



cutting through complexity

Sheffield Teaching Hospitals NHS Foundation Trust

I confirm that this is the final version of our Annual Governance Report relating to our audit of the 2013/14 financial statements for Sheffield Teaching Hospitals NHS Foundation Trust.

This document was finalised following discussion and approval by the Trust's Audit Committee on 22 May 2014.

A handwritten signature in black ink that reads 'Trevor Rees'.

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22 May 2014

Annual Governance Report
2013/14

22 May 2014

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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 22 May 2014.

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.

Use of Resources

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.

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.

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.

Accounts

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.

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 Use of Resources work.
- Section 4 sets out our findings on the audit of the accounts.

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

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's financial statements in accordance with the requirements of the Code. If there are any circumstances under which we cannot issue a certificate, then we must report this to those charged with governance. There were no issues that caused us 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 issued an unqualified audit opinion on the financial statements following the Board adopting the accounts and receipt of the 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 AGS. Our key findings are: <ul style="list-style-type: none"> – There were no unadjusted audit differences. – We agreed presentational changes to the accounts with Finance, mainly related to compliance with the ARM. – Other than our routine request we did not ask for any specific management representations. – The Annual Report needed to be updated to reflect changes made in a late update to the ARM.
Recommendations	<ul style="list-style-type: none"> ■ We are satisfied that the Trust has addressed the recommendations we raised in our Annual Governance Report for 2012/13. ■ We have recommended that you bring forward the timescale for preparation of the Annual Report ensuring that it is consistent with the latest version of the ARM.
Whole of Government Accounts	<ul style="list-style-type: none"> ■ We have drafted an unqualified Group Audit Assurance Certificate to the National Audit Office (NAO) regarding the Whole of Government accounts (WGA) submission, made through the Trust's submission of the summarisation schedules to Monitor.

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

Quality Accounts	<p>We have completed our audit of the Trust's 2013/14 Quality Accounts. Overall, based on the work performed:</p> <ul style="list-style-type: none">■ 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 tested 'Maximum waiting time of 62 days from urgent GP referral to first treatment' for all cancers and 'Number of Clostridium Difficile infections' as the two mandated indicators. Our detailed testing on the indicators has concluded that we are able to give a clear limited assurance opinion on the presentation and recording of these.■ Our work on the local mandated indicator 'Friends and Family Test (patient element)' has indicated that improvements would be needed to obtain a clear limited assurance opinion in the future.■ We have presented our detailed findings following the audit of the Quality Report in a separate report; see our external assurance report on your 2013/14 Quality Report.
Public Interest Reporting	<p>In auditing the accounts of an NHS Foundation Trust, auditors must consider:</p> <ul style="list-style-type: none">■ whether, in the public interest, they should make a report on any matter coming to their notice in the course of the audit, in order for it to be considered by Trust members or brought to the attention of the public; and■ whether the public interest requires any such matter to be made the subject of an immediate report rather than at the conclusion of the audit. <p>There were no matters in the public interest that we wished to raise.</p>

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.

Element of Work		Key Findings
AGS	We review your AGS to confirm whether it is consistent with our understanding of your operations.	We have reviewed the 2013/14 AGS and taken 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 have ensured that the outcomes of any reviews by other regulatory bodies have been considered when developing the scope of our work.
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 did not consider it was necessary to perform other work in order to conclude our opinion on the Trust's use of resources in 2013/14. Our work on the Quality Report has not highlighted any areas of concern that would impact upon our use of resources conclusion.

Conclusion on use of resources

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 2014.

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: issue our request for documents.	✓	–	–
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 all seven 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 2013/14 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 accounts audit issues on page 9.
Assessment of the control framework	<p>We have:</p> <ul style="list-style-type: none"> ■ assessed the effectiveness of your key financial system controls in place that prevent and detect material fraud and error; ■ evaluated the work of your internal audit function, provided by 360 Assurance in accordance with ISA 610; and ■ completed our review of the IT controls, relevant to our audit, which prevent fraud and error in the annual accounts. <p>There were no matters arising from our work that we needed to report to the Audit Committee.</p>

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. ■ You have provided us with comprehensive working papers and this has facilitated our audit work.
Accounting Standards	<ul style="list-style-type: none"> ■ We have worked 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 by 23 April 2014 in accordance with Monitor’s deadline. ■ The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of Monitor. <ul style="list-style-type: none"> – There is only one significant change in accounting policies from the previous year and that is that the Trust is required to consolidate its charitable funds if certain requirements are met. We are satisfied that you have considered these requirements and we agree with you that there is no need to consolidate your charitable funds. – Significant estimates have been made in relation to property valuations and lives, and income. We are satisfied that appropriate processes have been followed in making these estimates. – As in previous years, we will have a debrief meeting with the Finance team to share views on the final accounts audit. Hopefully this will lead to further efficiencies in the 2014/15 audit and accounts preparation process. ■ Trust finance staff were readily 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 to be completed within the allocated timeframe.
Testing	<ul style="list-style-type: none"> ■ During the audit we did not identify any non trivial issues which have not been adjusted. ■ We have also identified a small number of mainly cosmetic issues which have been adjusted. These are summarised in Appendix C. ■ Our findings related to areas of audit risk are shown on page 9.

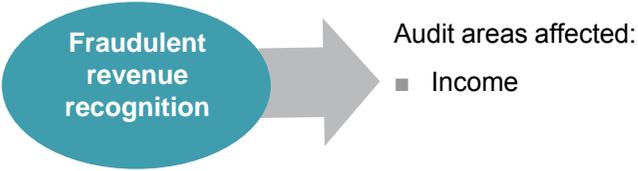
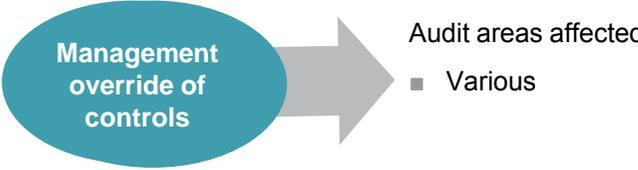
Representations and Opinions

- 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 Director of Finance on 15 May 2014.
- We drew 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.
- We did not ask management to provide any specific representations.

Other Matters

- 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.
- We have identified that there were no:
 - significant difficulties encountered during the audit;
 - significant matters arising from the audit that were discussed with management; and
 - other matters arising from the audit that, in our professional judgment, were significant to the oversight of the financial reporting process.

During our audit we have considered the two areas of significant risk that professional standards require auditors to consider at all organisations. We did not identify any significant risks that are unique to the Trust.

Areas of significant audit risk	Summary of findings
 <p>Fraudulent revenue recognition</p> <p>Audit areas affected:</p> <ul style="list-style-type: none"> Income 	<ul style="list-style-type: none"> We do not consider fraudulent revenue recognition to be a significant risk for foundation trusts as there are limited incentives and opportunities to manipulate the way income is recognised. We have therefore rebutted this risk and did not incorporate specific work into our audit plan over and above our standard fraud procedures.
 <p>Management override of controls</p> <p>Audit areas affected:</p> <ul style="list-style-type: none"> Various 	<ul style="list-style-type: none"> Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we have carried out appropriate controls testing and substantive procedures, including the review of journal entries, accounting estimates and significant transactions that are unusual or are outside the normal course of business. There were no adverse findings from our reviews.

We also carried out additional procedures in relation to the three areas of audit emphasis highlighted in our audit plan:

- Contract management.
- Delivery of efficiency plans.
- New ARM requirements including the consolidation of charitable funds.

There were no matters arising from our work that we needed to report to you.

During the audit we have considered a number of significant judgements and estimates affecting the Trust this year and have summarised our findings below to give the Audit Committee a view as to whether we believe these judgements are reasonable:

Areas of significant audit judgment	Summary of findings
Property, Plant & Equipment	
NHS income	

Summary of findings

- Depreciation charges and relevant asset lives are a matter for management's judgement in order to assess what is seen as the most realistic life, and therefore spread of economic benefit derived from the asset.
- We have reviewed asset lives applied by the Trust and these are in line with our knowledge of the Trust and the sector as a whole.

- Your year end income is estimated but, as the figures are agreed with the Clinical Commissioning Groups, the risk of any misstatement is low.

Steps taken to finalise this report

Following consideration of the issues highlighted in this report, the Audit Committee recommended that the management representations letter be signed by the Board following its meeting on 22 May 2014.

We have now received your representations and issued our audit opinion. For 2013/14 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 AGS 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 2013/14 was £47,940 plus VAT. This fee was as set out in our audit plan issued in October 2013.

Our fee for the external assurance on the quality report in 2013/14 was £9,350 plus VAT. This fee was also as set out within our audit plan.

We have not carried out any pieces of non audit work at the Trust during the year

We have made a recommendation in relation to the preparation of the Annual Report and the Annual Governance Statement

Priority rating for recommendations		
<p>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.</p>	<p>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.</p>	<p>3 Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p>

Risk	Issue, Impact and Recommendation	Management Response / Responsible Officer / Due Date
1	<p style="text-align: center;">2</p> <p>Preparation of the Annual Report and the Annual Governance Statement.</p> <p>The Annual Report and Annual Governance Statement (AGS) were not prepared until 7th May 2014. The Annual Report did not fully reflect amendments made to the ARM in March 2014.</p> <p>Recommendation</p> <p>The Trust should consider bringing forward the timescale for preparation of the draft Annual Report and the AGS, and, should ensure that the content fully reflects the latest guidance from Monitor.</p>	<p>Agreed.</p> <p>Neil Riley.</p> <p>Timescale to be agreed for 2014/15.</p>



Appendix B: Follow up of prior year recommendations

We made recommendations in relation to Pharmacy Stock and access to the ESR payroll system last year.

Both recommendations were implemented promptly.

Number of Prior Year Recommendations	Number of Recommendations implemented	Number outstanding (re-iterated below)
2	2	2

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 balances below £850,000. We are also required to report all material misstatements that management has corrected but that we believe should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

This appendix sets out the audit differences that we identified following the completion of our audit of the Trust for the year ended 31 March 2014.

Unadjusted audit differences

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

Adjusted audit differences

Our audit and further work carried out by yourselves led to a small number of adjustments to the accounts such as the disclosure of Commissioner Requested Services and the addition of further information on pension disclosures in the remuneration notes to the accounts and annual report. None of these adjustments led to an alteration in the Trust's revenue position.

Presentational issues

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

Other matters

There were no other matters to be brought to your attention.

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.

Audit matters (cont)

- 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 Committee meetings, 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 2014, we confirm that there were no relationships between KPMG LLP and the Trust, its directors and senior management 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.

As auditors of the Trust we are required to report to the NAO auditors in connection with the audit of the Department of Health Departmental Account, NHS Summarised Accounts and Whole of Government Accounts. We intend to issue an unqualified Group Audit Assurance Certificate to the National Audit Office (NAO) regarding the Whole of Government accounts (WGA) submission which will refer to the exceptions in the table below.

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. We have provided details of the inconsistencies that we are reporting to the NAO below:

Counter party	Type of balance/ transaction	Balance per the Trust (£'000)	Balance per counter party (£'000)	Difference (£'000)	Comments on Difference
CBA033-NHS England	Income	10, 209	4,735	-5,474	Differences with NHS England in relation to treatment of specialist commissioning balances. Trust income includes partially completed spells of £2.3m. This has not been included in the NHS England expenditure. NHS England expenditure includes credit of (£3,234K) which has been included by the central team to "balance the overall creditor position for R18 to that of the submitted statements". Income of £1m in relation to invoice 4000357543 has not been included as expenditure by NHS England as the invoice had not been received. An NHS England duplicated accrual of £745k that will be removed.
CBA033-NHS England	Expenditure	442	0	442	
CBA033-NHS England	Receivable	4,400	1,268	-3,132	
CBA033-NHS England	Payable	426	0	426	
Q51-South Yorkshire and Bassetlaw (SY&B)	Income	302,106	302,632	526	Differences relate to activities with specialist commissioner as above.
Q51-South Yorkshire and Bassetlaw (SY&B)	Receivable	4642	8,205	3,563	Differences relate to activities with specialist commissioner as above.
DOH033-Core Department of Health	Income	9,246	12,492	3,246	Difference remains unresolved at time of audit visit as Department of Health have not issued a statement to the Trust.
DOH033-Core Department of Health	Payable	0	1,221	1,221	Difference remains unresolved at time of audit visit as Department of Health have not issued a statement to the Trust.
CHP033-Community Health Partnerships	Expenditure	639	1,204	565	The invoices that were raised by Lift Co were well in excess of expectations. The meeting with Lift Co did not occur until after the Trust closed its accounts so it prudently accrued for their bills. The amount payable is still under discussion.



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