or Eleanor will attend all Audit Committee meetings and ensure that other KPMG staff that have contributed to our work at the Trust are invited as appropriate.

Working together

- We will ensure that the Director of Finance, Deputy Director of Finance and other key members of staff are kept informed of the progress of our audit work throughout the year.
- We will liaise with staff at all levels of the Trust to ensure that our work is appropriately planned and completed and where recommendations are made these are agreed with the likely responsible officer.

Cooperating with the Trust

- We will continue to coordinate our work with that of internal audit and ensure that we provide appropriate proactive commentary to the finance function on issues that affect the Trust's accounts.
- We will always respond promptly to requests for comment on aspects of the Trust's operations, where appropriate.

Our expectations of your support…

Audit plan

- Brief our staff on key issues affecting the Trust.
- Review and agree the draft plan.

Interim audit

- Facilitate the completion of internal audit's work (particularly on the core financial systems) in good time for our visits.
- Ensure that key officers are available for the duration of our audit.
- Respond to and agree our draft interim report in good time.

Accounts audit

- Ensure that a full draft of the accounts is available at least one week prior to the agreed start date of our audit, and that only agreed adjustments are put into the accounts following receipt of this draft.
- Produce the documents listed within our prepared by client request by the agreed start date of our audit.
- Ensure that the mandatory content of the Annual Report is available at the agreed time of our final account audit.

Other work

- Agree a key Trust contact as a focal point for the study or work.
- Discuss and review our findings so that action plans can be fully completed and implemented.

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Appendix 2
Quality assurance and technical capacity

We continually focus on delivering a high quality audit. This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff. Quality must build on the foundations of high quality well trained staff and a robust methodology. This diagram summarises our approach and each level is expanded upon below.

1. We recruit the best staff through our rigorous selection and assessment criteria. In addition, we expect that future talent to develop with our application of most effective in-house and external training support.
2. Our audit methodology determines that we use a standardised audit approach and pro forma work papers. We also have standards of audit evidence and working papers including requirements for working paper retention.
3. At critical periods of the audit Ross and Ellie will review the work completed. Upon final completion, Ross and Ellie complete a checklist to indicate the satisfactory conclusion of the audit under the audit methodology.
4. Partners who meet certain skills and experience criteria, conduct quality control reviews of individual audits. Their role is to perform an objective evaluation of the significant accounting, auditing and financial reporting matters with a high degree of detachment from the audit team. This provides an objective assessment on the quality of our audit.
5. Peer review is undertaken across the firm, with an annual sample of our work being undertaken from a different national office. This encourages a constant focus on quality and ensures there is continuous improvement.
6. Monitor commissions a review of a sample of FT audits by the ICAEW's Quality Assurance Directorate (QAD). A summary of the results is then published. The results of the QAD review last year confirmed that our work complied with their requirements with no issues arising.

Our quality review results

We are able to evidence the quality of our audits through the results of Monitor, National Audit Office and Audit Commission reviews. None of these reviews have identified significant findings in our work.

Resolving Accounting and Financial Report Issues and Emerging Issues with the Independent Regulator

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director (based in our London office) who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA, the Audit Commission and Monitor) as well as acting as a sounding board for our auditors.
- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other publications, such as Monitor's Code of Audit Practice.
- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based and bi-monthly technical training functions.

When dealing with Monitor, as you would expect we both attend and cascade across the firm the papers considered by their Technical Issues Group for auditors. In addition, as Monitor has developed we have established a series of formal and informal relationships. These benefit both Monitor and our NHS FT clients. As a result of all of these factors, and combined with our overall audit approach, we seek to offer early warnings of issues arising with the independent regulator and provide pragmatic solutions.

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