



External Audit Report

Sheffield Teaching Hospitals NHS Foundation Trust
25 May 2016

I confirm that this is the final version of our ISA 260 Audit Memorandum relating to our audit of the 2015/16 financial statements for Sheffield Teaching Hospital NHS Foundation Trust. This document was discussed and approved by the Trust's Audit Committee on 17 May 2016.

Trevor Rees
Senior Statutory Auditor for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
KPMG LLP(UK)

25 May 2016

Our audit opinions and conclusions:

Financial Statements: unqualified	Use of resource: clean
Quality Report (content): clean	Quality Report (indicators): clean

Content

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Important Notice

This report is presented under the terms of our audit engagement letter. Circulation of this report is restricted. The content of this report is based solely on the procedures necessary for our audit. 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. The National Audit Office (NAO) has issued a document entitled Audit Code (the Code). This summarises where the responsibilities of auditors begin and end and what is expected from the Trust. 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.

Basis of preparation: We have prepared this External Audit Report (Report) in accordance with our engagement letter dated 2 March 2016.

Purpose of this report: This Report is made to the Trust's Audit Committee in order to communicate matters as required by International Audit Standards (ISAs) (UK and Ireland), and other matters coming to our attention during our audit work that we consider might be of interest, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report, or for the opinions we have formed in respect of this Report.

Restrictions on distribution: This Report is subject to disclosure restrictions as set out in our Engagement Letter.

Limitations on work performed: This Report is separate from our long form audit report and does not provide an additional opinion on the Trust's financial statements, nor does it add to or extend or alter our duties and responsibilities as auditors reporting. We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report.

The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit: Our audit is now complete.



Summary

Financial Statements Audit

We have issued an unqualified audit opinion on the accounts following the Audit Committee recommending the Board to adopt them and receipt of the management representations 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 (AGS). Our key findings are:

- There are no adjusted or unadjusted audit differences.
- We have agreed presentational changes to the accounts with Finance, mainly related to compliance with the Annual Reporting Manual (ARM).
- We asked for management representations over the standard areas such as going concern, related parties and fraud. There are no additional requests.
- We have reviewed the Annual Report and AGS and have no matters to raise.

Use of resources

Based on the findings of our work, we have 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.

Quality Report

We have completed our audit of the Trust's Quality Report:

- 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. This represents an unmodified audit opinion on the Quality Report. However, we have referred in the scope section of our opinion to our inability to review the mandated A&E indicator as you have agreed with Monitor not to report on it in 2015/16 in your Quality Report..
- We have tested 'Cancer waits' and '18 week incompletes' as the two mandated indicators. Our detailed testing on the indicators has concluded that we are able to give a clean limited assurance opinion on the presentation and recording of these.
- Our work on the local indicator 'Emergency readmissions' as selected by Governors, has indicated that, had we been required to give a limited assurance opinion, it would have been a clean one.

Other Matters

We have issued an unqualified Group Audit Assurance Certificate to the NAO regarding the Whole of Government Accounts submission, made through the submission of the summarisation schedules to Monitor.

We are satisfied that the Trust has addressed the recommendations raised in our ISA260 report in 2014/15. One recommendation remains outstanding from our 2014/15 report on the Trust Quality Report. We have made two low priority recommendations as a result of our 2015/16 work. These relate to provision for impairment of receivables and disclosure of related party transactions. All recommendations are shown in Appendix 1.

In auditing the accounts of an NHS body auditors must consider whether, in the public interest, they should make a report on any matters 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 completion of the audit. There are no matters that we wish to report..



Financial Statements Audit

Section Two

Financial Statements Audit

We audit your financial statements by undertaking the following tasks:

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 shown above and report our key findings below:

1. Business Understanding	In our 2015/16 audit plan we assessed your operations to identify significant issues that might have a financial statements consequence. We confirmed this risk assessment as part of our audit work. We have provided an update on each of the risks identified later in this section.
2. Assessment of the control environment	We have assessed the effectiveness of your key financial system controls that prevent and detect material fraud and error. We found that the financial controls on which we seek to place reliance are operating effectively. We have raised 2 low priority recommendations which we believe will strengthen your control environment (see Appendix 1 for details). We have reviewed the work undertaken by 360 Assurance, your internal auditors, in accordance with ISA610 and used the findings to inform our planning and audit approach. We have chosen not to place reliance on their work due to the approach we adopted for the financial statements audit. This has not led to any additional resource burden for the Trust.
3. Prepared by client request	We produced this document to summarise the working papers and evidence we ask you to collate as part of the preparation of the financial statements. We discussed and tailored our request with the Deputy Director of Finance and this was issued as a final document to the finance team. The majority of working papers were received at the start of the audit and a timetable of work was agreed with the finance team. A debrief session is planned with the Deputy Director of Finance in June to discuss how this process can be refined further.

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Financial Statements Audit

4. Accounting standards	<p>We work with you to understand the changes to accounting standard and other technical issues. For 2015/16 these changes have related to:</p> <ul style="list-style-type: none">• IFRS 13 (Fair Value Accounting) – The Trust had no surplus assets as at 31 March 2016, therefore this new standard had no impact for 2015/16;• Disclosing the cost of PFI schemes in the summarisation schedules; and• Disclosing operating expenditure and salaries in excess of the Prime Minister – The salaries of all 6 Executive Directors exceed this threshold. The Trust has included narrative within its Remuneration Report to explain the rationale and justification for this, as required by the Monitor ARM.
5. Accounts Production	<p>We received complete draft accounts by 22 April 2016 in accordance with Monitor's deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of Monitor. As in previous years, we will debrief with the Finance team to share views on the final accounts audit. Hopefully this will lead to further efficiencies in the 2016/17 audit process. We thank the finance team for their continued co-operation throughout the visit.</p>
6. Testing	<p>We have summarised the findings from our testing of significant risks and areas of judgement within the financial statements on the following pages. We have also completed data and analytics procedures over your payroll data the draft results of which have been provided to the Deputy Director of Finance and Head of Pay Services. During the audit we identified only presentational issues which have been adjusted as they have no material effect on the financial statements.</p>
7. Representations	<p>You are required to provide us with representations on specific matters such as your going concern assertion 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 12 May 2016. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us.</p>

We are required under ISA 260 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. As the Trust is required to comply with elements of the UK Corporate Governance Code through the Foundation Trust Code of Governance, ISA 260 (16-1) also requires us to communicate to you 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: 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 have not identified any other matters to specifically report.

To ensure that we have provided a comprehensive summary of our work, we have over the next pages set out:

- The results of the procedures we performed over NHS Income and Assets which were identified as significant risks within our audit plan and which will form a part of our audit opinion;
- The results of our procedures to review the required risks of the fraudulent risk of revenue recognition and management override of control; and
- Our view of the level of prudence you have applied to key balances within your financial statements.

Section Two

Financial Statements Audit

Significant audit risk	Account balances effected	Summary of findings
Recognition of NHS income	NHS income, £825m, PY £819m	<p>Using the results of the AoB exercise to match the Trust's NHS income with counterparty expenditure, we investigated differences by reconciling the initial contract value with the counterparty to the final income reported in the financial statements, determining the reasons for any differences and critically assessing the validity of recognising reconciling income items in the Trust's financial statements. Appendix 2 summarises those differences that are above the NAO reporting threshold of £250k.</p> <p>For estimated accruals relating to completed periods of healthcare, we reviewed the Trust's calculation, critically assessing the Trust's and the counterparty's correspondence in relation to disputed items and forming a view as to the accuracy of the balance recorded in the Trust's accounts.</p> <p>Where available, we checked the validity of accruals for partially completed spells by reconciling to counterparty balances. One counterparty has recorded a disputed balance of £40k against the Trust in the FTCs and the Trust is trying to establish what this relates to as it has had no formal notification.</p> <p>We also undertook cut off testing for a sample of invoices raised immediately before and after the balance sheet date, checking that income had been recognised in the correct financial period.</p>
Valuation of land and buildings	Property, plant and equipment and impairments, £436m, PY £435m	<p>We tested a sample of additions to PPE to supporting documentation to confirm their accounting treatment. We also assessed the accuracy of the depreciation charge.</p> <p>We reviewed the disclosures in relation to the revaluation of the PFI building and two further buildings that were revalued following substantial refurbishment. We reviewed the basis upon which impairments to buildings had been classified by the Trust and determined whether the recognition of these losses in the financial statements complied with the requirements of the ARM.</p> <p>We drew on national benchmarks to determine whether the Trust's approach to the valuation of land and buildings for the year ended 31 March 2016 is appropriate. Consideration of the Interim Market Report from Gerald Eve on property indices for 2015/16 did not identify any issues for concern.</p>

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Financial Statements Audit

Risks that ISAs require us to assess in all cases	Why	Our findings from the audit
<p>Fraud risk from revenue recognition</p>	<p>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant audit risk.</p> <p>We recognise that the incentives in the NHS differ significantly to those in the private sector which have driven the requirement to make a rebuttable presumption that this is a significant risk. These incentives in the NHS include the requirement to meet regulatory and financial covenants, rather than broader financial reporting or share based management concerns.</p>	<p>We classified recognition of NHS income as a significant audit risk for 2015/16 and have outlined on the previous page the audit work undertaken. No fraud issues were identified.</p>
<p>Fraud risk from management override of controls</p>	<p>Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>We have not identified any specific additional risks of management override relating to this audit.</p>	<p>Our procedures, including testing of journal entries, accounting estimates and significant transaction outside the normal course of business, no instances of fraud were identified.</p>

Section Two

Financial Statements Audit

Judgements in your financial statements

We always consider the level of prudence within key judgements in your financial statements. Given the communication of additional expectations to Foundation Trusts this year by NHS Improvement to specifically review the strength of their balance sheet we have summarised our view below using the following range of judgement:



Assessment of subjective areas			
Asset/liability class	15/16	Balance (£m)	KPMG comment
Provisions	3	£4.7m (PY:£4.4m)	This area was identified as an area for review by NHS Improvement in Spring 2016. The majority of the balance relates to provision for pensions relating to former staff and legal claims. Discussions with management have not identified any other litigation or claim matters that need to be provided for, nor have there been any national directives.
Accruals	3	£29.2m (PY:£29.0)	This area was identified as an area for review by NHS Improvement in Spring 2016. These are estimated expenses for which invoices had not been received as at 31 st March 2016. There are no single material transactions here but the largest item is the holiday pay accrual which we have tested alongside a sample of other accruals. Based on our sample testing we have no indications to suggest the accrual is understated or overstated.
Deferred income	3	£15.6m (PY:£15.7)	This area was identified as an area for review by NHS Improvement in Spring 2016. As a Teaching Hospital, STH receive a high volume of grants from the EC to carry out research. Quite often these grants are received in advance of the research being carried out. Therefore a proportion of the income is deferred to future periods. We have sample tested this to confirm the accuracy of the amounts being deferred and there is no indication that the values are under/overstated.

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Financial Statements Audit

Assessment of subjective areas			
Asset/liability class	15/16	Balance (£m)	KPMG comment
Injury cost recovery	3	£5.8 (PY:£5.9)	This area was identified as an area for review by NHS Improvement in Spring 2016. The NHS Injury Costs Recovery (ICR) scheme aims to recover the cost of NHS treatment where personal injury compensation is paid. We have reviewed this year's balance and it appears consistent with our expectation. The only aspect that has changed is the bad debt provision in respect of ICR which has increased (see below).
Partially completed spells	3	£7.5 (PY:£7.1)	This area was identified as an area for review by NHS Improvement in Spring 2016. The Trust has accrued for income from partially completed spells at the balance sheet date. We have checked the amounts have been accrued across the corresponding counterparty and relied on the AoB process to confirm the accuracy. No issues have arisen from this work.
Debtors provisioning	3	£3.8 (PY:£2.5)	This area was identified as an area for review by NHS Improvement in Spring 2016. There has been an increase in provision for the year of £1.2m. The bulk of this increase relates to a statutory increase in the provision for doubtful debts relating to Injury Costs Recovery. We have tested this and consider it reasonable. We have also identified a number of bad debts (within bad debt provisions) which ought to have been written off in year due to their ageing. These amount to £250k.
Assets (lives, VAT and valuations)	3	£443.5 (PY:£437)	This area was identified as an area for review by NHS Improvement in Spring 2016. We identified the valuation of land and buildings as a significant audit risk and our work in this area is summarised on page 9. No issues were identified from this work.

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Financial Statements Audit

Annual report

We have read the contents of the Annual Report (including the Accountability Report, Performance Report and AGS) and audited the relevant parts of the Remuneration Report. Based on the work performed:

- We did not identify any inconsistencies between the contents of the Accountability, Performance and Director's Reports and the financial statements.
- We did not identify any material inconsistencies between the knowledge acquired during our audit and the director's statements. As Directors you confirm that you consider the that the annual report and accounts taken as a whole are 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;
- The parts of the Remuneration and Staff Reports that were required to be audited were all found to be materially accurate; and
- The AGS was consistent with the financial statements and complied with relevant guidance.

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, which we completed at planning and no further work or matters have arisen since then.

Audit Fees

Our fee for the audit was £49,000 plus VAT (£51,150 in 2014/15). This fee was in line with that highlighted within our audit plan agreed by the Audit Committee in January 2016. Our fee for the external assurance on the Quality Report was £9,550 plus VAT (£9,500 in 2014/15).

We have not completed any non-audit work at the Trust during the year.

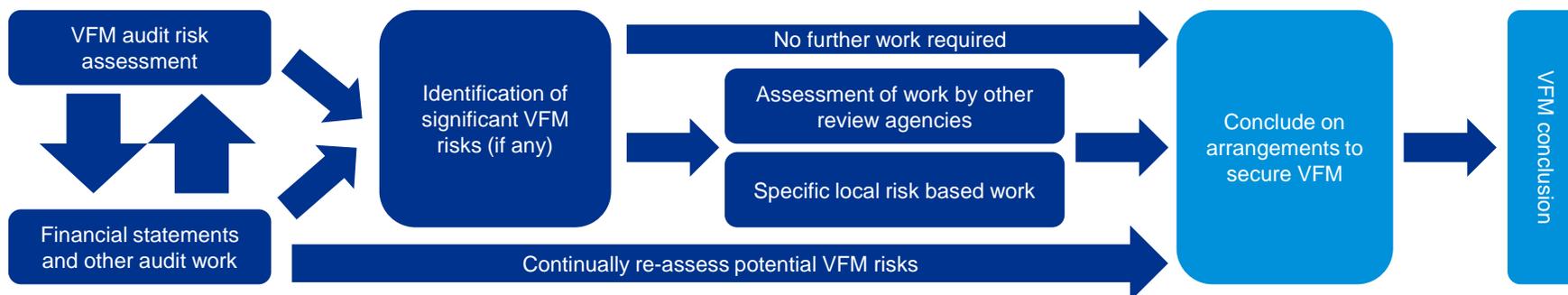


Value for Money

Section Three

Value for Money

From 2015/16 our value for money (VFM) work follows the NAO's new guidance. It is risk based and targets audit effort on the areas of greatest audit risk. Our methodology is summarised below. We identified one significant VFM risks which is reported overleaf. We also provide a summary below of the routine work required to issue our VFM conclusion, which is that 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 2016.



AGS review	Regulatory review	Other matters considered in risk assessment
<p>We reviewed the 2015/16 AGS and took into consideration the work of internal audit.</p> <p>We confirm that the AGS reflects our understanding of the Trust's operations and risk management arrangements.</p>	<p>We considered the outcomes of relevant regulatory reviews (NHS Improvement, CQC, etc.) in reaching our conclusion.</p> <p>The Trust's current financial sustainability risk rating as determined by NHSI is 3; and the governance rating is green. No particular concerns are highlighted by NHSI.</p> <p>The Trust was subject to a full CQC Inspection in December 2015. At the time of our audit report, the Trust had received a first draft of the report and an overall "good" rating has been given. The final report is expected in June.</p>	<p>As part of our risk assessment we reviewed various matters, including:</p> <ul style="list-style-type: none"> • Core assumptions in the 2016/17 Annual Plan; • Recurrent cost improvement schemes required to deliver the plan; • Management's assessment of the risks preventing delivery of the plan, including current operational performance and contractual risks; and • Management's assessment of the Trust's ability to continue as a going concern.

Section Three

Value for Money

Value for money risk	Why this risk is significant	Our audit response and findings
<p>Financial sustainability and going concern</p>	<p>As part of our responsibilities in relation to reaching our use of resources conclusion we are required to perform any work that we regard as necessary to allow us to conclude on whether you have effectively, efficiently and economically exercised your functions.</p> <p>Due to a combination of regulatory scrutiny and significant financial challenge in the sector and locally across the health economy, we will undertake a detailed consideration of your developing financial position and sustainability.</p> <p>The closing position for 2014/15 was a surplus of £8.4m. This represented a positive variance of £8.4m against the breakeven plan. Cost Improvement Plan (CIP) savings of £27m were not fully achieved and the performance did not fully address pressures in clinical directorate budgets.</p> <p>In your 2015/16 Annual Plan submission to Monitor the Trust forecasted an operating deficit of £11m. As at Month 8 you were reporting an adverse variance of £13.9m. A contributory factor may have been the Trust implementation of a new PAS system (Lorenzo) in September 2015. The Trust had concerns that the activity recorded at Month 8 may have been incomplete due to input and coding backlogs. In value terms, less than half of the growth anticipated in the Trust's activity plan was being delivered and recorded. A further concern was the under-delivery against the Trust's CIP of £3.9m.</p> <p>This challenging operating position is also affected by continuing financial difficulties faced by a majority of the clinical directorates.</p>	<p>The DoF presented a paper to the March Audit Committee setting out management's assessment of the Trust's ability to continue as a going concern. The paper highlighted the concerns for 2016/17 and beyond, recognising the significant financial challenge facing the Trust and the wider sector. Management agreed that it was appropriate to report the 2015/16 financial statements on a going concern basis.</p> <p>The outturn per the audited accounts is a deficit of £7.7m, compared to a planned deficit of £11m. The reason for the variance is due to the positive impact of donated income (£2.5m) and the impairment reversal (£0.7m).</p> <p>For 2016/17, the Trust has been set a control total of £15.2m by NHSI. The Trust had requested this be reduced to £8.8m, however this was not agreed with NHSI and the Trust therefore submitted an operational plan showing delivery of the £15.2m control total. However Trust management are of the view that the control total is not achievable. Receipt of £19.3m Sustainability and Transformation Planning funding is subject to the Trust delivering the £15.2m control total as currently set by NHSI.</p> <p>Contracting discussions with CCGs have continued beyond the national deadline. The Director of Finance confirmed the key areas to resolve relate to QIPP and agreeing baselines for areas such as emergency readmissions. Discussions with NHS England are also ongoing relating to national CQUINs for 2016/17.</p> <p>In addition, there is the continued risk that Directorates are not able to deliver the activity and efficiency gains required to enable the Trust to deliver the financial plan.</p> <p>The above demonstrates the Trust has significant financial challenges going forward into 2016/17. Financial sustainability within the NHS is a key risk. The Trust Chief Executive is the lead for the Sustainability and Transformation Plan (STP) in the South Yorkshire and Bassetlaw region, therefore the Trust will be a key player and driver in the forward-looking plans for healthcare in the region.</p> <p>Our audit work has confirmed it is appropriate for the Trust to prepare the financial statements on a going concern basis.</p>

Section Three

Value for Money

Value for money risk	Why this risk is significant	Our audit response and findings
<p>Response to CQC inspection report</p>	<p>In December 2015 the Trust was subject to a full inspection from the Care Quality Commission under its new regime. The final reports on the inspection have not yet been received.</p>	<p>The Trust has received the draft CQC report and at the time of writing our audit report, the Trust had responded with some clarification points and queries.</p> <p>Management confirm there are no serious concerns raised by CQC following the inspection. Following receipt of the final report, the Trust will develop an action plan to respond to any issues raised.</p> <p>The Trust has referred to the CQC Inspection within its Annual Governance Statement, however as the report is currently embargoed, the results are not mentioned.</p>
<p>Agency staff costs and remuneration disclosures</p>	<p>The 2015/16 Annual Reporting Manual issued by Monitor contains an increased number of disclosure requirements for NHS Foundation Trusts, particularly concerning agency costs and remuneration of highly paid / senior individuals.</p> <p>These disclosure requirements coincide with a range of controls associated with temporary staff which the Department of Health introduced progressively in 2015/16 aimed at controlling such expenditure across the NHS.</p> <p>The Trust will need to ensure it meets all the required disclosure and control requirements brought in during the year, as well as performing the required due diligence needed to support these disclosures.</p>	<p>Our review of the Remuneration Report (within the Annual Report) confirms the Trust has included the necessary disclosures as required by the ARM.</p> <p>The Trust has a challenging agency cap for 2016/17 of £18.4m. As a result the Trust has recently reviewed its controls in this area – the cap can be over-riden on the grounds of patient safety, subject to approval by the appropriate Executive Director. Any breaches on grounds other than patient safety require approval from the Trust Executive Group from 1 April 2016.</p> <p>The Trust has not had any senior managers employed on an interim basis during the year.</p>



Quality Report

Section Four

Quality Report

Conclusion on content of quality report

We are satisfied that there is sufficient evidence to provide a limited assurance opinion on the content of the quality report.

Work performed and findings

We consider two criteria:

- Review of content to ensure it addresses the requirements set out in the ARM; and
- Review of content in the quality report for consistency with other information specified by Monitor.

Our findings are set out below:

Issue considered	Findings
Inclusion of all mandated content	The content of the quality report presented for audit was accurately reported in line with the quality report regulations. We did not note any deficiencies concerning the availability of specified information.
Are significant matters in the specified information sources reflected in the quality report and significant assertions in the quality report supported by the specified information sources?	We identified that: <ul style="list-style-type: none">• The Trust's quality report reflected its significant matters, relevant to the selected priorities from the specified information sources; and• Significant assertions in the quality report are supported by the relevant information sources.

Section Four

Quality Report

Audit of indicators within the Quality Report

We carried out work on two mandated indicators, which require a public opinion. These were chosen by Monitor as specified by Monitor in its guidance:

- Percentage of incomplete pathways within 18 weeks for patients on incomplete pathways at the end of the reporting period; and
- Maximum waiting time of 62 days from urgent GP referral to first treatment for all cancers.

We were not able to review your A&E indicator as intended by Monitor due to issues arising from the implementation of Lorenzo. Monitor has agreed that the Trust does not need to report A&E performance in its Quality Report and, as a consequence, we were required to review the Cancer waits indicator. We have referred to this in the scope section of our opinion.

In addition, we carried out work on a locally selected indicator chosen by your Council of Governors. The indicator selected was 'Emergency re-admissions within 28 days of discharge from hospital'. This indicator is not subject to a limited assurance opinion.

Conclusion

Our work on the two mandated indicators has concluded that there is sufficient evidence to provide a limited assurance opinion in respect of the mandated indicators. For the local indicator, Emergency re-admissions, we have concluded that if required we would be in a position to provide a limited assurance opinion. This follows revisions to the reported data following our audit.

Please note that the extent of the procedures performed is reduced for limited assurance. The nature of the procedures may be different and less challenging than those used for reasonable assurance. Therefore, our work was not a reasonable assurance audit of either the performance indicators or the processes used to collate and report them.

Results of our work

We have set out overleaf the key findings from our work as described above in relation to the two mandated indicators and the locally selected indicator. In reaching our conclusions we required to have assessed the design and operational of the systems of control over the data against the six data quality dimensions defined by the NAO. In reaching our conclusion we have assessed these arrangements to consider whether they can be graded as:

- **Green:** No improvement to achieve compliance with the dimensions of data quality noted.
- **Amber:** Opportunities to achieve great efficiency or better control in compliance with the dimensions of data quality noted.
- **Red:** Concern that systems will not achieve compliance with one or more aspects of the dimensions of data quality and therefore a limited assurance opinion cannot be provided.

Section Four

Quality Report

Design of system and processes and operation				Results of our sample testing	Conclusion reached
Data quality dimension	Design	Operation	Commentary on ratings		
Mandated Indicator: percentage of incomplete pathways within 18 weeks for patients on incomplete pathways at the end of the reporting period.					
Performance target: 92%					
Performance recorded in Quality Report: 93.5%					
Accuracy	●	●	The data reported substantially agreed to the system although minor errors were identified. However, some data is validated due to the complexity of the system and this can lead to changes.	We selected a sample of 25 cases from across the 2015/16 period. This sample related to referrals that are being reported on. Through our testing we identified one instance where a new pathway had been created for a patient that was already on an open pathway. This was the only issue we identified through this particular test. To ensure completeness we selected ten cases from the inpatient and first outpatient waiting list and confirmed they had been included on the RTT pathway report and then whether this pathway was included on the incomplete submission. Of this sample, we identified no issues.	We have not comes across any indications that data for this indicator is not produced in line with national guidance. We have made two recommendations for improvement and have rolled forward a recommendation from 2014/15 that has not been fully implemented. See appendix 1 for detail.
Completeness	●	●	A number of validations are carried out to ensure completeness of the data. For example, a number of live error reports are available through the Information Centre that can be used by Directorate leads and service managers to show the number of referrals with no activity or the number of referrals not linked to a pathway. However, although our completeness testing identified no issues, the live error report introduced as a result of the Deloitte review in 2014/15 'Waiting List not attached to a RTT Pathway', which is available to all directorates, should be validated on a monthly basis to ensure all patients are being captured on a pathway. This will ensure data for reporting purposes is complete. We also reviewed a 'created but not accepted pathway' report. Your view is that such pathways lead to over reporting and we are advised that this report is not routinely validated.		
Relevance	●	●	The reports produced appropriately show all relevant individuals that are present on a pathway at one time.		
Reliability	●	●	The data present on the reports was agreed through to case notes or other relevant information.		
Timeliness	●	●	Reports are run based on current data, therefore the information provided is very timely.		
Validity	●	●	The data is taken directly from the Lorenzo system (PAS) and a series of validations are run, including all clock stops. However, we consider that there is scope to improve the validation process further.		
Overall	●	●	Overall we can provide assurance that the system accurately records the true percentage of incomplete pathways within 18 weeks for patients on an incomplete pathway.		

Section Four

Quality Report

Design of system and processes and operation				Results of our sample testing	Conclusion reached
Data quality dimension	Design	Operation	Commentary on ratings		
Mandated Indicator: Maximum waiting time of 62 days from urgent GP referral to first treatment for all cancers					
Performance target: 85%					
Performance recorded in Quality Report: 83%					
Accuracy	●	●	Appropriate arrangements are in place to ensure the accuracy of data. For example, checks are carried out of the reasons for clock stops within the cancer treatment pathway.	We found the system to be accurately recorded and operating as intended. The data in the Trust's systems was successfully traced back to patients' records for a sample of 25 items. A finding common to our work for the year was that the patients' records were not easy to navigate and we required assistance from staff members to find the relevant information. We note that the migration to electronic records and the use of 'skinny files' is expected to address this	We have not comes across any indications that data for this indicator is not produced in line with national guidance.
Completeness	●	●	Improvements made in previous years to ensure the completeness of this indicator were found to be operating effectively.		
Relevance	●	●	Data was found to be relevant.		
Reliability	●	●	Data was found to be reliable.		
Timeliness	●	●	We did not identify any improvements required with regard to the Trust's timeliness in relation to this indicator.		
Validity	●	●	We did not identify any issues in this area of our work.		
Overall	●	●	Satisfactory.		

Section Four

Quality Report

Design of system and processes and operation				Results of our sample testing	Conclusion reached
Data quality dimension	Design	Operation	Commentary on ratings		
Local Indicator: Emergency re-admissions within 28 days of discharge from hospital Performance recorded in Quality Report: 0.3% for patients aged '0 to 15' and 11% for patients aged '16 and over'					
Accuracy	●	●	The data originally included within the quality report was that for a similar indicator required by Sheffield CCG. The extraction routines were revised following our audit and this resulted in accurate reporting of the indicator. The revisions were incorrectly analysed by age as patients aged zero were originally not separated out. This was corrected.	Our testing indicated that the revised published figures were underpinned by accurate data in the PAS that was consistent with patient records.	Data for this indicator is now produced in line with national guidance. We have recommended that guidance is shared with relevant personnel on receipt and that data is validated by an independent member of the Information Services Strategy and Operations Department to ensure accuracy following any changes in guidance. See appendix 1 for detail.
Completeness	●	●	Completeness is ensured by the unique coding of emergency readmissions.		
Relevance	●	●	Reporting indicated that the data was substantially relevant following redrafting of the extraction criteria. However, a recoding of activity following the change to Lorenzo meant that some obstetrics patients were selected that should have been excluded. A second revision of the parameters resulted in relevant data.		
Reliability	●	●	Our testing confirmed that the data was reliably recorded in the Trust's PAS systems and in the patient records.		
Timeliness	●	●	Data can be extracted in a timely manner.		
Validity	●	●	The issue with the incorrect reporting of the indicator required by Monitor arose because the detailed guidance was not shared with appropriate personnel within the Information Services Strategy and Operations Department.		
Overall	●	●	Appropriate arrangements are now in place to ensure the quality of data for this indicator. The required information was readily extracted from the Trust's Lorenzo system once it was pointed out that the Monitor requirements were different from those that the Trust was reporting on throughout the year.		



Appendices

Appendix 1

Recommendations raised and followed up

The recommendations raised as a result of our work in the current year are as follows:

Priority rating for recommendations		
1	Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	2
		Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.
		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 you if you introduced them.

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
Financial Statements			
1	3	<p>Provision for impairment of receivables</p> <p>The Trust has a dedicated team to review its bad debts. The bad debt provision in 2015/16 includes circa £250k relating to debts which have been marked as "ready for write off". However, due to time constraints, these have currently not been prepared for write off, or reviewed by Senior Management as approved for write off. However the net debtor position stated within the accounts remains robust. Recommendation: The Trust should complete the review and write off these balances as appropriate.</p>	<p>Agreed.</p> <p>Julie Wright and Alex Nicholls to action by 30th September 2016.</p>
2	3	<p>Disclosure of Related Party transactions</p> <p>The register of interest for members of the Trust Board declared a number of companies for which senior board members had a controlling interest or association with but which were not disclosed as a related party in the accounts.</p> <p>Recommendation: The Trust needs to review the Board register of interests on an annual basis to ensure all related parties are disclosed where relevant and appropriate.</p>	<p>Agreed.</p> <p>Jon Brice to action with immediate effect.</p>

Recommendations raised and followed up (continued)

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
Quality Report			
3a	3	<p>18 week waits</p> <p>We noted during our review that Lorenzo requires pathways to be 'created' and then 'accepted' by a clinician before they can be tracked. Throughout the year, as evidenced by an error report run by the Data Quality Assurance Manager, there are high numbers of individuals being reported as created but not accepted. As a consequence validation of those pathways for the purposes of 18 week waits cannot be carried out.</p> <p>The risk to the Trust is over-reporting against the indicator. The Trust carried out an analysis of the 'created but not accepted' report for the purposes of our review and was assured that although over reporting was inevitable, the monitoring and validation of cases captured by this report had reduced significantly over the year.</p> <p>We recommend that the 'created not accepted' report is validated on a monthly basis to ensure more accurate and robust reporting.</p>	<p>Agreed.</p> <p>Officer Responsible: Annette Peck, Head of Information</p> <p>Due date: 30 September 2016</p>
3b	3	<p>18 week waits</p> <p>In 2014/15 a validation exercise carried out, as part of an external review by Deloitte, of 4,927 patients on the inpatient waiting list, resulted in 542 patients being moved onto an RTT pathway. An error report, introduced as a result of the review, available to all directorates 'Waiting List not attached to a RTT Pathway' is produced but not routinely validated.</p> <p>Although our completeness testing identified no issues, we recommend that the error report should be validated on a monthly basis to ensure all patients are being captured on a pathway. This will ensure data for reporting purposes is complete.</p>	<p>Agreed.</p> <p>Officer Responsible: Annette Peck, Head of Information</p> <p>Due date: 30 September 2016</p>

Appendix 1

Recommendations raised and followed up (continued)

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
Quality Report			
4	3	<p>Emergency readmissions</p> <p>The data originally included within the quality report was not consistent with that required by Monitor. Rather it was for a similar indicator required by Sheffield CCG. The issue with the incorrect reporting of the indicator arose because the detailed guidance was not shared with appropriate personnel within the Information Services Strategy and Operations Department.</p> <p>The procedure to extract the required data was not sufficiently validated to ensure that it was reporting the correct data and it had to be revised.</p> <p>We recommended that Monitor's guidance is shared with relevant personnel on receipt and that data extraction is validated by an independent member of the Information Services Strategy and Operations Department to ensure accuracy following any changes in guidance.</p>	<p>Agreed</p> <p>Officer Responsible: Annette Peck, Head of Information</p> <p>Due Date: For 2016/17 Quality Report</p>

Appendix 1

Recommendations raised and followed up (continued)

We have also follow up the recommendations from the previous years audit, in summary:

Total number of recommendations	Number of recommendations implemented	Number outstanding
4	3	1

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date	Current Status (May 2016)
Financial Statements				
1	③	<p>Journals</p> <p>The accounting system permits journal entries to be posted without authorisation. As a consequence you have restricted management accountant access to revenue codes only and, as regards the financial accountants, you have restricted access to appropriate members of staff. Journals are required to be authorised on a paper copy in advance of posting although this control can be overridden by staff with direct access. A mitigating control is that some reports are run to identify inappropriate journals, for instance, to capital codes. Nevertheless there remains a small risk that unauthorised journals could go unnoticed. Our testing has not identified any issues and we will continue to apply extended testing in the future.</p> <p>Recommendation</p> <p>Any future upgrade of the system should consider the incorporation of prospective authorisation of journals that affect the balance sheet.</p>	<p>Agreed.</p> <p>Julie Wright, Deputy Director of Finance.</p> <p>Due date: As necessary</p>	<p>We understand that there was no upgrade taken during 2015. The recommendation will therefore be carried forward to next year.</p>
2	③	<p>Verification of new starter checklists</p> <p>During starters testing, KPMG identified that no signature from the HR team was present on 6/10 starter forms to confirm that an individual from the HR team had checked the relevant employee's details had been entered onto the system correctly. If the starter form is not signed by HR, it is not possible to determine if a check of details has been performed. This leads to a risk that information may have been input incorrectly.</p> <p>Recommendation</p> <p>All starter forms should be signed off as checked by a member of staff in the HR Department to confirm that information has been input correctly.</p>	<p>Agreed.</p> <p>Jonathan Ainsworth</p> <p>Due date: June2015</p>	<p>Internal audit reviewed a sample of new starter checklists as part of their payroll audit. 2/9 had no signatures present. A suitable recommendation was made. We therefore do not plan to carry this forward.</p>

Appendix 1

Recommendations raised and followed up (continued)

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date	Current Status (May 2016)
Quality Report				
3	3	<p>Percentage of incomplete pathways within 18 weeks for patients on incomplete pathways at the end of the reporting period</p> <p>We recommend the Trust reinforces to staff the need to date stamp all referral letters that will lead to more accurate input and reporting of the data.</p>	<p>Responsible Officer: Annette Peck</p> <p>June 2015</p>	Implemented
4		<p>In order to implement a more consistent approach to monitoring validation, the Trust should set a minimum level of validation across all directorates. The Trust should then monitor how each directorate is performing against the required level of validation.</p>	<p>Responsible Officer: Annette Peck</p> <p>September 2015</p>	The roll out of Lorenzo has meant that this recommendation is yet to be implemented.

Appendix 2

Audit Differences

Under UK auditing standards (ISA (UK&I) 260) we are required to provide the Audit Committee with a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK&I) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the Audit Committee, our reporting threshold for such adjustments is £800k.

Unadjusted audit differences

We are pleased to report we did not identify any unadjusted audit differences.

We are required to report any inconsistencies greater than £250,000 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 regardless of whether a Trust is a sampled or non-sampled component. We have provided details of the inconsistencies that we are reporting to the NAO overleaf.

Adjusted audit differences

We are pleased to report we did not identify any adjusted audit differences.

Presentational changes

We agreed a number of minor presentational changes to the draft accounts with management.

:

Appendix 2

Audit Differences (continued)

Counter party	Type of balance/ transaction	Balance as per Trust (£'000)	Balance as per counter party (£'000)	Difference (£'000)	Comments on Difference
Q72 -Yorkshire and the Humber Local Office	Income	21,636	19,162	2,474	This relates to income received for Dental SIFT. The Trust has received all the cash it has declared as income. However the counter party seems to have omitted payments it made to the Trust at the start of this arrangement.
Public Health England	Income	718	1167	-449	The Trust has ascertained that PHE has included a payable in relation to Breast Screening, however the Trust received this money from NHSE Public Health. The Trust therefore feels PHE should record this expenditure against NHSE Public Health.
FRP5-Doncaster and Bassetlaw Hospitals NHS Foundation Trust	Expenditure	8611	8875	-264	This relates to contractual expenditure with Doncaster and Bassetlaw FT. Communications are ongoing with the counter party but this is currently unresolved. However STH are confident that their balance is correct.
02P- Barnsley CCG	Payables	1,283	1,534	251	This difference relates to the treatment of year end accruals with the counter party. However, there is a corresponding contra with the same body so no further work was carried out.
02P- Barnsley CCG	Receivables	0	252	-252	

Appendix Three

Audit Independence

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.

Appendix Three

Audit Independence

- 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.
- 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 reporting 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 2016, 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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