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Sheffield Teaching Hospitals NHS Foundation Trust

I confirm that this is the final version of our ISA 260 Audit Memorandum relating to our audit of the 2011-12 financial statements for Sheffield Teaching Hospitals NHS Foundation Trust.

This document was discussed and approved by the Trust's Audit Committee on 24 May 2012.

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Trevor Rees

Senior Statutory Auditor for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

St James Square, Manchester, M2 6DS

Date:

ISA260 Audit Highlights Memorandum

2011/12

24 May 2012

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This report is addressed to Sheffield Teaching Hospitals NHS Foundation 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 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 and will be presented to the Audit Committee on 24 May 2012.

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.

<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 you have proper arrangements in place by reviewing and, where appropriate, examining relevant evidence and reporting on these arrangements.</p> <p>We reflect our judgements from the use of resources work in the certification of the audit. Our certificate provides 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>We audit the financial statements and give our opinion as to whether they give a true and fair view of the Trust's financial position and its expenditure and income. We also certify whether they have been prepared in accordance with relevant accounting policies directed by the Secretary of State in England and with the guidance provided in the Monitor Annual Reporting Manual (ARM). In addition we give an opinion as to whether the content of the Annual Report is consistent with the statements and whether the part of the Remuneration Report that is required to be audited has been properly prepared. We also conduct a high level review of the AGS and consider 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 financial statements.

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

Use of Resources and audit certification	<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 are no issues that would cause us to delay the issue of our certificate of completion of the audit.
Accounts, unadjusted audit differences and management representations	<ul style="list-style-type: none"> ■ We intend to issue an unqualified audit opinion on the accounts following the Board adopting the accounts and receipt of the signed management representation letter. ■ We have completed our audit of the financial statements. We have also read the content of the Annual Report (including the remuneration report) and reviewed the Annual Governance Statement. Our key findings are: <ul style="list-style-type: none"> – There are no unadjusted audit differences; – We have agreed presentational changes to the accounts with the Deputy Director of Finance, mainly related to compliance with the ARM; ■ In addition to our routine request we have requested management representations over two specific areas. Section four provides further details.
Recommendations	<ul style="list-style-type: none"> ■ We have made three recommendations as a result of our 2011/12 audit work. These relate to: <ul style="list-style-type: none"> – Efficiency programme 2012/13; – Median remuneration disclosure; and – Key financial systems access administration. ■ There were no prior year recommendations from the 2010/11 ISA Audit Highlights Memorandum that required further action by management.
Whole of Government Accounts	<ul style="list-style-type: none"> ■ We intend to issue our Group Audit Assurance statement to the NAO regarding the Whole of Government accounts submission, made through the Trust's submission of the summarisation schedules to Monitor.

Quality Accounts

We have completed our audit of the Trust's 2011/12 Quality Accounts. Overall, based on the work performed:

- You have achieved a clean limited assurance opinion on the content of your Quality Report which could be referenced to supporting information and evidence provided by the Trust. This represents an unqualified audit opinion on the Quality Report.
- This year we have also tested MRSA and 62 day cancer wait as the two mandatory indicators. Our detailed testing on the indicators has concluded that we are able to give a clean limited assurance opinion on the presentation and record of these.
- Our work on the 18 weeks admitted target, selected in consultation with your governors as the local indicator, has indicated that there is a need for the Trust to monitor the data quality surrounding this indicator. We identified one case from a sample of 25 which had been incorrectly recorded as a non-breach. This was as a result of the initial referral date being incorrectly recorded on the system.
- Our detailed findings following the audit of the Quality Report are presented to you in a separate report. This includes recommendations we have raised in relation to Quality Report processes.

Public Interest Reporting

In auditing the accounts of an NHS Foundation Trust, auditors must consider:

- 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.

There are no matters in the public interest that we wish to raise at this time.

Introduction

We have a responsibility to satisfy ourselves that you have put in place proper arrangements to secure economy, efficiency and effectiveness in your use of resources. In meeting this responsibility we are required to review and, where appropriate, examine evidence and report on your 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 your arrangements in order to issue an unqualified audit certificate.

As a result of our work, we are 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 2012.

Element of Work	Key Findings	
Annual Governance Statement	We review your Annual Governance Statement (AGS) to confirm whether it is consistent with our understanding of your operations.	We reviewed the 2011/12 Annual Governance Statement (AGS) and took into consideration the work of internal audit. We confirm that the AGS reflects our understanding of the Trust's operations and risk management arrangements.
Work of other regulators	We consider the work of relevant regulatory bodies (eg Monitor and the CQC), to determine if their work has an impact on our responsibilities.	We are aware of reviews completed by regulatory bodies during the year. We have considered the outcomes of these reviews when developing the scope of our work.
Quality Accounts	We review your Quality Account in line with Monitor's guidance and complete testing on two mandated indicators and one local indicator.	We found no issues with our work around the reporting on the two Quality Report mandated quality indicators: 62 day cancer target and MRSA target. However, when testing a sample of data supporting the locally selected indicator, 18 weeks admitted target, we identified one issue. This does not impact upon the limited assurance report we will issue for the Trust on the mandated indicators; the local indicator is only a dry run exercise in 2011/12.
Other Work	We perform other work that we regard as necessary to enable us to conclude on whether you have effectively, efficiently and economically exercised your functions.	We noted a number of current issues in our Audit Plan that could have impact on our use of resources opinion. These included: the integration of the community services; delivery of the cost improvement programme; and the emerging commissioning agenda within the local health economy. During the year we have reviewed the progress made by the Trust in these areas via discussions with management and minute review. We did not consider it was necessary to perform other work in order to conclude our opinion on the Trust's use of resources in 2011/12.

To review your financial statements we perform 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 your operations.	✓	✓	-
2. Controls: assess the control framework.	✓	-	-
3. Prepared by Client Request (PBC): issue our prepared by client request.	✓	-	-
4. Accounting standards: agree the impact of any new accounting standards.	✓	✓	-
5. Accounts Production: review the accounts production process.	✓	✓	✓
6. Testing: test and confirm material or significant balances and disclosures.	-	✓	-
7. Representations and opinions : seek and provide representations before issuing our opinions.	✓	✓	✓

We have completed the first 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 2011/12 audit plan we assessed your current operations to identify significant issues that might have a financial consequence. ■ We have provided an update on the key audit issues on page 9.
Assessment of the Control Framework	<ul style="list-style-type: none"> ■ We have assessed the effectiveness of your 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 are operating effectively except those surrounding access administration to systems. Recommendations to address these control issues are shown in Appendix A. ■ We evaluated the work of your internal audit function, provided by Assure in accordance with ISA 610. We found that we were able to rely on their work in the following areas: <ul style="list-style-type: none"> • Journals testing; • Bank reconciliations; • The reconciliation of BACS outputs to the payroll system; • The reconciliation of feeder systems to the general ledger; • Call off orders.

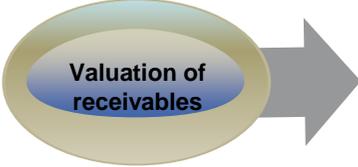


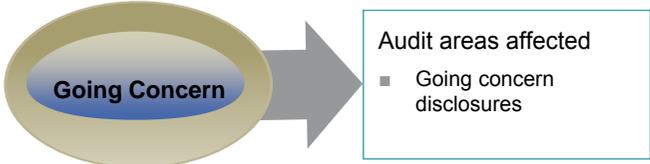
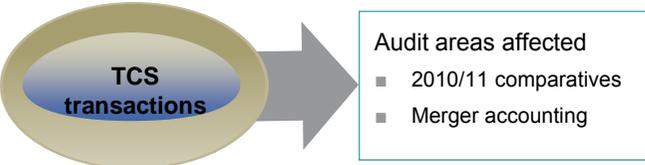
Section Four Accounts (cont.)

Assessment of the Control Framework (continued)	<ul style="list-style-type: none"> ■ We have completed our review of the IT controls which prevent fraud and error in the annual accounts. We have raised one recommendation relating to the administration of access controls for the ledger and Electronic Staff Records (ESR) systems.
Prepared by Client Request	<ul style="list-style-type: none"> ■ We produced this document to summarise the working papers and evidence we asked you to collate as part of the preparation of the financial statements. We discussed our request with the Deputy Director of Finance and this was issued as a final document to the finance team. ■ The Trust's finance team prepared working papers to support the financial statements and our prepared by client list had been followed. Trust finance staff were available throughout the audit visit to answer our queries as they arose. ■ We thank the finance team for their co-operation throughout the visit which allowed the audit to progress smoothly and complete within the allocated timeframe. ■ We have scheduled a de-brief with the Deputy Director of Finance to discuss lessons learnt from both teams so that these can be taken into account next year.
Accounting Standards	<ul style="list-style-type: none"> ■ We work with you to understand the changes to accounting standards and other technical issues. ■ The key areas we have identified are considered on page 9.
Accounts Production	<ul style="list-style-type: none"> ■ We received complete draft accounts on 23 April in accordance with Monitor's deadline. There were some minor presentational amendments made to these accounts before the audit started. However, none of these amendments significantly hindered the progress of the audit. ■ The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of Monitor. <ul style="list-style-type: none"> – Significant changes in accounting policies to the prior year that we would like to bring to your attention are the change in the accounting for donated assets and the recalculation of the 2010/11 PFI gross liability and operating expenditure following updated guidance from Monitor. – A significant estimate has been made in relation to the month 12 activity data (other than that relating to Sheffield PCT, which was based upon initial activity data for the month).

Testing	<ul style="list-style-type: none"> ■ During the audit we identified no unadjusted or adjusted audit differences. We have however identified a number of other matters and presentational differences. We have identified the key issues on page 14. ■ Our findings related to areas of high audit risk are shown on page 9.
Representations and Opinions	<ul style="list-style-type: none"> ■ You are required to provide us with representations on specific matters such as your 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 Deputy Director of Finance on 9 May. ■ We are asking management to provide a specific representation on the following: <ul style="list-style-type: none"> ■ Confirmation that all intra-NHS balances included in the Statement of Financial Position (SOFP) at 31 March 2012 in excess of £250,000 have been disclosed to us and that the Trust has complied with the requirements of the Intra NHS Agreement of Balances Exercise as set out in the relevant guidance. ■ Confirmation that the Audit Committee, on behalf of the Board, approved the Trust's decision to not revalue Land and Buildings despite the District Valuer indicating that a 10% uplift was probable. A decision was taken that this would not have a material impact on the financial statements going forward. An interim revaluation of the Trust's land and buildings is due in 2012/13, in line with the Trust's revaluation policy.
Other Matters	<ul style="list-style-type: none"> ■ We are required under ISA260 to communicate to you any matters specifically required by other auditing standards to be communicated to those charged with governance; and any other audit matters of governance interest. ■ We have not identified any other matters to specifically report.

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

Areas of HIGH audit risk	Summary of findings
 <p>Valuation of receivables</p> <p>Audit areas affected</p> <ul style="list-style-type: none"> ■ NHS Income ■ NHS Receivables 	<p>We reviewed the PCT Income recognised in the accounts against the agreed baseline contracts. We also reviewed the results of the Agreement of Balances exercise, to identify any potential disagreements that would impact the valuation of NHS receivables.</p> <p>We have reported on disagreements in excess of £250k in appendix E.</p> <p>We also noted the provision for doubtful debts against specific debts with other NHS organisations – notably Sheffield Children’s NHS FT (£309k) and Rotherham FT (£209k). Through discussions with management, we are comfortable that the Trust is taking necessary action to attempt to resolve and recover at least a proportion of these balances. The balance relating to Sheffield Children’s is included within the receivables of £2,099k declared in the FMAs (the corresponding amount in Sheffield Children’s FMAs is £2,144k).</p>
 <p>Contract management & forecasting</p> <p>Audit areas affected</p> <ul style="list-style-type: none"> ■ Income 	<p>The Trust has taken appropriate measures to keep its position with PCTs transparent and in line with activity. Despite the financial challenges faced by Sheffield and other PCTs, the Trust had agreed upon and finalised an income position for the vast majority of its 2011/12 income sources as at the start of May 2012.</p>
 <p>Q4 PbR Income</p> <p>Audit areas affected</p> <ul style="list-style-type: none"> ■ Income ■ Accrued income 	<p>The finalised activity data for quarter 4 will not be available until after the audited accounts are submitted to Monitor, this has not changed from previous years. However, the Trust was able to invoice commissioners for month 10 and 11 activity data.</p> <p>The month 12 PbR value was based on an estimate for all PCTs except Sheffield PCT, for which the initial ‘flex’ data was used. This process resulted in a more robust estimate of the final PCT income position. As a result, we have no concerns to report on in relation to the calculation of the final quarter’s PbR income.</p>

Areas of HIGH audit risk	Summary of findings
	<p>We reviewed the paper presented to the January Audit Committee, setting out the going concern risks the Trust faced going forward and how these would be managed. We have also seen the 2012/13 financial plan presented to the Board in March. The Trust is forecasting a surplus of £6.7m for 2012/13, this is after cost savings (P&E target) of £24.1m.</p> <p>We also noted that the Directorates are carrying forward a budget deficit totalling around £15m from 2011/12. This presents Directorates with a target of almost £40m in efficiency savings and remains a significant challenge for the Trust over the next 12 months. There are central contingency funds available, together with CQUIN funds which reduce this target. The Trust has established an efficiency programme to work with Directorates to identify savings and monitor progress.</p> <p>It is important that the Trust continues to monitor delivery of this programme throughout 2012/13.</p>
	<p>The Trust acquired community services from 1 April 2011. Although Monitor guidance stated that this transaction should be accounted for as a merger, a dispensation was granted hence the 2010/11 comparatives did not require restatement.</p> <p>To aid the reader of the accounts, the Trust has included additional disclosures supporting the SOCI. This enables an assessment of the impact of the acquired community services on the Trust's performance for the year.</p>

Next Steps

Following consideration of the issues highlighted in this report, the Audit Committee is expected to recommend to the Board that they sign the management representations letter at the Board meeting following on from the Audit Committee meeting.

Once we have received your representations we issue our audit opinion. For 2011/12 this provides confirmation that:

- Your financial statements present a true and fair view;
- You have complied with Monitor's disclosure requirements set out in the NHS Foundation Trust ARM in the preparation of your Annual Governance Statement and we are not aware of any inconsistencies with the information that you have recorded within this statement and our other work;
- We have read your Annual Report and in our view it does not contain information which is inconsistent with your financial statements; and
- The numerical part of your Remuneration Report has been presented in a way which complies with the accounting requirements as set out in Monitor's NHS Foundation Trust ARM.

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 your auditors. We have provided this declaration at Appendix D.

Audit Fees

Our fee for the audit in 2011/12 was £54,160 plus VAT. This includes £8,840 for the limited assurance work on the quality accounts. This fee was inline with our audit plan.

#	Risk	Issue, Impact and Recommendation	Management Response
1	 Medium	<p>Efficiency plan 2012/13</p> <p>The Trust is forecasting a surplus of £6.7m for 2012/13, this is after cost savings (P&E target) of £24.1m. The Directorates are carrying forward a budget deficit totalling around £15m from 2011/12. This presents Directorates with a target of almost £40m in efficiency savings and remains a significant challenge for the Trust over the next 12 months.</p> <p>Although central contingency funds and additional CQUIN funds are available to support the directorates, there are a number of risks in delivering the full efficiency target.</p> <p>The Trust has established an efficiency programme to work with Directorates to identify savings and monitor progress. It is important that the Trust continues to monitor delivery of this programme throughout 2012/13.</p>	<p>The Trust notes the challenge it faces and an action plan is in place. Monthly monitoring of the efficiency programme is already established.</p> <p>Responsible Officer Neil Priestley, Director of Finance</p> <p>Due Date Ongoing throughout 2012/13</p>
2	 Low	<p>Median pay disclosures</p> <p>In 2011/12, the HM Treasury FReM requires disclosure of the median remuneration of the reporting entity's staff and the ratio between this and the mid-point of the banded remuneration of the highest paid director.</p> <p>The Trust has complied with this requirement in all significant respects, however it is clear that there is a varied approach across the sector. We will work with the Trust in the coming year to fully understand the requirements in relation to this disclosure and to ensure a consistent approach in future years.</p> <p>For 2011/12, we have collated the calculated ratios from across our client base and provided benchmarking data for the Trust, this is provided in Appendix D. It shows that the Trust is towards the top of the scale with a ratio of 8.46.</p>	<p>Noted.</p> <p>Responsible Officers Neil Priestley, Director of Finance Mark Gwilliam, HR Director</p> <p>Due Date February 2013</p>

#	Risk	Issue, Impact and Recommendation	Management Response
3	<p>●</p> <p>Low</p>	<p>IT system access administration</p> <p>During our controls testing, we identified a number of issues surrounding access administration to the Trust’s ledger and Electronic Staff Records (ESR) system:</p> <ul style="list-style-type: none"> ■ Three leavers from the Trust had retained write-access to the ledger system (although we identified that neither of these had accessed the ledger after leaving the Trust). ■ Twelve users of the ESR system had the highest privileged access rights – on discussion with system administrators, it was identified that eight users did not require the level of access they held. The Trust subsequently reduced the access level granted to these users. ■ New users of the ESR system are often granted access verbally by line management. This prevents a full audit trail from being retained in relation to access administration of the system. <p>Without robust controls around the administration of access to key systems, there is a risk that existing or past Trust staff are able to process unauthorised transactions, for example manual journals or changes to vendor payment bank account details.</p> <p>Furthermore, weak user administration processes may result in assigned access rights that are excessive and are not required as part the job role of staff, potentially undermining the Trust’s segregation of duties model that is established.</p> <p>The Trust should perform quarterly reviews of ledger and ESR user access, identifying the access rights that are assigned to each user and determining if these are appropriate to their job roles and responsibilities. Any inappropriate access should be revoked. This review should be signed and dated by an appropriate member of the management team and retained.</p> <p>Furthermore, the Trust should implement a robust user administration policy and supporting procedure for ESR. New or changed user access should be required to be formally reviewed and approved, prior to access being assigned.</p>	<p>Noted and agreed.</p> <p>Responsible Officer</p> <p>Julie Wright, Deputy Director of Finance Debbie Padwick, ESR Support</p> <p>Due Date</p> <p>June 2012</p>

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 you which reflected balance below £638K. 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 2012.

Unadjusted audit differences

We are pleased to report that there were no unadjusted audit differences.

Adjusted audit differences

We are pleased to report that there were no adjusted audit differences.

Other Matters

- Remuneration disclosures – We identified that the banding of the remuneration of one Director was incorrectly presented. The Trust has corrected this error on our guidance. We also noted that the calculation for the median salary included the salary of the highest paid director, however per the guidance it should be excluded. The Trust amended the calculation in line with the guidance.
- Accounting policies - We noted that the accounting policies note was missing disclosures on *accounting policies issued but not yet adopted* and *areas of judgement and estimates*. We shared suggested wording with the Trust and the notes were updated.
- PFI opening balances – following updated guidance relating to the FTC submission, the Trust has restated the prior year PFI comparatives in relation to the gross liability and operating expenses recognised in the I&E. The balance of net PFI liabilities for 2010/11 did not change. The impact of the change on the accounts was as follows:

	SOPF (£000)		SOCI (£000)	
	2010/11 restated	2010/11	2010/11 restated	2010/11
Gross PFI Liability	44,735	75,820		
Amounts included in operating expenses in respect of PFI transactions			895	852

Presentational Issues

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

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 2012, 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.

Appendix D: Benchmarking of Hutton Fair Pay Disclosures

Background

In March 2011, the Hutton review of Fair Pay in the Public Sector was published recommending that *'from 2011-12 all public service organisations publish their top to median pay multiples each year to allow the public to hold them to account.'* Following the approval of the Financial Reporting Advisory Board (FRAB) on 25 January 2012, the HM Treasury FReM was amended to require this disclosure.

Required Disclosure

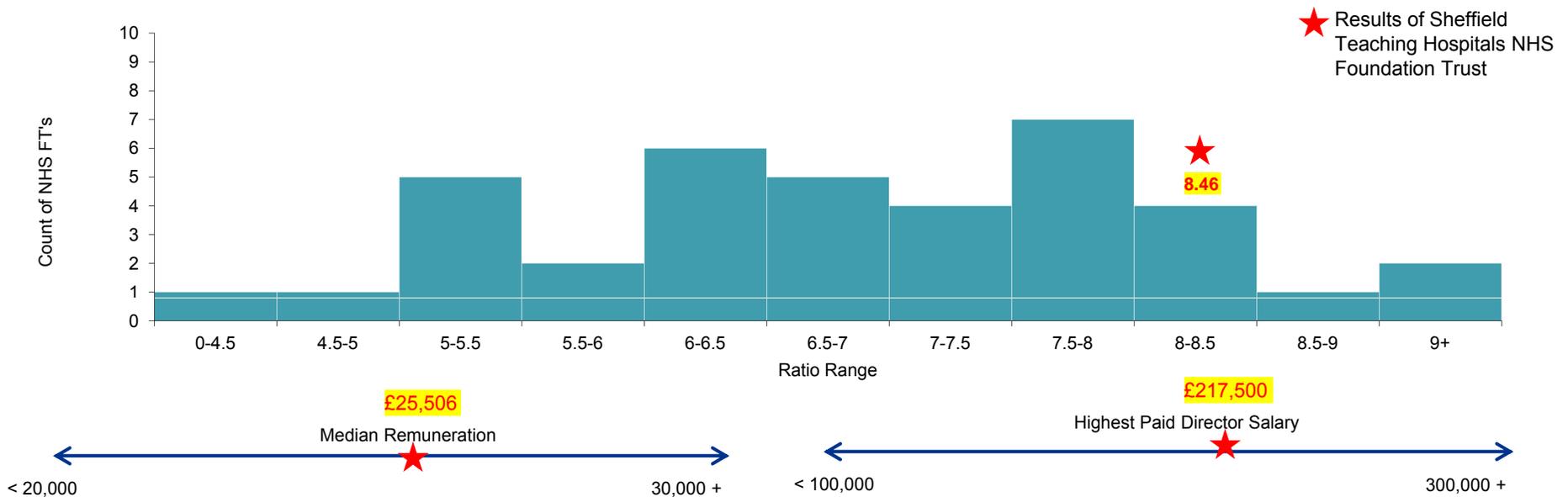
The HM Treasury FReM details the guidance for the calculation of the Fair Pay Multiple, this is shown in the table across.

Results of Testing

This summary provides the findings from across our client base of **Foundation Trusts**, from which we received **38 responses**. There has been some inconsistency within Trust calculations due to a number of different sources of guidance. Where there are key learning points for the Trust we have reported them separately to you.

We have collated the calculated ratios from across our client base and noted the results as follows:

Highest Paid Director	The total remuneration (defined as the sum of the amounts already required to be disclosed for Director's as per the FReM) of the highest paid director, in £5,000 bands, which will already be disclosed in the Remuneration Report.
Median	The median total remuneration of all staff, excluding the highest paid director.
Ratio Calculation	The pay multiple (ratio) between the two, using the mid-point of the director's banded remuneration to retain the consistent level of privacy with the remuneration report.
Accompanying Narrative	Narrative explaining the basis of the calculation and additional narrative as appropriate such as disclosure of non-director level employees with remuneration in excess of the highest paid director to the extent that this does not contravene the Data Protection Act.
Comparative Information	Where available, the Trust should look to include comparative information.



As auditors of Sheffield Teaching Hospitals NHS Foundation Trust we are required to report to the National Audit Office ('NAO') in connection with the audit of the Department of Health Resource Account, NHS Summarised Accounts, the FT Consolidated Account and the Whole of Government Accounts (WGA). We intend to issue our Group Audit Assurance Statement to the NAO regarding the WGA submission, made through the Trust's submission of the summarisation schedules to Monitor.

We are required to report any inconsistencies greater than £250k between the signed audited accounts and the consolidation data and details of any unadjusted errors or uncertainties in the data provided for intra-group and intra-government balances and transactions. We have provided details of the inconsistencies that we are reporting to the NAO below:

Counter party	Type of balance/transaction	Balance as per Sheffield Teaching Hospitals NHS FT (£000s)	Balance as per counter party (£000s)	Difference (£000s)	Comments on Difference
Leicestershire County and Rutland PCT	Income	35,968	36,638	(670)	The PCT has entered £637k in the adjusted line which they cannot explain to the Trust. Removing this adjusted balance would result in a difference of (£33k) which is below the threshold.
Department of Health Core	Income	12,285	15,866	(3,581)	The Trust does not recognise the figure entered by the DoH. This difference remains unresolved.
Barnsley Hospital NHS FT	Income	5,016	4,745	271	The PCT has entered £267k in the adjusted line which they cannot explain to the Trust. Removing this adjusted balance would result in a difference of £4k which is below the threshold.
NHS Business Services Authority	Expenditure	15,294 (draft) 0 (final)	0 0	15,294 (draft) 0 (final)	No confirmation of balance has been received from NHSBSA. Subsequent guidance has required recording transactions with this body as non-nhs.



Appendix E: National Audit Office Group Assurance (cont)

Counter party	Type of balance/transaction	Balance as per Sheffield Teaching Hospitals NHS FT (£000s)	Balance as per counter party (£000s)	Difference (£000s)	Comments on Difference
Doncaster and Bassetlaw Hospitals NHS FT	Expenditure	6,761	7,025	(264)	The balance remains unresolved and £160k of this difference is confirmed as relating to timing issues. It relates to lead unit recharges.
Department of Health Core	Payable	1,559	32	1,527	The Trust does not recognise the figure entered by the DoH. This difference remains unresolved.
Sheffield Health and Social Care NHS FT	Payable	620	870	(250)	Historic difference over the treatment of funds from the sale of property by the Trust to SHSC.
NHS Business Services Authority	Payable	1,120 (draft) 0 (final)	0 0	1,120 (draft) 0 (final)	No confirmation of balance has been received from NHSBSA. Subsequent guidance has required recording transactions with this body as non-nhs.
Derbyshire County PCT	Receivable	310	601	(291)	The Trust does not recognise the higher figure recorded by the PCT, and it does not agree to their underlying records.
Leicestershire County and Rutland PCT	Receivable	0	655	(655)	The Trust does not recognise the figure recorded by the PCT, and it does not agree to their underlying records. This receivable balance may be linked to the income figure where there is also a difference (see above).



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