QAD reviews of 2014-15 audits of NHS Foundation Trusts
Summary of Findings

	For the purposes of these reviews, Monitor (and the Quality Assurance Department ("QAD") of the Institute of Chartered Accountants in England and Wales) divides matters arising into "Significant" and "Other". The Audit Code for NHS foundation trusts ("the Code") defines a significant matter as one where there is material non-compliance with the Code.
A	**Significant matters**
	Significant matters were identified in three (2014 – nil) audits, two of which were for the same audit firm.

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A1.	Assets held for sale – incorrect accounting treatment and insufficient audit consideration During the year, one Trust revalued a disposal group already held for sale at the beginning of the year resulting in a large impairment being charged to the Statement of Comprehensive Income. This amount was material in the context of the Trust and its deficit for the year. The accounting treatment adopted does not appear appropriate under the specific circumstances. The auditor had not demonstrated that it had obtained sufficient evidence to support the adopted treatment or that sufficient work had been performed to determine the correct treatment. The auditor explained that the valuation (existing use basis) was obtained by the Trust because their intentions to sell had changed and therefore the disposal group no longer met the definition of an asset held for sale. However, this would seem unlikely, because: - a second offer had been received at an amount greater than the carrying value at the beginning of the year, suggesting that the asset was still being actively marketed and that there was a reasonable expectation that the sale would proceed; and - by year end, two months after the valuation, the disposal group was still classified as held for sale. Under these circumstances, the disposal group should have been classified as held for sale throughout, should have remained at the value at the beginning of the year and hence no impairment should have been recognised. Even if the Trust's intentions had changed and revaluation on an existing use basis was appropriate, under these circumstances the decrease in value should initially have been charged against the revaluation reserve balance, rather than directly to the Statement of Comprehensive Income. It is also unclear whether appropriate challenge had been applied by the firm as to why there had been a significant reduction in the value of the disposal group in the space of a year and whether this was consistent with the firm's other work on asset valuation which indicated that there had been no, or very little, movement in the market. The Trust reclassified other land and buildings to assets held for sale during 2014/15, but did not obtain a valuation at fair value immediately prior to doing so. In the absence of a valuation, it is difficult to conclude what the impact on the accounts might be, although it is accepted that it was unlikely to be material. *QAD recommendation* *The auditor continues to believe that revaluation was appropriate because the sale was not highly probable during the year, although it has accepted that the reduction in value should have been charged to the revaluation reserve rather than income and expenditure. We remain sceptical about the need for any revaluation looking at the year as a whole and also taking account of the description included in the Trust's annual report which appears to describe a continuous process for the realisation of this asset.* *The auditor and the Trust need to consider whether a prior year adjustment is required in 2015/16 financial statements to correct the error. The auditor should review and if necessary, amend its procedures to ensure that complex/judgemental accounting matters are given sufficient consideration, using appropriate technical support where appropriate.*

A2.	In year FT authorisation – insufficient consideration of risk of incorrect allocation to pre and post authorisation periods and significant documentation weaknesses The auditor did not identify any specific risks attached to opening balances at the point of authorisation, and cut-off within the year between the periods before and after authorisation of the Foundation Trust. This led to some shortfall in audit evidence over the allocation of income to the correct period within the year, particularly as regards credit notes issued and contract adjustments for under/over performance. The auditor had tested these areas, but the documents on file suggested that the work required improvement: a) To consider anomalous items below performance materiality, but material in aggregate; and b) To consider if invoiced/credited items were reflected in the correct period of underlying performance. We found several areas where the auditor had not recorded its work adequately. In some cases, this arose because it did not transfer relevant documents from its file for the audit of the pre-authorisation NHS trust to the Foundation Trust audit file. The main areas affected were: a) Preliminary and final analytical review b) Testing validity and recoverability of non-NHS debtors c) Work to assess the bad debt provisions d) Assessing accuracy of partially-completed spells e) Confirmation of loan balances f) Sceptical challenge of the PPE valuation. The absence of this documentation means that it is difficult to be certain that sufficient, appropriate audit evidence has been obtained in some areas. *QAD recommendation* *The auditor should reconsider its risk assessment process for any situations in future where a Trust has been authorised part way through the year to ensure that sufficient audit work is performed over allocation to the correct period. The auditor should also establish the root cause for the documentation issues on this audit and take suitable action to prevent reoccurrence.*

A3.	Insufficient audit evidence for payroll expenditure and year end stock On one audit: (a) Payroll was audited by substantive analytical review but the work carried out was not sufficiently robust to meet the requirements of substantive analytical review because appropriate disaggregation was not applied in calculating the expectations and expected salary increases were not corroborated. (b) There was no stock take attendance or testing the valuation and obsolescence of a material stock balance with audit work being restricted to checking to Trust stock count reports and perpetual inventory listings. The auditor has confirmed that its firm's approach to both of these items has changed since this audit was performed, so that they will not recur. *QAD recommendation* *All auditors should note that where the main source of audit evidence for a Trust's payroll expenditure comes from analytical review it needs to be very robust given the relative magnitude to overall expenditure in this sector. Auditors should also note the requirement to obtain appropriate audit evidence for stock where it is a material balance, including mandatory requirements of ISA 501 regarding existence and condition.*
B	**Other matters**
B1.	Quality and sufficiency of audit evidence In addition to the significant issue identified in section A3, three further instances were identified where audit work for payroll expenditure required some improvement. In two cases, substantive analytical review was not sufficiently robust, although other work, which wasn't always documented in the audit file, had been performed that provided some additional assurance. There was one instance where further consideration and testing of property, plant and equipment for existence, completeness of disposals and accuracy of when assets under construction were completed would have been appropriate. *QAD recommendation* *Auditors have confirmed that these instances will be addressed in future.* *All auditors should note these areas and assess whether sufficient, appropriate audit evidence is being obtained through the testing strategy adopted and that this has been clearly documented.*

B2.	Documentation of audit work In addition to the significant documentation weaknesses highlighted in section A2, isolated areas where documentation of audit work should have been more comprehensive were identified on all of the other 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. There were no particular themes, but in two cases the rationale for qualifying the audit certificate should have been better documented. *QAD recommendation* *All auditors should continue to aim for high quality documentation of work, with particular focus on more judgemental areas.*
B3.	Financial statements – presentation and disclosure Except for the significant matter noted in section A1, the overall standard of presentation and disclosure of the financial statements for the sample was good and no other disclosure issues were identified which would affect the overall true and fair view. Some aspects for improvement were identified in all cases, resulting in scope for improvement in the overall quality, presentation and readability of the annual report and accounts. Whilst there were no overall themes, the following are highlighted as examples of the type of issues: • Describing some operating items on the face of the Statement of Comprehensive Income as "non-operating" because of their unusual nature. • Two instances of errors in financial instrument note disclosure. • Audited parts of the remuneration report that did not fully comply with ARM requirements. • Two instances where the Trust had provided Monitor and published on their own websites a version of the annual report and accounts containing differences from the version signed off by the auditor. *QAD recommendation* *Auditors should continue to work with trusts to ensure that high quality annual reports and accounts are produced. Auditors should note that ARM does not permit classification of operating items as non-operating. Whilst not the auditor's responsibility, Trusts should be encouraged to share the final version before publication so that there is a greater likelihood of any version errors being identified.*
B4.	Consistency of consolidation schedules with the accounts There was one instance where a small number of inconsistencies in note disclosures between the consolidation schedules ("FTCs") and the audited accounts were not identified by the auditor. *QAD recommendation* *The auditor has confirmed that it will review and enhance its procedures for future audits to ensure that such inconsistencies are identified and reported to the Trust.*

B5.	Enhanced audit report All of the audit reports for the sample included the new requirements for enhanced reporting and generally, the approach adopted was similar to that used for the audits of listed companies, providing a suitable level of detail which was consistent with audit work set out in the audit file. There was one case where the audit report included some amounts for financial statement items that were different to the amounts disclosed in the accounts because the report content had not been updated for final adjustments. Also, the description of one aspect of the audit approach could have been clearer. *QAD recommendation* *Careful proof reading of enhanced audit reports is required to ensure that the final version does not contain inconsistencies with the audited financial statements.*
B6.	Submission of modified audit reports to Monitor There was one instance where a modified opinion/qualified certificate was not submitted to Monitor by the auditor within 7 days as required by the Code. *QAD recommendation* *The auditor has amended its procedures to ensure that this is done in future. All auditors are reminded of the Code's requirement.*
B7.	Limited assurance reporting on quality report/indicators In two cases (one audit firm) the auditor was unable to give an unmodified limited assurance opinion on one or more of the specified indicators. The auditors' approach was to remove the indicator(s) from the scope of the report. Whilst the impact was reasonably clear from the reports, the requirements of ISAE 3000 concerning qualified conclusions, adverse conclusions and disclaimers of conclusions indicates that the opinion should be modified appropriately rather than removing the items from the report scope. *QAD recommendation* *The audit firm has confirmed that it will review its approach. The requirements of ISAE 3000 should be applied by all auditors.*
B8.	Code section 2.15 – restriction of disclosure of information As noted in the summaries for the last five years, the Code indicates that auditors should document their compliance with the restriction of disclosure of information in the audit file. Four cases (two firms) were identified where this was not done, although the auditors had taken steps to ensure compliance. *QAD recommendation* *The auditors have confirmed that they will review their audit procedures to ensure that this is documented as a matter of routine in future. [All auditors should note this requirement and ensure that their standard procedures include it as a required step].*