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

COUNCIL OF GOVERNORS
17th June 2015

TITLE	**External Audit**
EXECUTIVE SUMMARY	This report from the Audit Committee outlines the performance of the external auditor over the past year since re-appointment in May 2012. It also includes a recommendation from the Audit Committee to the Council of Governors that KPMG's contract be extended for one year pending resolution of the merger.
The Council is asked to:	Discuss the report and approve the proposal to extend KPMG's contract by one year.
Submitted by:	Terry Price, Non-Executive Director and Audit Committee Chair
Date:	5th June 2015
Decision:	For Discussion and Approval

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NHS Foundation Trust

External Audit

Background

The Council of Governors re-appointed KPMG as the Trust's external auditors for a period of three years from May 2012, (with the option to extend, subject to satisfactory performance). This report from the Audit Committee outlines the performance of the external auditor over the past year.

Attendance

Attendance at Audit Committee meetings by KPMG over the period June 2014 to May 2015 has been as follows: -

9th July 2014	Philip Johnstone, Director
20th November 2014	Philip Johnstone, Director and Neil Hewitson, Director
22rd January 2015	Neil Hewitson, Director and Charlotte Goodrich, Manager
19th March 2015	Neil Hewitson, Director and Charlotte Goodrich, Manager
21st May 2015	Neil Hewitson, Director and Charlotte Goodrich, Manager

Neil Hewitson took over from Philip Johnstone as Director for the 2014/15 financial year onwards.

KPMG presented the Annual Audit Letter and technical update to the Council of Governors in 2014. KPMG also presented the results of their Governors survey to the Council of Governors in December 2014.

Reporting

At each Audit Committee meeting KPMG have updated the Committee via Progress Reports. These reports have included technical updates on a variety of matters.

At the January 2015 meeting KPMG presented, and the Committee approved, the External Audit Annual Plan for 2014/15. The engagement continued on the basis of unlimited liability. The Progress Report to the March 2015 meeting updated the Committee on the interim external audit which had been completed and the two recommendations arising from that audit.

Audit of the Accounts

The audit of the Annual Accounts and Quality Accounts for 2014/15 was completed with Audit Committee sign-off on 21st May 2015, when KPMG formally reported their audit findings in their ISA260 report. The Accounts were then approved by the Trust Board on 28th May 2015 prior to submission to Monitor on 29th May 2015.

Fees

The fees for 2014/15 totalled £68,950 plus VAT, covering the audit of the Annual Accounts and Quality Accounts. This represents an increase of £14,500 compared to 2013/14 due to the following: -

1. £6,000 is an increase in the financial statements audit as a result of the FT Accounting Reporting Manual adopting the NHS Foundation Trust Governance Code in 2014/15. The Trust is required to prepare a long form audit report for the first time in 2014/15. The increase represents the additional cost of KPMG senior and technical

staff review, and support to the finance team, Audit Committee and Governors to understand and undertake this requirement; and

2. £8,500 increase for the Quality Accounts opinion relates to the change in ISA 610 which prohibits the use of internal audit to provide direct assistance to external auditors and applies to all audits from 2014/15 onwards. As set out in KPMG's 2012/13 audit plan, they agreed two quality accounts fee options with the Trust: (i) internal audit performs work on the mandated and locally selected indicators and content of the Quality Report, upon which KPMG could rely, with a fee of £7,500; and (ii) KPMG perform all testing on mandated and locally selected indicators with a fee of £16,000. KPMG's quality accounts fee in 2012/13 and 2013/14 was £7,500 as option (i) was chosen. However as KPMG are no longer permitted to use internal audit's work as they have previously done, their fee has increased. This fee remains at 2012/13 rates.

This increase in fees was discussed and agreed at the January 2015 Audit Committee meeting.

Apart from the audit of the Trust's accounts, the only other work that KPMG undertook was the audit of the Trust's Charity accounts for 2013/14. The fee for this work was £5,600.

KPMG Contract

The 2014/15 financial year was the last year of KPMG's three year initial contract period, however it contains the option to extend, subject to satisfactory performance.

The Audit Committee discussed this matter at its meeting in March 2015 and agreed that, as it was satisfied with KPMG's performance, it would recommend to the Council of Governors that the contract be extended for one year pending resolution of the merger.

Summary

The Audit Committee is satisfied with KPMG's performance to date and recommends to the Council of Governors that the KPMG contract be extended for one year.