

**QAD reviews of 2017-18 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 (‘ISAs’). The classification of a review finding as a significant matter is ultimately a decision for NHS Improvement, with the advice of QAD.</p>
<b>A</b>	<b>Significant matters</b>
	Significant matters were identified on two (2017 – nil) audits.
A1.	<p><b>Audit report not consistent with financial statement disclosure for going concern</b></p> <p>The notes to the financial statements for one Trust described factors as material uncertainties that may cast significant doubt about the Trust's ability to continue as a going concern. The audit report contained a standard going concern paragraph rather than the specific reference to material uncertainties required by ISAs.</p> <p>The auditor explained that the Trust amended its disclosure in the financial statements following its discussions and the auditor concluded that the factors did not amount to material uncertainties. However, the description as material uncertainties was not amended in the financial statements and the auditor did not request this change. As a result, the audit report reference to going concern was not consistent with the disclosure in the financial statements.</p> <p>The auditor should have communicated its conclusion about the factors not amounting to material uncertainties and requested a further change to the disclosure in the financial statements. If the Trust had decided not to change the description in the financial statements, the auditor should have considered the implications for its audit report.</p> <p><i>QAD recommendation</i></p> <p>The auditor accepts that it should have communicated its conclusion and sought a further change to the disclosure within the financial statements before issuing its opinion.</p> <p>While a relatively unusual situation, all auditors should ensure that they review audit report wording for going concern to ensure that the specific requirements of ISAs are followed in all circumstances.</p>

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A2.	<p>Insufficient audit evidence gathered from substantive analytical review procedures</p> <p>For one audit, the testing strategy placed significant reliance on substantive analytical review procedures for income and payroll costs, performed at a disaggregated monthly level. These tests did not provide the necessary level of assurance because thresholds for investigating variances from expectation were set at levels permitting material aggregated monthly and annual variances to remain without investigation and corroboration. Also, flawed expectations for income were based on data differing from that presented in the financial statements without adequate explanation or reconciliation in the file.</p> <p>Some assurance was obtained from other detailed tests over income but not payroll and some high-level reasonableness checks on income and payroll costs were performed, although not documented clearly in the file.</p> <p>Overall, insufficient audit evidence was gathered, particularly for payroll where substantive analytical review was the only testing carried out.</p> <p><i>QAD recommendation</i></p> <p><i>While the auditor explained that the approach adopted was in line with its methodology, it has confirmed that it will adjust the approach in future in forming its disaggregated expectations for substantive analytical review procedures. This change, in combination with clear documentation of high level reasonableness checks will improve the quality of audit evidence for income and payroll.</i></p> <p>Issues with the rigour of substantive analytical review have been highlighted in summaries for previous years. All auditors should challenge the adequacy of audit evidence derived from substantive analytical review and should ensure that it is sufficiently robust, particularly where it is the only or main source of audit evidence.</p>
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<b>B</b>	<b>Other matters</b>
B1.	<p>Audit evidence</p> <p>In general, appropriate audit evidence was obtained for the areas selected for review. In addition to the significant issue noted in A2, there was also scope to improve the quality of audit evidence in isolated areas on three other files.</p> <p><i>Accruals testing</i></p> <p>There were two instances where there was scope to obtain better evidence by slightly modifying the basis of testing. In one case, excluding from testing post year end items that could only relate to the new financial year (e.g. payroll) and in the other instance, separating samples for accruals and other trade payables because of the different attributes of the populations. Two further cases were identified where aspects of payables testing should have been documented more clearly.</p> <p><i>Payroll</i></p> <p>In one instance, evidence from controls testing, payroll reconciliations and agreement to bank could have been supplemented by a high level analytic or some detailed substantive testing.</p> <p><i>Income</i></p> <p>In one instance, better evidence could have been obtained to address completeness and classification of income. Two further instances were noted where the documentation of audit work on aspects of income should have been clearer.</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 in assessing the adequacy of audit evidence obtained</i></p>
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"> <li>• Discussions with those charged with governance, including the consideration of the risk of fraudulent revenue recognition.</li> <li>• Aspects of work on property, plant and equipment, including consideration of asset lives, physical existence (including condition) and ownership testing and considering valuation assumptions.</li> <li>• Consideration of going concern at planning and completion and linkage to VFM work.</li> <li>• Better commentary and confirming sources of information for preliminary and final analytical review.</li> </ul> <p><i>QAD recommendation</i></p> <p><i>Auditors should continue to aim for high quality documentation of work and ensure that robust review procedures are applied to challenge the quality of documentation before completing the audit.</i></p>

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B3.	<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 minor points for improvement in the overall quality, presentation and readability of the annual report and accounts were identified in five cases, which is similar to the previous year. There were no particular themes or widely occurring issues.</p> <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>
B4.	<p>Letter of representation</p> <p>There were two instances where improvements could be made to the letter of representation. In one instance, by including a representation for litigation and claims and in the other case, through further tailoring of the section on unadjusted errors.</p> <p><i>QAD recommendation</i></p> <p><i>Auditors should ensure that representation letters include all relevant representations and reflect the circumstances of the audit.</i></p>
B5.	<p>Reclassification error identified but not reported</p> <p>There was one instance where a non-trivial reclassification error identified during the audit was not included in the summary of unadjusted errors or reported to those charged with governance. The item would not have impacted the overall outcome of the audit.</p> <p><i>QAD recommendation</i></p> <p><i>Auditors should ensure that all identified errors are included in the summary of unadjusted errors and reported to those charged with governance.</i></p>