

QAD reviews of 2016-17 audits of NHS Foundation Trusts
Summary of Findings

	<p>For the purposes of these reviews, NHS Improvement (and the Quality Assurance Department (“QAD”) of the Institute of Chartered Accountants in England and Wales) divides matters arising into “Significant” and “Other”. A significant matter occurs where there is material non-compliance with the <i>Code of Audit Practice</i> issued by the National Audit Office or International Auditing Standards. The classification of a review finding as a significant matter is ultimately a decision for NHS Improvement, with the advice of QAD.</p>
A	Significant matters
	<p>There were no significant findings in the current year. There were no significant findings in the prior year requiring follow-up.</p>
B	Other matters
B1.	<p>Audit evidence</p> <p>In general, appropriate audit evidence was obtained for the areas selected for review and there were no significant issues arising this year. There was scope to improve the quality of audit evidence in isolated areas of a number of files.</p> <p><i>Substantive analytical review</i></p> <p>Two instances were identified where more rigorous substantive analytical review was required. In one instance, the accuracy of data used to form expectations for analytical review of a particular income stream should have been established. In the second case, one-off transactions and reclassifications made the formation of a reliable expectation more difficult and therefore, supplementing with some tests of detail would have been appropriate. There were also a further four files where the documentation of substantive analytical review required some improvement.</p> <p><i>Other areas of audit evidence</i></p> <p>In one instance, the useful lives ascribed to intangible assets should have been corroborated with reference to software license agreements. In one case, testing for completeness of accruals could have been improved by not selecting post year end payments that could clearly only relate to the new financial year as sample items. On one file, demonstration of a sufficiently rigorous challenge to the work of experts for property valuation required some improvement given the significant changes in some assumptions and methodology which gave rise to a large change in value.</p> <p><i>QAD recommendation</i></p> <p><i>Auditors have confirmed that these instances will be addressed in future.</i> <i>All auditors should note these matters and in particular, assess whether substantive analytical review is sufficiently robust and that it has been clearly documented.</i></p>

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B2.	<p>Documentation of audit work</p> <p>Isolated areas where documentation of audit work should have been more comprehensive were identified on all of the files reviewed. None of these were considered to significantly undermine the overall quality of the audits concerned, however, clear documentation demonstrates compliance with ISAs and that a sufficiently sceptical approach has been applied. Examples of documentation matters noted on two or more files were:</p> <ul style="list-style-type: none"> • Substantive analytical review (as noted in B1 above). • Complete list of all related parties and their relationships. • Consideration of consolidation/non-consolidation of charitable funds. • Evaluation of differences in inter-NHS balances compared to the counterparty. • Explanation of sampling approach. • Various aspects of work on PPE covering existence, ownership and valuation. <p><i>QAD recommendation</i></p> <p><i>All auditors should continue to aim for high quality documentation of work, with particular focus on more judgemental areas and ensure that robust review procedures are applied to challenge the quality of documentation before completing the audit.</i></p>
B3	<p>In year FT authorisation</p> <p>The sample included one trust authorised part way through the financial year. While the risk of error attaching to opening balances and cut-off between periods for income and expenditure was considered, this needed to be documented better.</p> <p><i>QAD recommendation</i></p> <p><i>The auditor has confirmed that additional guidance will be provided to address this point. This is a similar matter to one raised in previous years and all auditors should note the additional risks attaching to in year authorisation and ensure that their procedures include the identification and assessment of this risk and design of suitable procedures to address it.</i></p>
B4.	<p>Financial statements – presentation and disclosure</p> <p>The overall standard of presentation and disclosure of the financial statements for the sample was good and no significant disclosure issues were identified which would affect the overall true and fair view. Some scope for improvement in the overall quality, presentation and readability of the annual report and accounts was identified in five cases, which is a reduction from the previous year. While there were no overall themes, the following are highlighted as examples of the type of issues:</p> <ul style="list-style-type: none"> • Omission of comparative information for employee numbers and a need for better cross referencing from the notes to the accounts to information in the staff report. • Detailed financial instrument disclosures not including details of all relevant borrowings. • Improvements to the clarity of disclosure for related parties and transactions. <p><i>QAD recommendation</i></p> <p><i>Auditors should continue to work with trusts to ensure that high quality annual reports and accounts are produced.</i></p>

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B5.	<p>Letter of representation</p> <p>There were two instances where improvements could be made to the letter of representation. In one instance, a specific representation should have been more precise to confirm a key assumption underpinning the valuation basis for land and buildings. The other case contained a number of typographical errors which detract from the quality of audit evidence obtained from those charged with governance.</p> <p><i>QAD recommendation</i></p> <p><i>Auditors should consider carefully the need for any specific representations to be included in the letter of representation and should ensure that the letter is free from typographical errors that could undermine the value of the representations being given.</i></p>
B6.	<p>Limited assurance reporting on quality report/indicators</p> <p>There were three files where there was scope to improve work or documentation for limited assurance reporting on the quality report and mandated quality indicators. This included one case where greater clarity was required regarding the treatment of sample items used to confirm the accuracy of one indicator. The other two cases required better documentation of work done to confirm accuracy of the calculation of a reported indicator or consistency of the tested indicator with the published figure. There was also an instance on one of these files where confirmation of checking consistency between the quality report and one of the underlying sources specified for review was missing.</p> <p><i>QAD recommendation</i></p> <p><i>Auditors should ensure that appropriate documentation standards are applied to work on quality reports and indicators, including demonstration of checking calculation and consistency of indicators and coverage of all underlying sources for consistency checking of the quality report.</i></p>