

**QAD reviews of 2015-16 audits of NHS Foundation Trusts
Summary of Findings**

	<p>For the purposes of these reviews, NHS Improvement - Monitor (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 - Monitor, with the advice of QAD.</p>
A	Significant matters
	<p>There were no significant findings this year. The three instances of significant findings in the previous year were not considered to have given rise to significant issues in the current year for the audits reviewed at the two firms where these issues had arisen.</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. Four instances were identified where audit evidence obtained through substantive analytical review, particularly for payroll expenditure, required some improvement. The type of issues included insufficient disaggregation of data, incorporating all known changes in forming expectations and ensuring that appropriate base data is used.</p> <p><i>QAD recommendation</i></p> <p><i>Auditors have confirmed that these instances will be addressed in future. All auditors should note this matter and assess whether substantive analytical review is sufficiently robust and that it has been clearly documented. Auditors should also consider periodically establishing a new base point to ensure that variances within threshold year by year do not become material over time.</i></p>
B2.	<p>In year FT authorisation</p> <p>The sample included one trust authorised part way through the financial year. Whilst the risk of material mis-statement in this case may have been lower because the post authorisation period was 11 months, the specific risks attaching to opening balances and cut-off between periods for income and expenditure should have been identified and appropriate tests considered to address this.</p> <p><i>QAD recommendation</i></p> <p><i>The auditor has confirmed that appropriate procedures will be designed in future situations where authorisation is in year. 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>

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B3.	<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. There were no particular themes or common areas.</p> <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>
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 most cases. While there were no overall themes, the following are highlighted as examples of the type of issues:</p> <ul style="list-style-type: none"> • Three instances where accumulated depreciation was not eliminated properly on revaluation impacting gross costs and depreciation disclosed in the property, plant and equipment note. • One instance of an omitted related party transaction disclosure for someone closely connected to one of the directors of the trust. • Internal inconsistency of amounts or information disclosed in different parts of the accounts. • Omission of some opening balance disclosures for a first year Trust. <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>
B5.	<p>Consistency of consolidation schedules with the accounts</p> <p>There was one audit where a small number of inconsistencies in note disclosures between the consolidation schedules (“FTCs”) and the audited accounts were not identified by the auditor.</p> <p><i>QAD recommendation</i></p> <p><i>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.</i></p>

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B6.	<p>Work on VFM arrangements</p> <p>This was an area of change for 2015-16 audits, whereby the Code and Auditor Guidance Notes (AGNs) issued by NAO require auditors to carry out risk assessment procedures and to perform work to address any significant risks identified. All of the audits in the sample demonstrated that this approach had been adopted. In one instance, a significant risk emerged during the course of the audit and whilst the auditor addressed the risk and assessed the impact on the audit opinion, the documentation should have been clearer in demonstrating the accumulation of evidence and the thought process to arrive at the final conclusion. The qualification in the audit report could have been worded more clearly so that it did not suggest any uncertainty over the opinion. We also noted in another audit that the certificate had been qualified as well as describing the matter in the audit opinion. AGN 07 makes it clear that the certificate should not be qualified for VFM opinions.</p> <p><i>The auditors have confirmed that these matters will be addressed in future audits. All auditors should note the current requirements for VFM work set out in the Code and AGNs.</i></p>
B7.	<p>Limited assurance reporting on quality report/indicators</p> <p>There were two instances where the documentation of work on mandated indicators should have been clearer. This included matters such as demonstrating the full scope of testing performed on samples, clear linkage to programmes of work, documenting clearance of any issues and demonstrating that the quality indicators had been checked through to the quality report.</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.</i></p>