QAD reviews of 2012-13 audits of NHS Foundation Trusts
Summary of Findings

	For the purposes of these reviews, Monitor (and the Quality Assurance Department ("QAD") of the Institute of Chartered Accountants in England and Wales) divides matters arising into "Significant" and "Other". The Audit Code for NHS foundation trusts ("the Code") defines a significant matter as one where there is material non-compliance with the Code.
A	**Significant matters**
1.	Sections 1.6, 4.1 and Appendix A of the Audit Code for NHS Foundation Trusts require the auditor to be satisfied that proper practices have been observed in compiling the financial statements and that they comply with the requirements of all other provisions contained in, or having effect under, any enactment which is applicable to the accounts. Non-compliance was observed in one instance as follows: Impairments were not included in 'operating expenses' as required by paragraph 5.28 of the NHS Foundation Trust Annual Reporting Manual (ARM). Consequently, the 'operating surplus' and the surplus for the year did not include the impairments. The financial statements contained sufficient information for the reader to understand how the impairments had been accounted for, albeit, not in accordance with the requirement of ARM. This matter has been classified as "significant" because the requirement of ARM to recognise the impairment in operating expenses has not been followed. This resulted in a material misstatement of the operating surplus/deficit shown in the statement of comprehensive income. *QAD recommendation: The auditor does not accept that this is a significant matter or agree that this represents non-compliance with ARM or represents a material misstatement within the financial statements. Notwithstanding the auditor's comment, the explicit requirement of ARM to include impairments in operating expenses and hence include this item in determining operating surplus and the surplus for the year should be followed unless changes to ARM are made in the future or further guidance is issued.* <u>Monitor comment</u> Paragraph 5.28 of the 2012/13 FT ARM requires such impairments to be "recognised in operating expenses". The approach adopted in the accounts in this instance was that these impairments were presented separately beneath the operating expenses note and did not form part of 'operating expenses' in the income and expenditure part of the statement of comprehensive income. QAD's view was that FT ARM paragraph 5.28 requires such impairments to be "recognised in" operating expenses, and should therefore form part of that amount on the face of the primary statement and that preparers and auditors do not have flexibility to deviate from this requirement. Monitor agrees with QAD on this matter. Monitor discussed this matter with members of the Technical Issues Forum (attended by representatives of audit firms) and firms fed back that paragraph 5.28 of the FT ARM was understood. QAD recommended to Monitor that the finding be categorised as significant. As the impact on the primary statements in this instance was material and materially impacted upon surplus/deficit, Monitor agrees with QAD that the finding should be categorised as significant.

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B	**Other matters**
1.	Financial statements – presentation and disclosure Except for the significant matter noted above, the overall standard of presentation and disclosure of the financial statements for the sample was good and no disclosure issues were identified which would affect the overall true and fair view. However, some instances were identified where the presentation or accuracy of some disclosures could be improved. The more important issues identified were • In one case, the omission of some items from other comprehensive income in the statement of comprehensive income (the items had been accounted for correctly). • In one case, following revaluation, accumulated depreciation had not been eliminated in the property, plant and equipment note, although the relevant amounts had been correctly accounted for and disclosed in the primary statements. Other minor issues were noted in three other cases. *QAD recommendation: Auditors should continue to work with trusts to ensure that high quality financial statements are produced.* Whilst not part of the auditor's responsibility, one instance was identified where some comments in the financial review section of the annual report, whilst not being inconsistent with the financial statements, were unclear or potentially confusing. In one case the annual report and accounts did not include a separate remuneration report signed by the chief executive, although relevant disclosures were included elsewhere in the annual report and accounts. *QAD recommendation: Auditors should continue to work with Trusts to ensure that annual reports and accounts are produced to the highest standards and in compliance will all applicable requirements.*
2.	Audit work on Property, plant and equipment There were four cases where there was scope for improvement of work on property, plant and equipment, particularly around existence and ownership assertions. In three cases, the audit planning needed to explain in more detail how the audit approach to these assertions was justified. There were two cases where better documentation was required to demonstrate that appropriate work had been performed to address these assertions. *QAD recommendation: Auditors have confirmed that these points will be addressed in future audits. All auditors should note that appropriate procedures should be included to address these assertions, including brought and carried forward balances and in first year audit situations where some audit evidence may have been obtained by reviewing the predecessor auditor's work. Planning should justify the approach adopted and clearly demonstrate why the extent of work planned is appropriate.*

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3.	Documentation of audit work There were eight cases where the documentation of audit work in a few, isolated areas should have been more comprehensive, although none were considered to undermine the overall quality of the audits concerned. Whilst there were no particular recurring themes, planning considerations for accounting estimates and related parties and transactions each arose in three cases. There was one instance where substantive analytical review of income and expenditure could have been more rigorous and better documented. *QAD recommendation: The auditors of these trusts have confirmed that they will address these matters in performing future audits.*
4.	Code section 2.15 – restriction of disclosure of information As noted in the summaries for the last three years, the Code indicates that auditors should document their compliance with the restriction of disclosure of information in the audit file. Two cases were identified where this was not documented in the file, although the auditors had taken steps to ensure compliance. *QAD recommendation: The auditors have confirmed that they will review their audit procedures to ensure that this is documented as a matter of routine in the future. All auditors should note this requirement and ensure that their standard procedures include it as a required step.*
5.	Limited assurance reporting on quality report and indicators (a) In three cases, some isolated aspects of the work performed in this area should have been more clearly documented to explain fully the nature and scope of the work carried out. (b) In two cases, the annual report and accounts presented to Parliament did not include the auditors' limited assurance report, although it is accepted that this is the responsibility of the trusts and not the auditors. *QAD recommendation: The auditors of these trusts have agreed to address these points in future audits. Monitor may wish to remind trusts of the requirement to publish the auditor's limited assurance report with the annual report and accounts.*