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

COUNCIL OF GOVERNORS
18th May 2011

TITLE	**External Auditors**
EXECUTIVE SUMMARY	The NHS Act 2006 states 'A public benefit corporation (Foundation Trust) must have an auditor. It is for the board of governors to appoint or remove the auditor at a general meeting of the board.' At the inaugural meeting of the Council it was agreed that KPMG be re-appointed as the External Auditor to the end of financial year 2011/12, subject to the appointment of a new named Partner at KPMG. The Council also agreed that a small working group of Governors be established to work with the Audit Committee to appoint the future External Auditor for 2012/13 onwards. Ross Tudor, partner KPMG, will give a short presentation to the Council on the role of the Auditor (briefing paper attached). Thereafter Ross will leave the meeting and nominations will be sought for the working group referred to above. Ideally this would be 3 Governors.
The Council is asked to:	Agree the nominations for a "Governors' audit working group" to work jointly with the Audit Committee to tender the external audit for 2012/13 onwards.
Submitted by:	John Headley Director of Finance and Information
Date:	4th May 2010
Decision:	For Decision

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Council meeting – the role of the external auditor

18 May 2011

Ashford and St Peter's Hospitals NHS Foundation Trust

Council meeting
Content

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This report is addressed to 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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Council meeting

Overview of work plan

As an NHS Foundation Trust the Trust is a public benefit corporation as defined by the Health & Social Care (Community Health & Standards) Act 2003 (the Act). Their responsibilities for financial management and financial reporting are governed by the Audit Code for NHS Foundation Trusts and the Annual Reporting Manual, both issued by the independent regulator, Monitor. Below we have set out the core work KPMG will complete for the Trust as external auditors:

Responsibility	KPMG work
To ensure **financial statements** are appropriately prepared in accordance with relevant directions and requirements and are based on proper accounting records	■ 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 continue to monitor the Trust's processes surrounding the achievement of financial balance to ensure that we can report on a going concern basis. We will also seek the Trusts assurance via the management representations letter and Report to those Charged with Governance 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. ■ As part of our 2010-11 financial statements audit we will ensure that the Trust's balances meet the requirements of International Financial Reporting Standards, HM Treasury International Annual Reporting Manual (IFReM) and the Monitor Annual Reporting Manual for 2010-11. *The judgements from this work will be presented in the audit opinion included within the Trust's financial statements, to be issued in June 2011.*
To identify that the Trust have made proper arrangements to secure economy, efficiency and effectiveness in the **use of resources**	■ We will review the Trust's statement on internal control and ensure that it is consistent with our knowledge of operations. ■ We will consider the work and findings of other regulators and inspectors for evidence that the Trust are using resources effectively. ■ We will complete any work mandated by the Care Quality Commission. At the time of writing we are not aware of any such work. ■ In addition we are required to complete any other work we consider necessary to satisfy ourselves that the Trust have made proper arrangements in their use of resources. Again at the time of writing we are not aware of any such work. *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 SIC 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 the Trust's **Quality Report** and issue an assurance opinion on overall arrangements and specific indicators	The Trust will be required to secure a limited assurance opinion on the content of the Quality Report which will be published in the report and be delivered in the same timescale as the Trust's annual accounts and audit opinion. *The judgements from this work will be presented in an assurance opinion to be included in the Trust's Quality Report, to be issued in June 2011.*

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 has been presented and approved by the Audit Committee.

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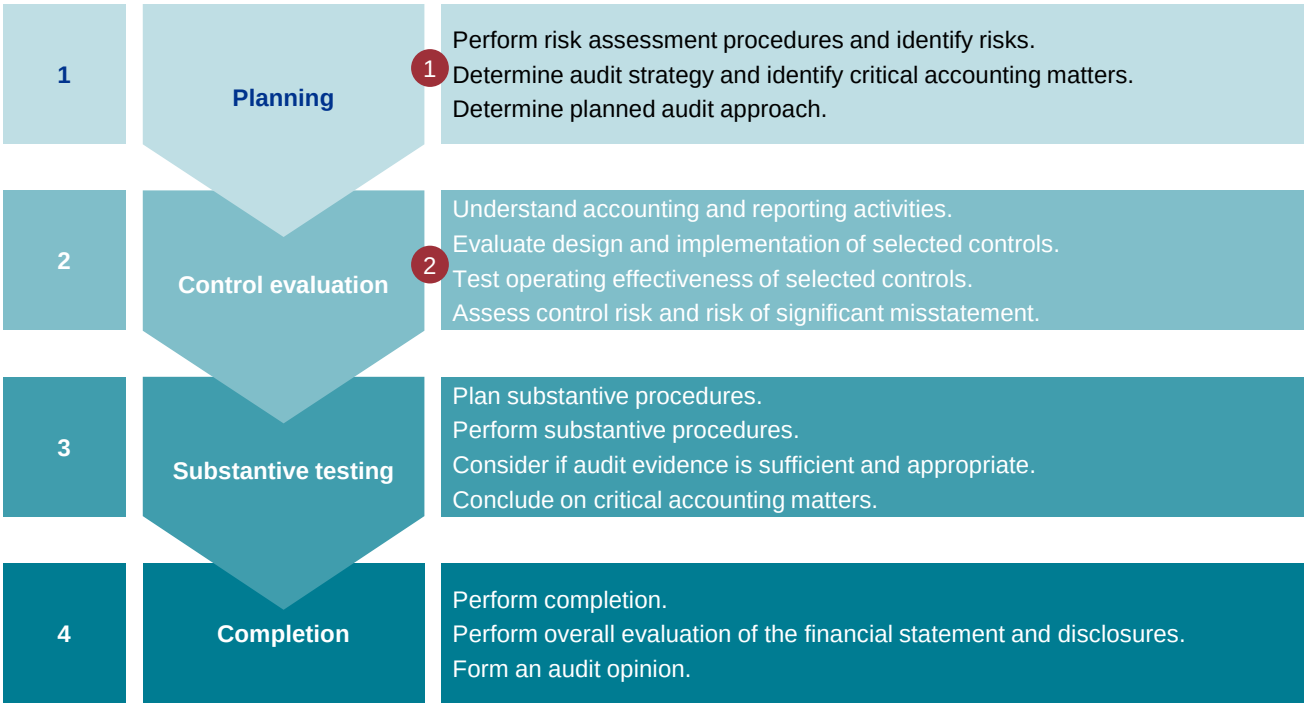
Financial statements

Our audit of the Trust's financial statements will ensure we can work with the Trust to meet their financial reporting responsibilities. We will work with the Trust's internal audit provider to ensure we can maximise our reliance on their work.

The Trust are responsible for producing financial statements that comply with statutory requirements and Monitor's 2010-11 Annual Reporting Manual (ARM).

As external auditors to the Trust we are required to satisfy ourselves that the Trust's financial statements comply with their 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 contents of the Trust's annual report prior to issuing our opinion.

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



Key:
1. Preliminary decision of controls or substantive approach for 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 the Trust's arrangements to deliver their 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 and the Government Review of Fraud 2006 may impact on the Trust's responsibilities to manage fraud. We will continue to maintain links with the Trust's appointed Local Counter Fraud Specialist.

Liaising with Internal Audit

The Trust have engaged Chancery Vellacott DVK as their internal audit provider for the 2010-11 period. In order to maximise the effectiveness of the internal and external audit relationship in terms of work on core financial systems and governance at the NHS FT, we formalise our respective roles and responsibilities with the Internal Audit Provider.

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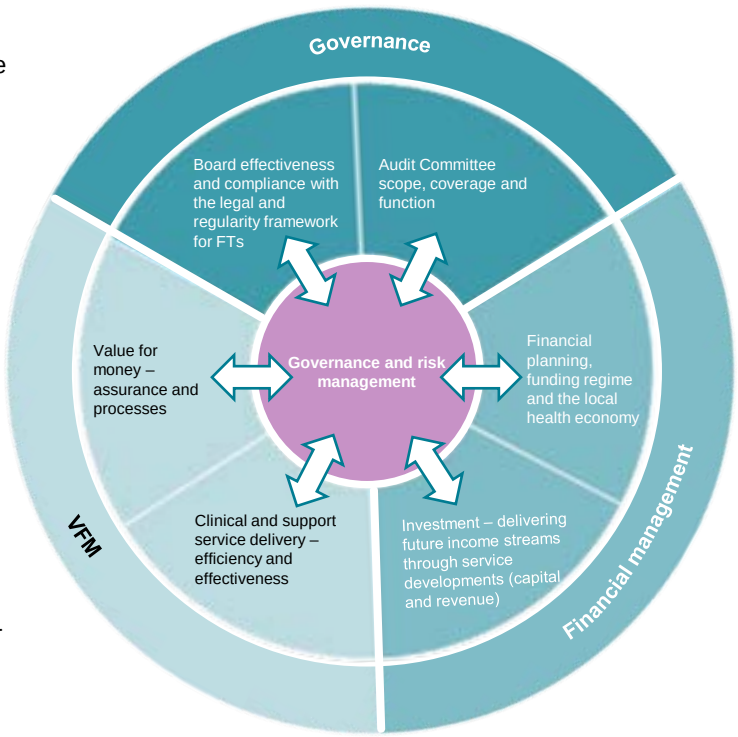
Use of resources

Our work focuses on reviewing the Trust's statement on internal control, the findings of other regulators and any areas we feel are necessary to review to enable us to reach a conclusion on the robustness of the Trust's use of resources.

We have a responsibility to satisfy ourselves that the Trust have put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources. In meeting this responsibility we are required to review and, where appropriate, examine evidence and report on their corporate performance management and financial management arrangements. The diagram on the right summarises this work. The Code requires us to specifically consider three prime sources of evidence – the Statement of Internal Control ("SIC"), work of other regulators and any other work we identify as relevant – and reach a conclusion on the robustness of the Trust's 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.



If our work in these areas raise no concerns, we will issue an unqualified audit certificate alongside the opinion on the Trust's financial statements, demonstrating that we were able to secure sufficient evidence to satisfy ourselves that the Trust's arrangements were robust. If we have concerns over the completeness of the Trust's SIC, we will mention this in the Trust's audit opinion and are required to qualify the audit certificate. If we have concerns over the Trust's use of resources, we are required to qualify the audit certificate.

Statement on internal control	Consideration of the work of other regulators	Other work
The Trust will produce a statement on internal control as part of their financial statements. Our opinion will indicate whether we have found any evidence that this is inconsistent with our understanding of the Trust's operations. Key to this work will be our systems and governance audit in early 2011 and the work of the Trust's internal audit provider in particular, the Head of Internal Audit Opinion.	As part of the planning process for the audit we have sought to understand the work of other regulators, for example Monitor and the Care Quality Commission. We are routinely copied into the Trust's 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 the Trust with a summary of our findings as part of the Report to those Charged with Governance. 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 the Trust have effectively, efficiently and economically exercised their 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 summarised on page 7 risks we have identified to date and the specific work we will undertake as part of our audit.

Our audit process has been designed to ensure that we work with the Trust throughout the year to provide them with feedback on each aspect of our work and where necessary raise performance improvement observations. Our key summary document for this work will be our Annual Report to those Charged with Governance.

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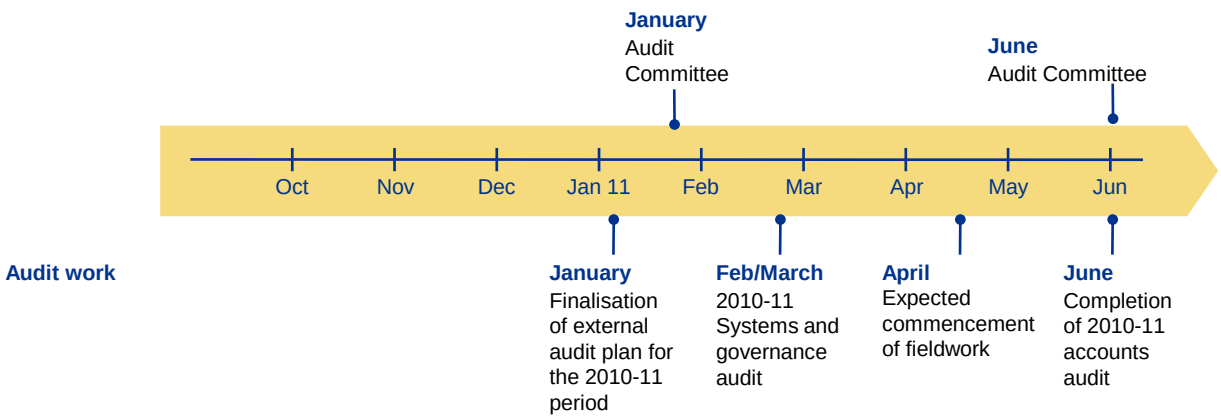
Engaging with stakeholders

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; ■ 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.
Council of Governors	■ Our opinion is addressed to Governors; ■ A source of assurance to Governors on Trust operations; We will update the Governors annually, with a summary of the work completed and the work planned for the following year.

Timing of our work

We have summarised below the timeline for our work in 2010-11 to indicate when each component of the audit will be delivered and how this will be aligned to the Trust's Audit Committee dates.



Although we are waiting on Monitor to issue final guidance on the Quality Accounts requirements for 2010/11, the consultation guidance indicates we will be required to complete this work alongside our audit of the financial statements in May.

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Quality accounts

The Trust is required by their regulator to publish a Quality Report which incorporates the quality accounts. Our review of their 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.

In April 2011, Monitor issued guidance on additional annual reporting requirements for 2010-2011. This included the need to secure a limited assurance opinion on the content of the Quality Report which will be published in the report and be delivered on the same timescale as the Trust's annual accounts and audit opinion.

The particular areas of focus of the process relating to Quality Accounts production are summarised as follows:

- amendments to the content of the Quality Report and requirements for the Statement of Internal Control;
- external assurance will be a limited assurance opinion on the content of the Quality Report. This will be further developed to include a limited assurance opinion on data accuracy of mandated performance indicators from 2011/12.
- a requirement to continue to include a Statement of Directors' Responsibilities with regard to the Quality Report in the Annual Report and a summary of the control mechanisms they have in place to assure themselves around the quality of data in the Quality Report, within the Statement on Internal Control.
- external assurance requirements on two mandated performance indicators in the Quality Report as a further year of a 'dry run' in 2010/11, leading to a published opinion in 2011/12. The indicators for 2010-11 are either MRSA or Clostridium difficile (the foundation trust is to choose) and maximum waiting time of 62 days from urgent GP referral to first treatment for all cancers.
- assurance requirements on one locally selected performance indicator in the Quality Report as a 'dry run'. Indicator to be agreed by FT Governors.

The guidance also states that the procedures carried out by the auditors should include reviews of the following:

- board minutes for the financial year;
- papers relating to the quality report presented to the Board of Directors;
- feedback provided to the Trust from LINKs, the Governors, Commissioners and other named stakeholders;
- latest national patient survey and latest national staff survey;
- CQC quality and risk profiles.

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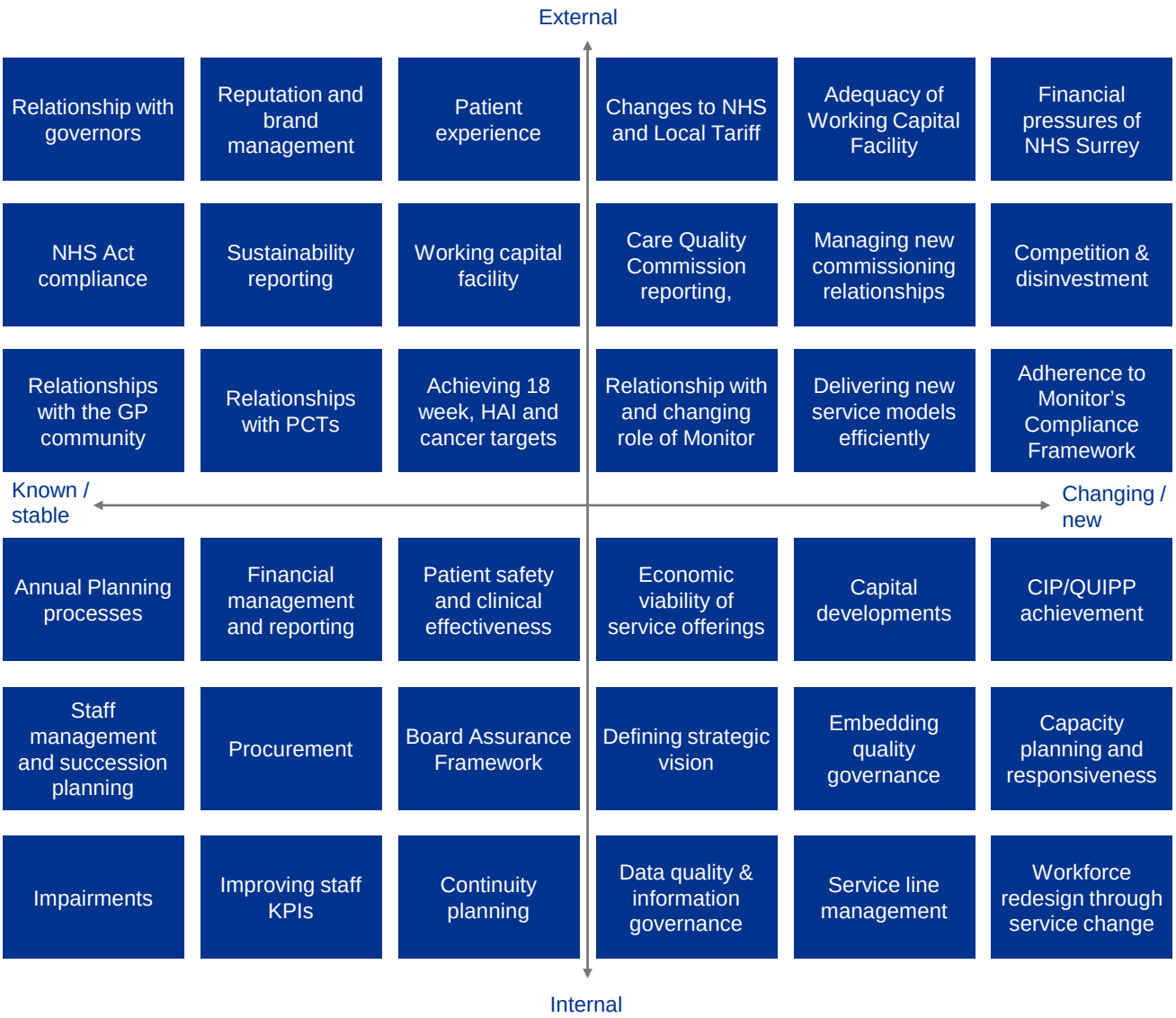
Summary risk assessment

Risk assessment

Captured below are some of the challenges and risks the Trust faces in 2010-11 mapped into a matrix which considers whether the risk is mainly internally or externally generated and whether it is known or new and changing.

This mapping helps us to prioritise the issues and to consider whether their response to these issues are proportionate – for example we expect the Board to be focusing on the changing, new risks whilst known internal risks should be managed through the routine operations of the Trust with appropriate exception reporting.

We then identify whether they might present a risk to any part of our work; our audit opinion, our certificate on the Trust's use of resources, or our assurance opinion on the Trust's quality report.



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Areas of audit focus

Our risk assessment informs our audit approach. In the table below we outline how we intend to factor consideration of the Trust's key risks into our proposed audit approach.

Area	How we will address in our audit approach and add value
	As you have been preparing for FT status, your activities have focused on the assessment process. Once FT status is achieved it is equally important that you are prepared for the reporting requirements to Monitor, the Trust and to your governors. We will keep a watching brief on the format and context of your reporting to ensure you comply with Monitor's requirements and suggest improvement areas if applicable.
	NHS Surrey have implied a cap on income levels for 2010/11. There is a risk the Trust will over-perform against the contract and not receive the income to offset the expenditure incurred. This may impact on the level of surplus delivered in year. We will review the contracts between the Trust and NHS Surrey, and other PCTs, as part of our income and debtors audit work to ensure the amounts included in the financial statements are accurate.
	The NHS FT Finance Manual for 2010/11 requires a major adaption from international accounting standards in relation to the treatment of impairments. Any impairment arising from a clear consumption of economic benefit must be taken to the revenue account regardless of whether there is balance in the revaluation reserve for this asset. If there is a balance in the revaluation reserve this should be transferred to the income and expenditure reserve. We will test in detail any impairments in-year to ensure they comply with the changes in accounting policy.
	Our experience at other FTs has highlighted that contracts between trusts and commercial working capital providers do not always provide for the use of the facility when the liquidity position deteriorates. It is important when you are agreeing working capital facilities the contract does not include clauses restricting the use of the facility in the even of financial deterioration. We will consider the wording of your contract as part of our work on assessing going concern.

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Council meeting – changes to the External Audit Code of Practice

18 May 2011

Ashford and St Peter's Hospitals NHS Foundation Trust

Proposed changes to external audit code of practice

The audit code for NHS Foundation Trusts which is published by Monitor, outlines the way in which auditors of NHS Foundation Trusts should carry out their role which was formalised in the National Health Service Act 2006 with some additional responsibilities included in the Health Act 2009. This audit code was updated by Monitor in March and in the table below we have summarised some of the main changes.

The main changes to the guidance have been additions to include quality accounts requirements, wording amendments to existing sections, inclusion of provisions on data security and insertion of relevant updates to accounting standard references.

Modifications to the Audit Process	■ Safeguarding of data received during the audit and compliance with statutory and other requirements; ■ The audit opinion should clearly define the scope of the audit; ■ The quality report should be prepared in accordance with Monitor guidance; ■ Requirement to report any concerns arising from self certifications made by the Trust; ■ Cooperation and sharing of information with the CQC and other regulators.
Additions to Audit Reporting	■ Auditors are required to report on the findings of their work on the quality report through providing a limited assurance opinion and separately reporting any findings or recommendations to the Board; ■ Auditors need to consider both the significance and scope of any regulatory findings raised by Monitor.
Amendments to Technical Support/ Quality Assurance	■ Cooperation on access to working papers required by Quality Assurance Directorate; ■ Reviews undertaken will cover all types of work including quality report and annual governance statement.
Formalising Statutory Responsibilities	■ These changes will mainly relate to strengthening existing requirements around ensuring that the Trust's financial statements have complied with the financial reporting manual, proper practices have been complied with and arrangements for the use of resources are appropriate.

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Council meeting – the external audit market place

18 May 2011

Ashford and St Peter's Hospitals NHS Foundation Trust

External audit marketplace

On August 13 2010 last, the Department of Communities and Local Government announced that the Audit Commission would be disbanded and a new decentralised audit regime would be established including a new audit framework for local health bodies. It was not outlined in this policy where the current functions of the Audit Commission would reside in the future but the new system for auditing local public bodies was expected to be in place from 2012/13. In the table below, we have outlined the main areas of responsibility of the Audit Commission and the potential changes for the Trust resulting from this announcement.

Main area of Responsibility	Potential changes
Appointment of auditors to the NHS (other than NHS FTs)	■ You have been able to appoint your own auditor since you were licensed as an NHS Foundation Trust. ■ For NHS Trusts it is expected that existing bodies will cease to exist (either having been licensed as an NHS Foundation Trust or having merged with one) by 31 March 2013, therefore no further appointments will be needed. ■ The audit arrangements for GP consortia as the successor to Primary Care Trusts have yet to be decided, at present the early indications are that the DH have indicated that if the Audit Commission no long exists it will leverage it's own framework for the appointment of auditors to these bodies.
Research on best practice in the health sector and performance assessments	■ In the past the Audit Commission has carried out and published research on managing issues and efficiencies in Foundation Trusts including national studies on collective procurement and "payment by results" supporting the NHS modernisation agenda. This also involved providing insights into good practice using case studies at FT's around the country. This role also included providing practical recommendations to policymakers on areas affecting local bodies. It is possible that this research role may be subsumed into the existing role of the National Audit Office who have a publications and reports section or by the Foundation Trust Network. ■ KPMG will continue to provide example of best practice and thought leadership based on it's international portfolio of healthcare clients. This will be made available to the Trust through the Executive Directors and Audit Committee.
Data matching	■ Data matching was a key component of the national fraud initiative of the Audit Commission . This involved helping public bodies (and some private bodies, such as KPMG LLP) by comparing sets of data such as payroll or benefits records in order to detect fraud, error and overpayments. Going forward it has yet to be decided but this role may be picked up by the National Audit Office or National Fraud Authority.
Technical and audit policy development	■ The Audit Commission often provided central guidance to audit suppliers on their interpretation of accounting standards on particular elements of the operations of the public sector. ■ This role is unlikely to be continued on the same scale. The Treasury and Monitor will continue to provide guidance on the overall accounting regime applied to NHS Foundation Trusts. Each audit supplier will then utilise their own in-house technical teams to ensure the quality and technical accuracy of their work. In KPMG we have both a national technical network for the public sector and a team of over 200 professional staff who support all our auditors in interpreting the accounting and auditing standards they are required to apply.

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