



cutting through complexity

Harrogate and District NHS Foundation Trust

External Audit - Annual Report to Council of Governors

2014/15

29 July 2015

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This report is addressed to Harrogate and District NHS Trust ('the Trust') and has been prepared for your use only. We accept no responsibility towards any member of staff acting on their own, or to any 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 Trust. We draw your attention to this document.

External auditors do not act as a substitute for the Trust'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.

Background

International Standard on Auditing (ISA) 260 requires us to provide a summary of the work we have carried out to discharge our statutory audit responsibilities to those charged with governance (Audit Committee) at the time they are considering the financial statements. ISA 550 requires us to communicate with those charged with governance, unless they are all involved in managing the entity, significant matters arising during the audit in connection with the entity's related parties. This report, summarises the key issues we have identified during our audit of the financial statements.

As auditors we have a responsibility for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management, those charged with management or those charged with governance of their responsibilities.

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|--------------------------------------|--|
| <p>Use of Resources (UoR)</p> | <p>The Trust is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and regularly reviewing their adequacy. Our responsibility is to satisfy ourselves that Trust has proper arrangements in place by reviewing and, where appropriate, examining relevant evidence and reporting on these arrangements.</p> <p>We have reflected our judgements from the use of resources work in the certification of the audit. Our certificate issued on 27 May 2015 has provided assurance on the Trust's arrangements for achieving economy, efficiency and effectiveness in its use of resources.</p> <p>The Trust is responsible for putting into place systems of internal control to ensure the regularity and lawfulness of transactions, to maintain proper accounting records and to prepare financial statements that give a true and fair view of its financial position and its expenditure and income. It must also publish an Annual Governance Statement (AGS) within its Annual Report.</p> |
| <p>Accounts</p> | <p>This was the first year that we were required to provide a long-form audit report in relation to our financial statements audit opinion. This was required by the 2014/15 NHS FT Audit Code and follows the adoption of the new NHS Foundation Trust Code of Governance which was based on the revised UK Corporate Governance Code. ISA 700 (Revised) requires us to include details of materiality, risks and our response to those risks within our audit report. In addition we gave an opinion as to whether the contents of the Strategic Report and the Director's Report are consistent with the financial statements and whether we have identified material inconsistencies between the knowledge acquired during our audit and the director's statement that they consider that the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for patients, regulators and other stakeholders to assess the Trust's performance, business model and strategy. We also gave our opinion as to whether the part of the Remuneration Report that is required to be audited has been properly prepared or not. We also conducted a high level review of the AGS and considered whether it is consistent with the financial statements and complies with relevant guidance.</p> |

Structure of report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 outlines our findings and final conclusions on the UoR work.
- Section 4 sets out our findings on the audit of the accounts.

The table below summarises the work we have completed throughout the year and the results of the audit.

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| <p>Use of Resources and audit certification (section three)</p> | <ul style="list-style-type: none"> ■ Based on the findings of our work, we concluded that the Trust has adequate arrangements to secure economy, efficiency and effectiveness in its use of resources. ■ We are required to certify that we have completed the audit of the Trust financial statements in accordance with the requirements of the Code. If there are any circumstances under which we cannot issue a certificate, then we must report this to those charged with governance. There were no issues that caused us a delay in issuing our certificate of completion of the audit. This was issued on 27 May 2015. |
| <p>Accounts, unadjusted audit differences and management representations (section four)</p> | <ul style="list-style-type: none"> ■ On 27 May 2015, we issued an unqualified audit opinion on the accounts following the Board adopting the accounts and receipt of the management representation letter. ■ We have completed our audit of the financial statements. Our key findings were: <ul style="list-style-type: none"> – There was one unadjusted audit estimation differences. There were no other audit differences other than those which were clearly trivial and which we do not require reporting to the Audit Committee; – We agreed presentational changes to the accounts with Finance, mainly related to compliance with the FT ARM. |
| <p>Audit and Accounting issues (section four)</p> | <p>ISA 260 has been revised to require the auditor of entities applying the UK Corporate Governance Code (including those applying the Code on a voluntary basis) to report to the Audit Committee any information that the auditor believes is relevant to understanding the auditor's rationale and supporting evidence for the exercise of the auditor's professional judgement.</p> <p>We had no matters relevant to understanding our rationale and the supporting evidence for the exercise of our professional judgement or of a wider governance interest to specifically report.</p> |
| <p>Review of Annual Report and Remuneration Report (section four)</p> | <p>Our reviewed of the contents of the Annual Report (including the Strategic Report, Director's Report and Annual Governance Statement (AGS)) and audited the relevant parts of the Remuneration Report that needs auditing under FT ARM guidance. Based on the work performed :</p> <ul style="list-style-type: none"> ■ We did not identify any inconsistencies between the contents of the Strategic Report and the Director's Report and the financial statements ■ We did not identify any material inconsistencies between the knowledge acquired during our audit and the director's statement that they consider that the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for patients, regulators and other stakeholders to assess the Trust's performance, business model and strategy. <p>We were satisfied that:</p> <ul style="list-style-type: none"> ■ The part of the Remuneration Report that was required to be audited was properly prepared. ■ The AGS was consistent with the financial statements and complied with relevant guidance. ■ The report of the Audit Committee included in the Annual Report appropriately addressed matters communicated by us to the Audit Committee. |

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|---|---|
| Recommendations | <ul style="list-style-type: none"> ■ We raised one recommendations as a result of our 2014/15 audit work. This related to a new Monitor requirement for 2014/15 to have in place a definition of a significant control issue which can be applied consistently each year, when producing the Annual Governance Statement. |
| Quality Accounts (separately reported) | <p>We have completed our audit of the Trust's 2014/15 Quality Accounts. Overall, based on the work performed:</p> <ul style="list-style-type: none"> ■ The Trust achieved a clean limited assurance opinion on the content of its Quality Report which could be referenced to supporting information and evidence provided by the Trust. This represented an unqualified audit opinion on the Quality Report, which was issued on 27 May 2015. ■ This year we also tested <i>"Percentage of incomplete pathways within 18 weeks for patients on incomplete pathways at the end of the reporting period"</i> and <i>"Emergency readmissions within 28 days of discharge"</i> as the two mandated indicators. Our detailed testing on the indicators concluded that we were able to give a clear limited assurance opinion on the presentation and recording of these. ■ Our work on the local mandated indicator <i>"Maximum waiting time of 62 days from urgent GP referral to first treatment for all cancers"</i> indicated that the presentation and recording of this indicator was correct. ■ We raised one recommendation as a result of our 2014/15 work. The data reported by the Trust on the <i>"Percentage of incomplete pathways within 18 weeks for patients on incomplete pathways at the end of the reporting period"</i> indicator was not in line with the national guidance. The Trust reported adjusted rather than unadjusted elective waiting times. This means that the Trust is deducting the duration of any pathway clock pauses where they exist. This is contrary to the national guidance for this indicator which requires that the Trust does not adjust for the duration of any clock pauses. The consequence of this is that the data the Trust is reporting is not in line with the national guidance and it is overstating performance against the target of 92%. However, we gained sufficient assurance that the impact of this technical error is likely to only have change reported performance by around 0.5% which means that the Trust would still have achieved the national target. As a result, we were satisfied that we could issue a limited assurance opinion on this indicator. The Trust has agreed to take immediate action to address this issue so that future performance is reported in line with the national definition for this indicator. |
| Public Interest Reporting (not discussed further in this document) | <p>In auditing the accounts of an NHS Foundation Trust, auditors must consider:</p> <ul style="list-style-type: none"> ■ whether, in the public interest, they should make a report on any matter coming to their notice in the course of the audit, in order for it to be considered by Trust members or brought to the attention of the public; and ■ whether the public interest requires any such matter to be made the subject of an immediate report rather than at the conclusion of the audit. <p>There were no matters in the public interest that we issued any reports during 2014/15.</p> |

Introduction

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

The Code requires us to specifically consider three prime sources of evidence (the AGS, work of other regulators and any other work we identify as relevant) and reach a conclusion on the robustness of Trusts arrangements in order to issue an unqualified audit certificate.

| Element of Work | Key Findings | |
|---------------------------------|---|--|
| AGS | We reviewed the Trust's AGS to confirm whether it is consistent with our understanding of Trust operations. | We reviewed the 2014/15 AGS and took into consideration the work of internal audit. We identified a number of amendments to the AGS, which were mainly to ensure that the AGS was in line with Monitor's requirements. Management amended the AGS to reflect all of our comments. As a result, we confirmed that the AGS reflects our understanding of the Trust's operations and risk management arrangements. |
| Work of other regulators | We considered the work of relevant regulatory bodies (eg Monitor and the CQC), to determine if their work has an impact on our responsibilities. | <p>We ensured that the outcomes of any reviews by other regulatory bodies have been considered when developing the scope of our work.</p> <p>The latest Monitor risk ratings indicated that the Trust has a Continuity of Service risk rating of 3 and is rated "Green" on governance. We have reviewed Monitor correspondence received by the Trust during the year and found that there are no significant concerns which we need to consider.</p> <p>The Trust was last inspected by the CQC in 2013/14 and their overall conclusion was that <i>"Harrogate District Hospital provided care that was safe, effective, caring, responsive and well-led."</i> There was no CQC inspection on the Trust in 2014/15 but in the latest available Intelligent Monitoring Report the Trust was ranked in the second lowest risk banding. The work of the CQC does not raise any significant concerns which we need to consider.</p> <p>We have also reviewed the work of other external agencies, inspectorates and review bodies during the year. We did not identify any significant matters from this review which we need to consider.</p> |
| Other Work | We considered performing other work that we regard as necessary to enable us to conclude on whether the Trust effectively, efficiently and economically exercised its' functions. | <p>We decided it was not necessary to perform other work in order to conclude our opinion on the Trust's use of resources in 2014/15.</p> <p>Our work on the Quality Account did not highlight any areas of concern that would impact upon our use of resources conclusion.</p> |

Conclusion on use of resources

As a result of our work, we were satisfied that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

To audit Trust's financial statements we performed tasks split between those which are undertaken before, during and after the accounts production. These are summarised below:

| Work Performed | Accounts production stage | | |
|---|---------------------------|--------|-------|
| | Before | During | After |
| 1. Business Understanding: review Trust's operations. | ✓ | ✓ | – |
| 2. Controls: assess the control framework. | ✓ | – | – |
| 3. Accounting standards: agree the impact of any new accounting standards. | ✓ | ✓ | – |
| 4. Accounts Production: review the accounts production process. | ✓ | ✓ | ✓ |
| 5. Testing: test and confirm material or significant balances and disclosures. | – | ✓ | – |
| 6. Representations and opinions: seek representations before issuing our opinions. | ✓ | ✓ | ✓ |

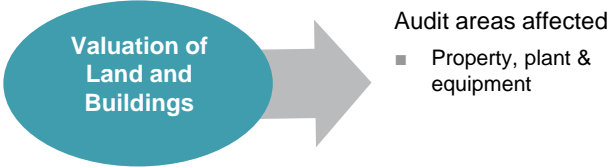
We have completed all six stages of the process. We report our key findings from each stage in the remainder of this section.

| | |
|--|--|
| Business Understanding | <ul style="list-style-type: none"> ■ In our 2014/15 audit plan we assessed Trust's current operations to identify significant issues that might have a financial consequence. ■ We have provided our findings on the key accounts audit issues on pages 9 to 12. |
| Assessment of the Control Framework | <ul style="list-style-type: none"> ■ We have assessed the effectiveness of Trust's key financial system controls in place that prevent and detect material fraud and error. We found that the financial controls on which we seek to place reliance were operating effectively. ■ We completed our review of the IT controls which prevent fraud and error in the annual accounts. There were no arising from this work which we had to report to the Audit Committee. |

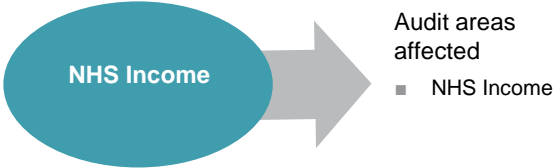
| | |
|----------------------|---|
| Accounting Standards | <ul style="list-style-type: none"> ■ We worked with the Trust to understand the changes to accounting standards, new reporting requirements identified in the ARM and other technical issues as they arise. |
| Accounts Production | <ul style="list-style-type: none"> ■ We received completed draft accounts on 22nd April 2015 a day before the Monitor's deadline. ■ The accounting policies, accounting estimates and financial statement disclosures were in line with the requirements of Monitor. <ul style="list-style-type: none"> – Significant accounting estimates and judgements were made in relation to provisions, income from partially completed spells and valuation of tangible assets. ■ Trust finance staff were available throughout the audit visit to answer our queries as they arose. ■ On our report to the Audit Committee, we thanked the finance team for their co-operation throughout the audit visit which allowed the audit to progress smoothly and complete within the allocated timeframe. |
| Testing | <ul style="list-style-type: none"> ■ In accordance with ISA 260 we communicated uncorrected misstatement to the Audit Committee. There was one unadjusted audit estimation difference. This is detailed on page 15 of this report. ■ We identified a number of minor presentational issues, which although important, did not have an impact on the figures within the accounts. These have all been adjusted for. ■ Our findings related to areas of high audit risk and audit focus are shown on pages 9 and 10. |

| | |
|--|---|
| <p>Representations and Opinions</p> | <ul style="list-style-type: none"> ■ The Trust is required to provide us with representations on specific matters such as its financial standing and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Finance Director on 11th May 2015 and we received the signed letter dated 27 May, giving us that representation . ■ This representation letter confirmed to us that the Trust has disclosed all relevant related parties to us. |
| <p>Other Accounting and Auditing Issues</p> | <ul style="list-style-type: none"> ■ We are required under ISA 260 to communicate to the Audit Committee any matters specifically required by other auditing standards and any other audit matters of governance interest. ■ As the Trust is required to comply with elements of the UK Corporate Governance Code through the FT Code of Governance, ISA 260 (16-1) also requires us to communicate to the Audit Committee any information that we believe is relevant to understanding our rationale and the supporting evidence for the exercise of our professional judgement. This includes our view of: <ul style="list-style-type: none"> – business risks relevant to the financial reporting objectives, the application of materiality and the impact of our judgements on these areas for the overall audit strategy and audit plan; – significant accounting policies; – management’s valuations of the Trust’s material asset and liabilities and the related disclosures; – the quality of management’s assessment of the effectiveness of the system of internal control included in the AGS; and – any other matters identified during the course of the audit. ■ We communicated the following matters to the Audit Committee: <ul style="list-style-type: none"> – we did not encounter any significant difficulties during the audit, – there were no significant matters arising from the audit that were discussed, or subject to correspondence with management; and – there were no matters arising from the audit that are significant to the oversight of the financial reporting process that we need to report. ■ We did not identify any other matters to specifically report. |


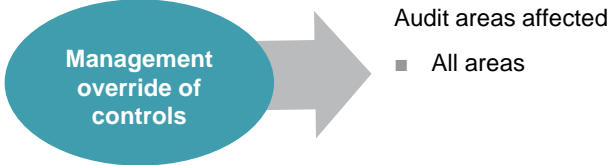
During our testing we considered a number of areas of significant risk affecting the Trust in 2014/15 and have summarised our findings below:

| Areas of SIGNIFICANT audit risk | Summary of findings |
|--|---|
|  <p>Audit areas affected</p> <ul style="list-style-type: none"> Property, plant & equipment | <p>Land and building valuation is an estimate, arrived using various assumptions and judgements. Land and buildings are required to be maintained at up to date estimates of year-end market value in existing use (EUV) for non-specialised property assets in operational use, and, for specialised assets where no market value is readily ascertainable, the depreciated replacement cost of a modern equivalent asset value (MEAV) that has the same service potential as the existing property. There is significant judgement involved in determining the appropriate basis (EUV or MEAV) for each asset according to the degree of specialisation, as well as over the assumptions made in arriving at the valuation and the condition of the asset. In particular the MEAV basis requires an assumption as to whether the replacement asset would be situated on the existing site or, if more appropriate, on an alternative site, with a potentially significant effect on the valuation.</p> <p>For 2014/15, the Group Commissioned an interim “desk-top” revaluation of all of the land and buildings, which did not involve the physical inspection of the assets. This was undertaken by an external valuer from Her Majesty’s Valuation Office Agency.</p> <p>Our audit procedures included:</p> <ul style="list-style-type: none"> assessing the competence, capability, objectivity and independence of the Group’s external valuer and considering the terms of engagement of, and the instructions issued to, the valuer for consistency with the requirements of the NHS Foundation Trust Annual Reporting Manual (FT ARM); Assessing the reasonableness of the valuation indices applied by benchmarking against those used across the health sector; Evaluating the incorporation of the valuation in to the financial statements and critically assessing the impairments have been correctly accounted for in line with applicable accounting standards and FT ARM ; Understanding and checking the reasonableness of the locational requirements of MEAV by inquiring with those charged with governance; Assessing, in the light of our knowledge of the Trust’s assets whether the selection of assets covered by the valuation included all assets since the previous full valuation; and assessing the adequacy of the disclosures in the financial statements. <p>There were no matters arising from this work that we needed to inform the Audit Committee in our ISA260 report..</p> |

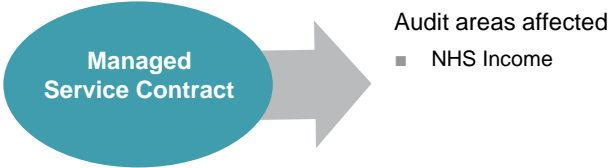
During our testing we considered a number of areas of significant risk affecting the Trust in 2014/15 and have summarised our findings below:

| Areas of Audit Focus | Summary of findings |
|---|---|
|  <p>Audit areas affected</p> <ul style="list-style-type: none"> NHS Income | <p>The main source of income for the Trust is the provision of healthcare services to the public under contracts with NHS commissioners, which make up 95% of income from activities. The Trust participated in the national Agreement of Balances (AoB) exercise for the purpose of ensuring that intra-NHS balances were eliminated on the consolidation of the Department of Health's resource accounts. The AoB exercise identifies mismatches between receivable and payable balances recognised by the Group and its commissioners, which will be resolved after the date of approval of these financial statements. Mis-matches can occur for a number of reasons such as:</p> <ul style="list-style-type: none"> the Group and commissioners record different accruals for completed periods of healthcare which have not yet been invoiced or agreed in the first place; income relating to partially completed periods of healthcare is apportioned across the financial years and the commissioners and the Group make different apportionment assumptions; accruals for out-of-area treatments not covered by direct contracts with commissioners, but authorised by, for example, GPs on behalf of commissioners, are not recognised by commissioners; or there is a lack of agreement over proposed contract penalties for sub-standard performance. <p>Our Audit Plan 2014/15 issued in January 2015 to the Audit Committee indicated this as a significant risk. Our subsequent knowledge and detail testing during the final audit indicated the actual risk is lower than anticipated. Therefore we decided this was a key area of audit focus. Due to its significant high value in the context of the financial statements as a whole, NHS income was considered to be one of the areas which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit. In response, our audit procedures in this area included:</p> <ul style="list-style-type: none"> Use the results of the AoB exercise to match Groups' NHS income with 3rd party expenditure. Investigate differences by checking the initial contract value with the 3rd party to final income reported in the financial statements. Understand the reason for the differences and critically assess the reconciling income items validity to be recognised in the Groups' financial statements. for estimated accruals relating to completed periods of healthcare, comparing a sample of accruals to the invoice raised in the new financial year and checking evidence of payment acceptance; Checked the validity of the partially completed spells by via 3rd party agreement and receipts after the year end in relation to that specific income Selecting a sample of income either side of the accounting period, assess the validity of the income to be recognised and check it has been recognised in the correct financial period. Considering the adequacy of the disclosures about the key judgements and degree of estimation involved in arriving at the estimate of revenue receivable and the related sensitivities. <p>One audit difference was identified from our work on NHS Income . This is reported in Appendix A.</p> |

During our testing we have considered a number of areas of significant risk affecting the Trust this year and have summarised our findings below:

| Areas of Audit Focus | Summary of findings |
|---|---|
|  <p>Audit areas affected</p> <ul style="list-style-type: none"> ■ NHS Income | <p>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant audit risk.</p> <p>In our External Audit Plan 2014/15, we reported that we do not consider this to be a significant risk for NHS bodies, as there is unlikely to be an incentive to fraudulently recognise revenue. This is still the case and we have therefore rebutted this presumed risk for 2014/15 at the Trust.</p> <p>However, due to its materiality in the context of the financial statements as a whole, NHS income has continued to be an area of audit focus. We have undertaken the range of routine audit procedures detailed in our External Audit Plan 2014/15 to enable us to identify if there are any potential issues around income recognition. This work included inspecting confirmations of balances provided by the Department of Health as part of the Agreement of Balances exercise, comparing the relevant income and receivable balances recorded in the Trust's financial statements to the balances recorded within the accounts of commissioners and year end cut off testing.</p> <p>There were no matters arising from this work that we needed to report to the Audit Committee.</p> <p>As we have not identified any specific fraud risks from revenue recognition, this risk was not included within our enhanced audit report issued on 27 May 2015.</p> |
|  <p>Audit areas affected</p> <ul style="list-style-type: none"> ■ All areas | <p>Professional standards require us to communicate the fraud risk from management override of controls as a significant audit risk. Management is typically in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>We did not identify any specific risks of management override relating to this audit and as a result this risk was not included within our enhanced audit report issued on 27 May 2015.</p> <p>Our audit methodology incorporates the risk of management override as a default area of audit focus. In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates (such as accruals and provisions) and significant transactions that are outside the normal course of business, or are otherwise unusual.</p> <p>There were no matters arising from this work that we needed to report to the Audit Committee.</p> |

During our testing we have considered a number of areas of significant risk affecting the Trust this year and have summarised our findings below:

| Areas of Audit Focus | Summary of findings |
|---|---|
|  <p>Audit areas affected</p> <ul style="list-style-type: none"> ■ NHS Income | <p>On 17 July 2014, the Trust signed a contract with Roche Diagnostic Limited to provide managed laboratory services. The key services include:</p> <ul style="list-style-type: none"> ▪ the provision of test results using Roche owned laboratory equipment. ▪ the provision of all necessary consumables and reagents. ▪ the installation of all the necessary software and equipment to perform the services, as well as taking ownership of some existing Trust owned equipment; and ▪ interfacing and updating of the appropriate software. <p>The Trust will pay the contractor (based on the number of tests performed) an expected annual sum of £350,000 which will be reconciled on a regular basis and then will be adjusted for actual activities within a specified period. The contract period is for 7 years, with an option to extend for an additional 3 years.</p> <p>Due to values concerned we considered this as an area of audit focus for 31 March 2015 audit.</p> <p>In response, our audit procedures in this area included a detail accounting analysis in line with applicable accounting standards specific to this scenario. The accounting analysis indicated that the Managed Service Contract does not need to be recognised in the Trusts' balance sheet. Our work indicated it is an operating lease arrangement.</p> <p>There were no matters arising from this work that we needed to report to the Audit Committee.</p> |

Finalisation of the Audit

Following consideration of the issues highlighted in this report, the Audit Committee recommended to the Board that they sign the management representations letter at the Board meeting held on 27 May 2015. The management representation letter was signed by the Board on 27 May 2015

After the receipt of the management representation letter dated 27 May 2015, we issued our audit opinion certificate on the Trust financial statements for the year ended 31 March 2015. For 2014/15 this provided confirmation that:

- Trust financial statements present a true and fair view;
- Trust has complied with Monitor's disclosure requirements set out in the NHS Foundation Trust ARM in the preparation of Trust's AGS and we are not aware of any inconsistencies with the information that Trust has recorded within this statement and our other work;
- Trust's Annual Report does not contain information which is inconsistent with its' financial statements ; and
- Trust's Remuneration Report (part to be audited) has been presented in a way which complies with the accounting requirements as set out in Monitor's NHS Foundation Trust ARM.

We did not have any other matters to draw to Trust's attention prior to issuing the audit opinion on 27 May 2015.

Independence and Objectivity

ISA 260 also requires us to make an annual declaration that we are in a position of sufficient independence and objectivity to act as the Trust's auditors. We have provided this declaration at Appendix B.

Audit Fees

Our fee for the audit in 2014/15 was £49,500 plus VAT. Our fee for the audit of the Trust's charitable fund was £2,000 plus VAT. Our fee for the external assurance on the quality report in 2014/15 was £8,000 plus VAT. All of these fees are in line with that highlighted within our audit plan issued in January 2015.

We completed one piece of additional audit work this year relating to the accounting review of the Managed Laboratory Service contract. The fee for this review was £3,950 plus VAT.

We are required by ISA (UK and Ireland) 260 Communication of Audit Matters to Those Charged with Governance to communicate all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance. As part of our planning process we agreed a definition of trivial with the Audit Committee which reflected balances below £350,000. We are also required to report all material misstatements that management has corrected but that we believe should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

This appendix sets out the audit differences that we identified following the completion of our audit of the Trust for the year ended 31 March 2015.

Unadjusted audit differences

NHS Leeds North

We identified an unadjusted audit difference relating to the estimation of income from NHS Leeds North. The Agreement of Balances exercise highlighted a difference of £0.8 million in income between the Trust and NHS Leeds North for emergency activity and readmission investment. The Trust's estimation is contested by NHS Leeds North due to lack of agreement on the calculation basis. Discussions between the two parties were on ongoing to resolve the issue. This was not considered as an error but an area of estimation uncertainty derived from lack of agreement between the two parties on how to calculate this specific income for the Trust.

Adjusted audit differences

There were no material audit differences identified during the audit.. All minor amendments have been actioned in the accounts and remuneration report:

Presentational Issues

We identified a number of minor presentational issues during our audit and these have all been amended by the Trust.

We summarise recommendations identified from our 2014/15 audit work:

| Priority rating for recommendations | | |
|---|--|---|
| <p>1 Priority one: issues that are fundamental and material to Trust's system of internal control. We believe that these issues might mean that the Trust does not meet a system objective or reduce (mitigate) a risk.</p> | <p>2 Priority two: issues that have an important effect on internal controls but do not need immediate action. The Trust may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p> | <p>3 Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit the Trust if introduced them.</p> |

| # | Risk | Issue, Impact and Recommendation | Management Response/Responsible Officer/Due Date |
|---|----------|---|---|
| 1 | 3 | <p>Annual Governance Statement</p> <p>There is a new Monitor requirement in respect of the Annual Governance Statement. Paragraph 7.99 of the Annual Reporting Manual sets out "<i>Monitor does not prescribe for foundation trusts which issues should be considered to be significant control issues. Foundation trusts should ensure that a consistent definition of what constitutes significance is applied from year to year</i>"</p> <p>In order to meet this requirement, we recommended that the Trust Board agrees the definition of a significant control issue which should be applied when preparing the Annual Governance Statement in future years. We shared an example definition with management which the Trust may want to use and adapt..</p> | <p>A piece of work will be carried out by the Trust Board to formally agree the definition of a significant control issue during 2015/16.</p> <p>Deputy Director of Governance.</p> <p>31 March 2016.</p> |

The purpose of this Appendix is to communicate all significant facts and matters that bear on KPMG LLP's independence and objectivity and to inform you of the requirements of *ISA 260 (UK and Ireland) Communication of Audit Matters to Those Charged with Governance*.

Integrity, objectivity and independence

We are required to communicate to you in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

We have considered the fees paid to us by the Trust for professional services provided by us during the reporting period. We are satisfied that our general procedures support our independence and objectivity.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail. There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to the Board of Governors.

Audit matters

We are required to comply with *ISA (UK and Ireland) 260 Communication of Audit Matters to Those Charged with Governance* when carrying out the audit of the accounts.

ISA 260 requires that we consider the following audit matters and formally communicate them to those charged with governance:

- Relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement lead and audit staff.
- The general approach and overall scope of the audit, including any expected limitations thereon, or any additional requirements.
- The selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the Trust's financial statements.
- The potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements.
- Audit adjustments, whether or not recorded by the entity that have, or could have, a material effect on the Trust's financial statements.
- Material uncertainties related to event and conditions that may cast significant doubt on the Trust's ability to continue as a going concern.
- Disagreements with management about matters that, individually or in aggregate, could be significant to the Trust's financial statements or the auditor's report. These communications include consideration of whether the matter has, or has not, been resolved and the significance of the matter.

Audit matters (cont.)

- Expected modifications to the auditor's report.
- Other matters warranting attention by those charged with governance, such as material weaknesses in internal control, questions regarding management integrity, and fraud involving management.
- Any other matters agreed upon in the terms of the audit engagement.

We continue to discharge these responsibilities through our attendance at Audit Committees, commentary and annual audit letter and, in the case of uncorrected misstatements, through our request for management representations.

Auditor Declaration

In relation to the audit of the financial statements of the Trust for the financial year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and the Trust, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards in relation to independence and objectivity.



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