

Annual governance report

Sheffield Teaching Hospitals NHS Foundation Trust
Audit 2010/11

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

Contents

Key messages	3
Audit opinion	3
Financial statements	3
Value for money	3
Quality report	4
Audit fees	4
Independence	4
Financial statements	5
Value for money	8
Appendix 1 Independent auditor’s report	9
Appendix 2 Independent assurance report on the Quality Report	11
Appendix 3 Letter of representation	14
Appendix 4 Glossary	17

Letter to Members of the Audit Committee

2010/11 Annual Governance Report

I am pleased to present my report on the results of my audit work for 2010/11.

An initial draft was discussed and agreed with the Director of Finance on 20 May 2011 and the report was finalised following the 26 May Audit Committee.

The report sets out the key issues that you considered before I completed the audit.

I asked you to:

- consider the matters raised in the report before approving the financial statements;
- take note of the adjustments to the financial statements which are set out in this report;
- note my limited assurance report on your Quality Report; and
- approve the letter of representation on behalf of the Trust before I issue my opinion and conclusion.

These actions were taken at the 26 May Audit Committee meeting.

Yours faithfully

Damian Murray
Engagement Lead

2 June 2011

Key messages

This report summarises the findings from my 2010/11 audit which, other than carrying out my closing procedures, is now complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources. It also includes my proposed limited assurance conclusion on your Quality Report.

Table 1: **Key messages – financial statements**

Financial statements	Results
Unqualified audit opinion	Yes
Important weaknesses in internal control	None
Value for money	Results
Proper arrangements to secure value for money	Yes
Quality Report	Results
No adverse matters to report	Yes

Audit opinion

1 I issued an audit report including an unqualified opinion on the financial statements on 27 May 2011.

Financial statements

2 There were no material errors identified from my audit of the financial statements. The majority of amendments to the accounts related to improvements in the disclosure of information.

Value for money

3 I did not identify any matter that led me to conclude that the Trust did not have in place adequate arrangements for securing economy, efficiency and effectiveness. I therefore issued an unqualified certificate at the conclusion of my audit.

Quality report

4 No matters came to my attention that caused me to believe that, for the year ended 31 March 2011, the content of the Quality Report was not in accordance with the NHS Foundation Trust Annual Reporting Manual.

5 I will report separately to you and the Governors' Council on my detailed findings. A draft of this report was presented to the 26 May Audit Committee meeting.

Audit fees

6 I increased the audit fee by:

- £1,750 plus VAT for the audit of whole of government accounts; and
- £5,338 plus VAT for our assurance work on your Quality Report.

7 The increases arose due to changes in Monitor's Code.

Independence

8 I can confirm that I have complied with the Audit Practice Board's ethical standards for auditors, including ES 1 (revised) – Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

9 The Audit Commission's Audit Practice has not undertaken any non-audit work for the Foundation Trust during 2010/11.

Financial statements

The Trust's financial statements and statement on internal control are important means by which the Trust accounts for its stewardship of public funds. As Directors you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the statement on internal control.

Key areas of judgement and audit risk

10 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Table 2: **Key areas of judgement and audit risk**

Issue or risk	Finding
The Trust is currently working hard to ensure that it generates sufficient income and achieves the required level of cost savings to ensure that it achieves its annual plan. At the time of drafting this audit plan the Trust is in deficit against its plan. Furthermore, Sheffield PCT the main purchaser of the Trust's services is experiencing its own financial difficulties.	I have carried out procedures to ensure material agreement of income and expenditure, and, debtor and creditor balances with the South Yorkshire and North Derbyshire PCTs. I have monitored the Trust's financial position over the final months of the year, noting that whilst some Directorates continued to overspend, there were sufficient central reserves to cover this.
The Trust, in common with most NHS bodies is in receipt of equal pay claims. Currently, in line with National guidance, there is no provision for any costs that might arise from such claims	You have not recognised any actual or contingent liability. This is consistent with the guidance that the possibility of any claims coming to fruition is remote.
Monitor's Annual Reporting Manual (ARM) has not yet been finalised.	I am satisfied that you have responded appropriately to changes in the ARM.
The Trust is associated with a number of spin off companies but we have not seen any recent detail relating to the sums involved.	I am satisfied that the sums involved are likely to be trivial but I asked you to confirm this in the Letter of Representation.

Opinion on the financial statements

11 I issued an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my audit report.

Amendments to the financial statements and financial reporting

12 My audit has not led to any changes in the Trust's revenue position but I did identify a number of changes required to the disclosures in the accounts. Most of these were minor in nature or cosmetic and did not need to be reported to the Audit Committee.

13 The following amendments were made to the draft accounts.

- Reduction in both income and expenditure on Research and Development of £3,874,000 to reflect the fact that you are acting as agent and therefore do not need to account for the gross transactions.
- Reclassification of income totalling £4,797,000 to recognise that it relates to Research and Development.
- Updating employee number disclosures for 2009/10 as you originally disclosed the 2008/09 totals.
- Enhancement of the Private Finance Initiative disclosures to better reflect new requirements in the ARM.
- Inclusion of four additional NHS FTs and the Foundation Trust Financing Facility as related parties. The related party note was also extended to disclose impaired receivables from NHS bodies of £1,976,000 along with the amount recognised in the income statement in respect of those debts, a recovery of £1,574,000.
- Addition of a disclosure note in relation to exit packages to meet Monitor's requirements.

14 I also noted a number of changes to the comparative figures in the accounts but am satisfied that these relate to improvements in the presentation of information and do not constitute prior period adjustments.

Unadjusted items

15 There were no unadjusted items.

Material weaknesses in internal control

16 Our audit did not identify any material weaknesses in internal control.

Quality of your financial statements

17 I considered aspects of your accounting practices, accounting policies, accounting estimates and financial statement disclosures.

18 There were no matters that I wished to bring to your attention.

Quality report

19 I have:

- reviewed the content of your quality report to consider whether it has been prepared in line with the requirements set out in the NHS Foundation Trust Annual Reporting Manual and whether it is consistent with the other information sources as set out in that guidance; and
- substantively sample tested two mandated performance indicators and one locally selected indicator.

20 This review did not lead to any matters coming to my attention that caused me to believe that the content of the Quality Report was not in accordance with the requirements of the NHS Foundation Trust Annual Reporting Manual. I issued an assurance report to this effect as set out in appendix 2.

21 I am required to report separately to you and the Governors' Council on my detailed findings and will issue this report to you in accordance with Monitor's requirements. A draft report will be submitted to the 26 May Audit Committee.

Letter of representation

22 Before I issued my opinion, auditing standards required me to ask for written representations about your financial statements and governance arrangements. Appendix 3 sets out the content of the letter of representation.

Value for money

I am required to conclude whether the Foundation Trust put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources.

23 In doing so, I am required to consider:

- your Statement on Internal Control; and
- reports of regulatory bodies.

24 My review did not identify any matter that would lead me to believe that the Foundation Trust did not have in place proper arrangements for securing economy, efficiency and effectiveness. I therefore issued an unqualified certificate at the conclusion of my audit. Appendix 1 contains the wording of the certificate.

Appendix 1 Independent auditor's report

Independent Auditor's report to the Governors' Council of Sheffield Teaching Hospitals NHS Foundation Trust

I have audited the financial statements of Sheffield Teaching Hospitals NHS Foundation Trust for the year ended 31 March 2011 under the National Health Service Act 2006. The financial statements comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Taxpayers' Equity, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the Governors' Council of Sheffield Teaching Hospitals NHS Foundation Trust in accordance with paragraph 24(5) of Schedule 7 of the National Health Service Act 2006. My audit work has been undertaken so that I might state to the Governors' Council those matters I am required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, I do not accept or assume responsibility to anyone other than the Foundation Trust as a body, for my audit work, for this report or for the opinions I have formed.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

My responsibility is to audit the financial statements in accordance with applicable law, the Audit Code for NHS Foundation Trusts and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Trust's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Trust; and the overall presentation of the financial statements. I read all the information in the annual report to identify material inconsistencies with the audited financial

statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the state of affairs of Sheffield Teaching Hospitals NHS Foundation Trust's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the accounting policies directed by Monitor as being relevant to NHS Foundation Trusts.

Opinion on other matters

In my opinion the information given in the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the Statement on Internal Control on which I report to you if, in my opinion the Statement on Internal Control does not reflect compliance with Monitor's requirements.

Certificate

I certify that I have completed the audit of the accounts of Sheffield Teaching Hospitals NHS Foundation Trust in accordance with the requirements of the National Health Service Act 2006 and the Audit Code for NHS Foundation Trusts issued by Monitor.

Damian Murray
Officer of the Audit Commission

3 Leeds City Office Park
Holbeck
Leeds
LS11 5BD

27 May 2011

Appendix 2 Independent assurance report on the Quality Report

Independent Assurance Report to the Governors' Council of Sheffield Teaching Hospitals NHS Foundation Trust on the Annual Quality Report

I have been engaged by the Governors' Council of Sheffield Teaching Hospitals NHS Foundation Trust to perform an independent assurance engagement in respect of the content of Sheffield Teaching Hospitals NHS Foundation Trust's Quality Report for the year ended 31 March 2011 (the 'Quality Report').

Scope and subject matter

I read the Quality Report and consider whether it addresses the content requirements of the NHS Foundation Trust Annual Reporting Manual, and consider the implications for my report if I become aware of any material omissions.

Respective responsibilities of the Directors and auditor

The Directors are responsible for the content and the preparation of the Quality Report in accordance with the criteria set out in the NHS Foundation Trust Annual Reporting Manual 2010/11 issued by the Independent Regulator of NHS Foundation Trusts ('Monitor').

My responsibility is to form a conclusion, based on limited assurance procedures, on whether anything has come to my attention that causes me to believe that the content of the Quality Report is not in accordance with the NHS Foundation Trust Annual Reporting Manual or is inconsistent with the documents.

I read the other information contained in the Quality Report and consider whether it is materially inconsistent with:

- Board minutes for the period April 2010 to March 2011;
- Papers relating to Quality reported to the Board over the period April 2010 to March 2011;
- Feedback from NHS Sheffield dated 5 May 2011;
- Feedback from Governors dated 20 May 2011;
- Feedback from LINKs dated 6 May 2011;
- The Trust's Healthcare Governance Committee Annual Complaints Report for 2009/10 dated 29 November 2010;
- The 2010 national patient survey;
- The 2010 national staff survey;

- The Head of Internal Audit's annual opinion over the Trust's control environment dated 26 May 2011; and
- Care Quality Commission quality and risk profiles dated March 2011.

I consider the implications for my report if I became aware of any apparent misstatements or material inconsistencies with those documents (collectively, the 'documents'). My responsibilities do not extend to any other information.

This report, including the conclusion, has been prepared solely for the Governors' Council of Sheffield Teaching Hospitals NHS Foundation Trust as a body, to assist the Governors' Council in reporting Sheffield Teaching Hospitals NHS Foundation Trust's quality agenda, performance and activities. I permit the disclosure of this report within the Annual Report for the year ended 31 March 2011, to enable the Governors' Council to demonstrate it has discharged its governance responsibilities by commissioning an independent assurance report in connection with the Quality Report. To the fullest extent permitted by law, I do not accept or assume responsibility to anyone other than the Governors' Council as a body and Sheffield Teaching Hospitals NHS Foundation Trust for my work or this report save where terms are expressly agreed and with my prior consent in writing.

Assurance work performed

I conducted this limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) – 'Assurance Engagements other than Audits or Reviews of Historical Financial Information' issued by the International Auditing and Assurance Standards Board ('ISAE 3000'). My limited assurance procedures included:

- making enquiries of management;
- comparing the content requirements of the NHS Foundation Trust Annual Reporting Manual to the categories reported in the Quality Report; and
- reading the documents.

A limited assurance engagement is less in scope than a reasonable assurance engagement. The nature, timing and extent of procedures for gathering sufficient appropriate evidence are deliberately limited relative to a reasonable assurance engagement.

Limitations

It is important to read the Quality Report in the context of the criteria set out in the NHS Foundation Trust Annual Reporting Manual.

Conclusion

Based on the results of my procedures, nothing has come to my attention that causes me to believe that, for the year ended 31 March 2011, the content of the Quality Report is not in accordance with the NHS Foundation Trust Annual Reporting Manual.

Damian Murray
Officer of the Audit Commission

3 Leeds City Office Park
Holbeck
Leeds
LS11 5BD

27 May 2011

Appendix 3 Letter of representation

Mr D Murray
Engagement Lead
Audit Commission
3 Leeds City Office Park
Holbeck
Leeds
West Yorkshire
LS11 5BD

Dear Mr Murray

Sheffield Teaching Hospitals NHS Foundation Trust – Audit for the year ended 31 March 2011

We confirm to the best of our knowledge and belief, having made appropriate enquiries of other directors of Sheffield Teaching Hospitals NHS Foundation Trust the following representations given to you in connection with your audit of the Trust's financial statements for the year ended 31 March 2011. All representations cover the Trust's accounts included within the financial statements.

Compliance with the statutory authorities

We have fulfilled our responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the NHS Foundation Trust Annual Reporting Manual 2010/11 which give a true and fair view of the financial position and financial performance of the Trust, for the completeness of the information provided to you, and for making accurate representations to you as set out in the engagement letter.

Supporting records

All relevant information and access to persons within the entity as agreed in the engagement letter has been made available to you for the purpose of your audit, and all the transactions undertaken by the Trust have been properly reflected and recorded in the financial statements.

Irregularities

We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

We also confirm that we have disclosed:

- our knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- our knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

We have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Trust has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

We confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Investment companies

The Trust has holdings in Zilico (formerly Aperio) Diagnostics and Epaq, companies commercially developing intellectual property. The Trust's holdings in these companies were at a minimal value at the balance sheet date.

Related party transactions

We confirm that we have disclosed the identity of Sheffield Teaching Hospitals NHS Foundation Trust related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statement, have been adjusted or disclosed.

We confirm that this letter has been discussed and agreed by the Audit Committee under delegated authority from the Board on 26 May 2011.

Signed on behalf of Sheffield Teaching Hospitals NHS Foundation Trust.

Sir Andrew Cash OBE

26 May 2011

Chief Executive

Neil Priestley

26 May 2011

Director of Finance

Appendix 4 Glossary

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality (and significance)

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

‘Significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

© Audit Commission 2011.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

The Engagement Letter, issued by the Audit Commission, explains the respective responsibilities of auditors and of the audited body. Reports prepared by engagement leads are addressed to governors, members, non-executive directors, directors or officers and are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member, governor, non executive director, director or officer in their individual capacity; or
- any third party.



Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946