KPMG

cutting through complexity

The Whittington Hospital NHS Trust

ISA 260 Audit Highlights Memorandum

2013/14

May 2014

Contents

The contacts at KPMG in connection with this report are:

Tamas Wood
Director,
KPMG LLP

Tel: 0207 311 6458
tamas.wood@kpmg.co.uk

Antony Smith
Manager,
KPMG LLP

Tel: 0207 311 2355
antony.smith@kpmg.co.uk

Loretta Okpokiri
Assistant Manager,
KPMG LLP

Tel: 0207 311 2054
loretta.okpokiri@kpmg.co.uk

This report is addressed to the Whittington Hospital NHS Trust (the Trust) and has been prepared for the sole use of the Trust. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body'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.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tamas Wood who is the engagement lead to the Trust or Trevor Rees (0161 246 4063 / trevor.rees@kpmg.co.uk), the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. You can contact the Complaints Unit by phone (0303 444 8330), by email (complaints@audit-commission.gsi.gov.uk), through the Audit Commission website (www.audit-commission.gov.uk/aboutus/contactus), by textphone/ minicom (020 7630 0421), or via post to The Private Secretary, Controller of Audit's Office, Audit Commission, 3rd Floor Fry Building, 2 Marsham Street, London, SW1P 4DF.

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Introduction

Background

The Audit Commission's Code of Audit Practice (the Code) requires us to report on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. We report these areas to those charged with governance (in this case the Audit and Risk Committee) at the time you are considering the financial statements. 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 260 requires that we consider the audit matters detailed in Appendix B and we do this by exception through this report. We are also required to communicate with those charged with governance 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 and Risk Committee on 4 June 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 (UoR)	The Whittington Hospital NHS Trust ('the Trust') is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and regularly reviewing the adequacy and effectiveness of these arrangements. Our responsibility is to satisfy ourselves that you have proper arrangements in place by reviewing and examining evidence relevant to your corporate performance management and financial management arrangements and reporting on these arrangements. We reflect our judgements from the use of resources work in the value for money (VfM) conclusion. Our conclusion provides assurance on the Trust's arrangements for achievement economy, efficiency and effectiveness in its use of resources. The Trust is responsible for putting in 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 a Annual Governance Statement (AGS) with its Annual Report.
Accounts	We audit the financial statements and provide our opinion as to whether they give a true and fair view of your financial position and expenditure and income, and whether they have been prepared in accordance with the relevant accounting policies directed by the Secretary of State.

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

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Headlines

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

Use of Resources and audit certification	■ 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 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 are no issues that would cause us to delay the issue of our certificate of completion of the audit.
Accounts, unadjusted audit differences and management representations	■ We intend to issue an unqualified audit opinion on the accounts following the Audit and Risk Committee adopting the accounts and receipt of the management representation letter, subject to receiving the Annual Report to enable us to complete our work in relation to it. ■ 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: – There is one unadjusted audit difference which is not material but when extrapolated is significant enough to be brought the Audit and Risk Committee's attention (see Appendix B); – We have also highlighted two differences that have been adjusted (see Appendix B); – We have agreed presentational changes to the accounts with Finance, mainly related to compliance with relevant guidance; and – We have only included routine matters in our request for management representations. Section four provides further details.
Recommendations	■ We have identified three prior year recommendations that require further action by management. ■ We have not made any new recommendations as a result of our 2013/14 audit work.
Whole of Government Accounts	■ We intend to issue an unqualified confirmation to the NAO regarding the Whole of Government accounts submission, made through the Trust's submission of the summarisation schedules to the Department of Health.

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Headlines (cont.)

Quality Accounts	We have completed our audit of the Trust's 2013/14 Quality Accounts, except for completing our consistency checks. Overall, based on the work performed: ■ We expect to issue a limited assurance opinion on the content of your Quality Report, in compliance with Quality Account Regulations which could be referenced to supporting information and evidence provided by the Trust, subject to completing our consistency checks and our final checks to ensure you have reflected our comments in the Quality Account and to review changes made by the Trust. ■ This year we have also tested two of the four quality indicators specified by the Audit Commission as suitable for substantive testing at the Trust. In conjunction with management we selected the indicators relating to: percentage of patients risk-assessed for venous thromboembolism; and friends and family test patient element score in A&E. ■ Our testing of the friends and family test patient element score in A&E identified errors in the accuracy of the indicator reported when compared with the detailed underlying records. We will therefore not be able to include the Friends and Family Test patient element score in Accident and Emergency indicator as part of our limited assurance opinion ■ Our detailed findings following the audit of the Quality Report are presented to you in a separate report; see our external assurance report on your 2013/14 Quality Report.
Public Interest Reporting	■ We have a duty to refer any matter to the Secretary of State if we have a reason to believe that the Trust is about to make, or has made, a decision involving unlawful expenditure, or is about to take, or has taken, unlawful action likely to cause a loss or deficiency. We also have a duty to consider whether, in the public interest, to report on any matter that comes to our attention in order for it to be considered by the Trust or brought to the attention of the public. ■ We did not issue a report to the Secretary of State or a report in the public interest in 2013/14.
Fraud	■ We have a responsibility to consider fraud and we addressed this in our assessment of your controls framework. We have also reviewed your arrangements for the prevention and detection of fraud and corruption, alongside our use of resources work. ■ This work is complete and has not identified any matters which we wish to draw to your attention.
Other Issues of Governance Interest	■ We have not yet received the Trust's Annual Report. The Manual for Accounts requires that we are given a copy of the annual report in sufficient time to carry out the required work before the completion of our audit opinion. Certain information contained in the remuneration report is subject to audit and will be referred to in the audit opinion and the remuneration report must be available at the start of the audit. Other quantitative aspects of the annual report are reviewed by auditors to ensure consistency with the annual accounts and so needs to be available in a comprehensive form.

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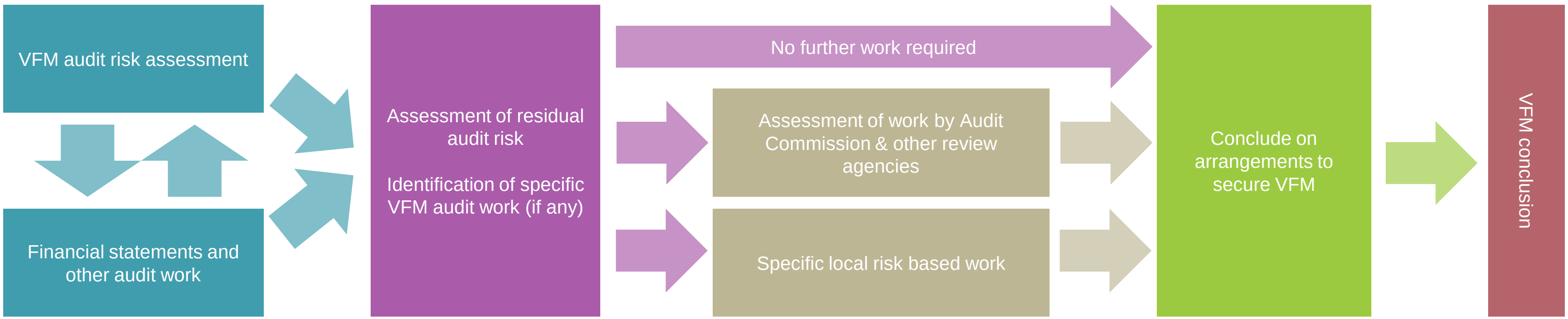
Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Trust has proper arrangements in place for:

- securing financial resilience: looking at the Trust's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Trust is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Trust to mitigate these risks and plan our work accordingly.

The key elements of the VFM audit approach are summarised in the diagram below.



Conclusion

We have concluded that the Trust has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓

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Key Findings

In the table below, we have summarised the scope of our work along with our key findings. The results of this work will be reflected in our VFM conclusion.

Criteria and scope of our work	Key findings from our work
1) Securing financial resilience We considered the Trust's arrangements for ensuring robust financial governance, planning and control. As a result, we focused on whether the Trust has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	The Trust has met all of its statutory financial targets and achieved a £1.1m surplus in 2013/14, after adjusting for impairments and its PFI scheme. We note that this is a very small margin and is a deterioration on the prior year. It is also important to note that the delivery of the adjusted surplus has required the significant use of non-recurrent funds amounting to £8m including the release of provisions of £2.1m that we highlighted as not meeting IAS37 requirements in our 2012/13 ISA 260 report. The need for such a high level of non-recurrent funds for the year was mainly due to the non-achievement of large elements of the planned Cost Improvement Plan (CIP). The Trust had a significant shortfall of £8m against its planned CIP of £15m in 2012/13. The reason for the shortfall is mainly attributed to conflicts between key operational targets (eg emergency waits; and referral to treatment targets) or service quality and cost reductions planned in the same areas; delay in opening the Trust's ambulatory centre; and estimated savings being unrealistic for some plans. The risks on non-delivery were highlighted in Trust Board papers for most of 2013/14. However, various attempts to improve delivery and/or identify other savings only had limited success. As a consequence of the shortfall in delivering the CIP recurrently in 2013/14, the already demanding savings needed in 2014/15 are now even greater. The Trust's operational plan for the next two financial years includes CIPs of £15m in 2014/15 and £11m in 2015/16. We understand that a significant proportion of schemes are supported by fully developed delivery/implementation plans for 2014/15, although there remains a shortfall of around £3m which the Trust is working hard to identify and ensure robust delivery plans will be in place. For 2015/16 progress is much less developed and the Trust needs to ensure it completes plans for 2014/15 as soon as possible to enable future projects and schemes to be worked on and completed prior to the start of the 2015/16 financial year. The Trust's fixed contract with its main commissioners ends in June 2014, with those parties now satisfied that the Trust's new electronic patient record is reliable (the Trust was able to provide the necessary information for 2013/14 in mid-May 2014 to demonstrate this). The Trust is close to having agreed contracts in place with its main commissioners (using PbR for acute activity) at values marginally higher than 2013/14 contract values with a tolerance of £5.5m for under or over performance. Whilst this is positive, there are also risks to the Trust from potential penalties (which could be considerable for example if the Trust's performance in 2013/14 were to be repeated around meeting targets). The Trust is also trying to agree recurrent funding for the community estates it has taken on as part of becoming an Integrated Care Organisation. In 2013/14 the Trust managed to obtain funding of £8.3m, but this was only confirmed in March 2014. There have also been many changes in the Trust's Non-Executive Directors (NEDs) and senior managers over the last 12 months . In terms of NEDs the Chairman, deputy Chairman, and Chair of the Audit and Risk Committee have each resigned and a further NED's term of office ended in April 2014. All of these have been successfully replaced in the last six months. In terms of senior managers the Chief Executive, Finance Director, Chief Operating Officer (COO), Nursing Director and Medical Director

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Use of Resources (cont.)

Criteria and scope of our work	Key findings from our work
1) Securing financial resilience (continued)	have all left the Trust. All have been replaced by interim appointments, except the COO (permanent appointment) and Medical Director (very recent resignation, permanent replacement being sought). This presents many opportunities for the Trust but it will also take time for a new team to settle in to an effective and agile leadership and to refresh, with partners, the Trust's strategy. This brief commentary gives an indication of the scale of the financial challenge facing the Trust if it is to be financially resilient in the medium term. Similar to our recommendation last year the Trust now needs an early focus on closing the remaining gap in its 2014/15 CIP and ensuring appropriate and effective clinical quality impact assessments at the planning and monitoring stages of efficiency projects. It also needs to ensure that it uses the tools available, such as service line management, electronic patient records, and comparative information/benchmarking effectively to highlight further opportunities and ensure delivery of projects in terms of timelines and scale of efficiencies/savings. In addition to the short-term, the Trust also faces a considerable challenge as considers medium –term viability. The current two year operational plan shows poor liquidity for at least the next two years and only an adequate capital servicing capacity. In terms of Monitor's Continuity of Service Finance Risk Rating, this translates as 'material risk' requiring frequent review and monitoring by the regulator. With the changes to the top team identified above, the Trust has identified it needs until at least September to develop a meaningful five year, medium term financial plan based on an operating model aligned to the Trust's strategy. There is considerable work for the Trust to do to demonstrate it is financially resilient beyond the short-term.
2) Securing economy, efficiency and effectiveness We considered the Trust's arrangements for prioritising resources and achieving efficiency and productivity. We also considered the Trust's performance in the year. As a result, we focused on how the Trust is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.	As outlined above, the Trust faces a significant short-term challenge in terms of meeting the immediate financial challenges being faced by the Trust and trying to ensure there is progress on completing and delivering the CIP programme to ensure the Trust is able to deliver its financial targets for 2014/15. Whilst the Trust had appropriate monitoring arrangements in place in respect of its financial position and CIP progress, there were shortcomings in the areas/projects identified to deliver the planned efficiencies and in the Trust's ability to develop alternatives when shortfall were identified. We have also highlighted the need to ensure that the tools available, such as service line management, electronic patient records, and comparative information/benchmarking are used effectively to highlight further opportunities and ensure delivery of projects in terms of timelines and scale of efficiencies/savings. Recent examples of benchmarking (using NHS England) have highlighted higher costs than top performing peers compared to income generated. The Trust is looking to use this and other comparators to highlight areas to focus future efforts to identify opportunities to improve its efficiency.

Our conclusion

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, although we have commented on the non-delivery of the 2013/14 CIP and re-iterated our recommendation on this point.

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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. External Audit Plan: presented to Audit Committee	✓	–	–
3. Controls: assess the control framework.	✓	–	–
4. Prepared by Client Request (PBC): issue our prepared by client request.	✓	–	–
5. Accounting standards: agree the impact of any new accounting standards.	✓	✓	–
6. Accounts Production: review the accounts production process.	✓	✓	✓
7. Testing: test and confirm material or significant balances and disclosures.	–	✓	–
8. Representations and opinions: seek and provide representations before issuing our opinions.	✓	✓	✓

We have completed the first 7 stages of the process. We report our key findings from each stage in the remainder of this section.

Business Understanding and External Audit Plan.	■ In our *2013/14 External 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 pages 11 and 12.
Assessment of the Control Framework	■ We have assessed the effectiveness of your key financial system controls in place that prevent and detect material fraud and error. We found that the financial controls on which we seek to place reliance are operating effectively.
Prepared by Client Request	■ We issued our final prepared by client list to the Trust in February 2014. This document summarises the working papers and evidence we ask you to collate as part of the preparation of the financial statements. ■ Working papers were presented to us in line with the agreed timetable and Trust staff have responded quickly to deal with our additional queries and requests for information for our detailed testing.

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Accounting Standards	■ We have discussed with you in our regular meetings with the finance team changes to accounting standards and technical issues such as the transfer of community estates. From these meetings we have agreed with you an approach to key technical issues prior to the Trust's production of the annual accounts. ■ The key areas we have identified are considered in on pages 11 and 12.
Accounts Production	■ We received the Trust's submitted accounts on 23 April 2014 in accordance with the Department of Health's deadline. There were some minor presentational amendments made to these accounts before the audit started. However, none of these amendments significantly hindered the progress of the audit. ■ The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Department of Health. ■ Significant estimates have been made in relation to: – the valuation of property, plant and equipment. Assurance is sought from an external valuer to ensure that property, plant and equipment is valued appropriately. The estimates employed by the Trust are considered to be within our acceptable range; – Accruals - we identified three items billed since the year end that should have been accrued for as part of our procedures to identify undetected liabilities. Individually these items are very small (£3,000). However, we are required to consider the impact from our sample testing on the whole population (in this case April cash payments). When we complete this assessment we have an extrapolated error of £650,000. This value is not material and we therefore consider that accruals are unlikely to be materially understated. – provisions – we have sought supporting evidence to demonstrate whether IAS37 (Provisions, Contingent Liabilities and. Contingent Assets) has been complied with. The provisions reported in the financial statements are considered to be within our acceptable range. ■ As in previous years, we will debrief with the Finance team to share views on the final accounts audit. Hopefully this will lead to further efficiencies in the 2014/15 audit process. ■ Trust finance staff were 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 complete within the allocated timeframe.
Testing	■ During the audit we identified one issue which has not been adjusted as it has no material effect on the financial statements. In accordance with ISA 260 we must communicate this uncorrected misstatement to the Audit and Risk Committee. We have summarised this issue at Appendix B. ■ We have also identified two issues which have been adjusted. These are also summarised in Appendix B. ■ Our findings related to areas of high audit risk and other areas of audit focus are shown on pages 11 and 12.

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Accounts (cont.)

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 Finance Director on 30 May 2014. ■ We draw 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 have only requested routine management representations, although we require the Audit and Risk Committee to confirm their agreement not to amend the unadjusted audit differences.
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 not identified any other matters to specifically report.

Next Steps

Following consideration of the issues highlighted in this report, the Audit and Risk Committee will approve the signing of the management representations letter. Once we have received your representations we issue our audit opinion. For 2013/14 this provides confirmation that:

- your financial statements present a true and fair view;
- you have complied with the Department of Health's disclosure requirements set out in the Trust Financial Reporting Manual 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 the NHS Trust Financial Reporting Manual.

Except for the uncorrected misstatement outlined in Appendix B, we do not have any other matters that we wish to draw to your attention prior to issuing this opinion.

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 C.

Audit Fees

Our fee for the audit in 2013/14 was £72,739 plus VAT. This includes £3,039 relating to the community estates transfer on 1 April 2013; and £1,600 for audit view letters required by the Trust Development Agency relating to the Chief Executive's exit agreement. This fee was therefore above that highlighted within our audit plan and was communicated to the Audit and Risk Committee. The fee for our NHS Quality accounts work was £10,000.

We have not undertaken any non audit work at the Trust during the year.

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Results of our testing on areas of high audit risk

In our External Audit Plan 2013/14, presented to you in February 2014, we identified one area assessed as a significant risk in terms of its impact on our financial statements audit opinion. We have now completed our testing of this area and set out our final evaluation following our substantive work.

Areas of SIGNIFICANT audit risk	Summary of findings
Estates Transfer Audit areas affected ■ Property, Plant and Equipment ■ Leases (accounting and disclosure) ■ Going concern/ financial standing	■ The Trust inherited £31m of community assets on 1 April 2013. A further 29 assets were transferred on a leased basis. These are material transactions and central guidance for the accounting entries was only finalised this year ie 2014. ■ The Trust eventually managed to obtain the £8.3m funding from its commissioners relating to the additional 2013/14 revenue costs associated with the transferred assets in March 2014. ■ The Trust is also trying to agree recurrent funding for these community assets that it has taken on as part of becoming an Integrated Care Organisation. ■ We have reviewed key judgements made by the Trust, such as the value to the Trust and useful economic life assigned to the assets when they are added to the Statement of Financial Position. We have also considered the impact of the revenue costs associated with the asset transfer. We are satisfied that the Trust has accounted for and disclosed the transactions relating to the estates transfer appropriately. The issue around the recurrent revenue funding for the transferred estate has however, not yet been resolved.

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Accounts (cont.)

In our *External Audit Plan 2013/14* we also reported that we would focus on other areas as specifically required by professional standards. These risk areas were management override of controls, and the fraud risk of revenue recognition. We also identified two further areas of audit focus. The table below sets out the outcome of our audit procedures and assessment on these risk areas.

Other areas of audit focus	Summary of findings
Management override of controls Audit areas affected ■ All areas	Our audit methodology incorporates the risk of management override as a default significant risk. Management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We have not identified any specific additional risks of management override relating to this audit. In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual. There are no matters arising from this work that we need to bring to your attention.
Fraud risk of income recognition Audit areas affected ■ None	Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. In our External Audit Plan 2013/14 we reported that we do not consider this to be a significant risk for NHS bodies as there is unlikely to be an incentive to fraudulently recognise revenue. This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.
Delivery of CIP plans Audit areas affected ■ Expenditure ■ Going concern/ financial standing	As we have noted in Section 3 the Trust did not achieve the planned CIP savings. There was a significant shortfall of around £7m compared with the planned £15m. The key reasons behind the shortfall relate to some schemes having conflicting impacts on service quality and meeting targets; delays to the ambulatory care centre; and the scale of savings being unrealistic for some schemes. The Trust managed to achieve it financial performance break-even target, but this required the use of £8m of non-recurrent funds. See Section 3 for further comments re our Use of Resources assessment.
2013/14 financial reporting Audit areas affected ■ Financial position and financial standing ■ Accounts payable, receivable and provisions	As part of its in-year reporting the Trust identified a number of risks with the potential to impact adversely on the Trust's financial position for 2013/14, including continuing negotiations with CCGs about payment for work done in excess of agreed activity; finalising service level agreements and receiving income from local authorities following the transfers of funding from PCTs and CCGS (eg school nurses, sexual health services); and residual liabilities potentially being transferred to the Trust from PCTs following their dissolution on 31 March 2013. From our testing we have assessed the appropriateness of the accounting treatment and are satisfied that these have been accounted for and/or disclosed appropriately in the Trust's financial statements.

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Accounts (cont.)

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 and Risk Committee a view as to whether we believe these judgement are reasonable and were within the acceptable range they sit:

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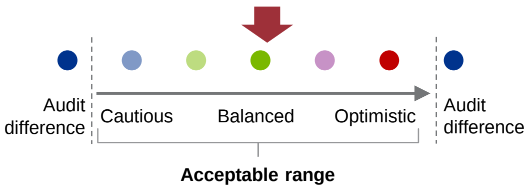
<tr><th colspan="2">Areas of significant audit judgment</th><th>Summary of findings</th></tr>
<tr><td>PPE – including valuations; impairments and depreciation</td><td>
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- The Trust had a valuation of its estate undertaken as of 31 March 2013. The Trust obtained confirmation from the Trust's valuers that valuations where appropriate for the valuation bases used by the Trust.
- The estimate received from the Trust's valuers (Valuation Office Agency) noted increased valuations of £19.5m; and impairments of £6.1m. Having reviewed the Trust's instructions to the valuer; obtained independent assurance about the VOA's status (from Gerald Eve via the Audit Commission) and compared changes to values with a trends report (also produced by Gerald Eve) we consider that the valuation of the Trust's estate is appropriate for our audit opinion purposes.

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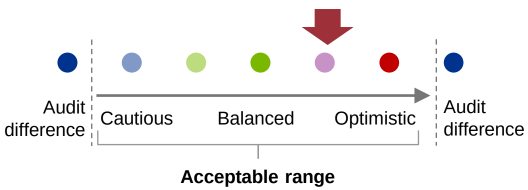
<tr><td>Accruals</td><td>
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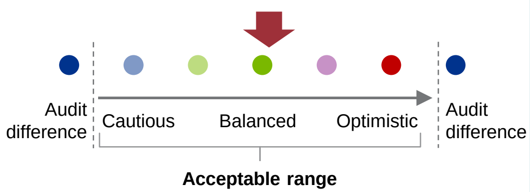
- The Trust had non-NHS accruals of £14.3m at 31 March 2013, which is an increase of £6.5m from the 31 March 2013 balance. The main cause of the increase (£3.2m) is capital accruals that where included as capital creditors in 2012/13. The rest of the increase relates to a combination of agency staff accruals, drugs receipted but not invoiced and AP automated accruals.
- We identified three items billed since the year end that should have been accrued for as part of our procedures to identify undetected liabilities. Individually these items are very small (£3,000). However, we are required to consider the impact from our sample testing on the whole population (in this case April cash payments). Completing this assessment gives an extrapolated error of £650,000. This value is not material and we therefore consider that there are not likely to be material items that have not been accrued for.

</td></tr>
<tr><td>Provisions</td><td>
</td><td>

- The Trust had opening provisions of £6.1m and has utilised £1.6m and reversed £3.3m as unused during 2013/14. The provisions that have been released during 2013/14 are considered appropriate as there was evidence to suggest that they had been used.
- As we highlighted in our ISA 260 report last year, our view was that a significant, but not material element of the restructuring and other provisions was over-cautious. We have noted that £3.2m of the £3.3m reversal of unused provisions relates to these categories of provision. We therefore consider that the release is appropriate as in our view a significant proportion of the provisions had not been needed in the first place. This release contributed to the £8m non-recurrent funding applied by the Trust to deliver the reported surplus. For 2013/14.
- From our testing of the closing provisions balance (£3.3m) we are satisfied that there is appropriate evidence to support the reported estimated value.

</td></tr>
</table>

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Appendix A: Follow up of prior year recommendations

This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2013/14 and re-iterates any recommendations still outstanding.

Number of Prior Year Recommendations	Number of Recommendations implemented	Number outstanding (re-iterated below)
Three	None	Three

Recommendations Outstanding

#	Risk	Issue and Recommendation	Officer Responsible and Due Date	Status as at May 2014
1	2	**PPE: Estates transfer and related accounting issues** The Trust has a key change to its estate from 1 April 2013 (although details have yet to be formally agreed and signed off). The Trust expects to acquire 9 properties and lease a further 29 properties. The value of the assets notified by the PCT was £30m. In addition to the clarifying which properties will be acquired and under what circumstances, there remain uncertainties around some of the financial and accounting implications. As part of the completion of the estates transfer the Trust needs to ensure that it understands and deals appropriately with the impact on the financial position and the financial statements particularly with reference to valuation; lease formalisation; and accounting treatment.	Agreed Lead Richard Martin (now Simon Wombwell)	The Trust has completed the community estates transfer (subject to formally transferring title deeds to the Trust) and we have not identified any issues from our audit of the financial statements in relation to this. The Trust has also managed to secure the £8.3m funding shortfall that it identified for 2013/14. The key remaining points relate to agreeing future recurrent funding associated with the community estates with commissioners; and agreeing lease terms for the relevant properties with NHS Property Services. Negotiations are on-going.
2	2	**Timing of Annual Report and Quality Account completion** This year we have noted that the timetables for producing both the Annual Report and Quality Account are later than for the financial statements. All three documents have links and require auditing, preferably at the same time when we can complete and co-ordinate all of the work together. The Trust needs to review the timetable for completing the Quality Account and the Annual Report to ensure they are available at the same time that the financial statements are submitted for audit. This is particularly important as part of preparing for Foundation Trust status where timescales are often tighter.	Agreed – Leads Martin Kuper – Medical Director and Jo Ridgway – Director of OD April 2014	The Trust has not achieved the earlier completion of these key reports in 2013/14. We therefore re-iterate the importance of achieving this in future years.

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Appendix A: Follow up of prior year recommendations (cont.)

Recommendations Outstanding (continued)

#	Risk	Issue and Recommendation	Officer Responsible and Due Date	Status as at May 2014
3	2	**CIP** Achievement of the CIP in the current financial climate is critical to the Trust's future financial standing and achievement of FT status. Significant cost improvements amounting to £40m are needed to be achieved by the Trust over the next three years. The Trust has designed a revised PMO and Transformation Board structure alongside a monitoring process focused on delivery milestones rather than bottom line to more effectively develop and monitor efficiency and transformation programmes. The Trust now needs to embed these arrangements in practice with an early focus on closing the remaining gap in its 2013/14 CIP and ensuring appropriate and effective clinical quality impact assessments at the planning and monitoring stages of efficiency projects.	Agreed - Lee Martin (Chief Operating Officer) Simon Wombwell (Interim Chief Finance Officer)	As noted in the Section 3 (Use of Resources) there was a significant shortfall in the Trust's CIP delivery in 2013/14. The Trust's operational plan shows CIPs with targets of £15m in 2014/15 and £11m in 2015/16. With a significant proportion of schemes and detailed plans still to be identified/agreed the Trust faces a challenge to deliver the CIPs and hence meet its break-even duty in each of the next two years.

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Appendix B: ISA260 Communication of Audit Differences

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. We are also required to report all material misstatements that management has corrected but that we believe should be communicated to the Audit and Risk 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 Whittington Hospital NHS Trust for the year ended 31 March 2014.

Unadjusted audit differences

Detailed below is the one audit differences that has an effect on the NHS Trust's reported financial position. We are satisfied that, although the NHS Trust has not adjusted the accounts to reflect this difference, the total unadjusted difference is not material to the overall reported financial position.

	Balance Sheet (£)/I&E Account (£)	
Issue	**Adverse Impact (Dr)**	**Favourable Impact (Cr)**
Cut-off testing identified three payments in April 2014 that should have been accrued for in 2013/14. The value of the three payments was £3,246. To assess the potential impact on the financial statements we have extrapolated the error rate across all cash payments in April 2014 (excluding payroll) - £9.24m. This gives an estimated uncertainty of £651,200. The impact of this would be to increase expenditure, increase the retained deficit for the year and reduce the adjusted retained surplus.	£3,246 (actual) £651,200 (extrapolated)	

Adjusted audit differences

Detailed below are the significant audit differences which have been identified after submission of the draft financial statements to the Department of Health which have been corrected by management in the financial statements.

	Balance Sheet (£000)		I&E Account (£000)	
Issue	**Dr**	**Cr**	**Dr**	**Cr**
The Department of Health (DoH) informed the Trust that there was an error in how the Trust had accounted for the effect of legacy net receivables/payables balances paid off by DoH on behalf of the Trust and which should have been reflected in the adjustments to working capital/PDC transfers in the Cashflow statement. The overall effect is a reduction of £1.838m on the EFL underspend.	-	-	-	-
After initial submission, but prior to our audit the Trust identified that it had recorded an impairment as an upward revaluation for PPE. The impact was that PPE and the revaluation reserve were overstated. There was no I&E impact from this error.	2,029 (revaluation reserve)	2,029 (PPE)		

Presentational Issues

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

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Appendix C: Declaration of Independence and Objectivity

Auditors appointed by the Audit Commission must comply with the Code of Audit Practice (the Code) which states that:

'Auditors and their staff should exercise their professional judgement and act independently of both the Audit Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body, which does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired'

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission's Annual Letter of Guidance and Standing Guidance (Audit Commission Guidance) and the requirements of APB Ethical Standard 1 Integrity, Objectivity and Independence ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 Communication of Audit Matters with Those Charged with Governance' that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing;

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence;
- The related safeguards in place; and
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require auditors to communicate to those charged with governance 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 our independence and the objectivity of the Engagement Lead and the audit team.

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Appendix C: Declaration of Independence and Objectivity (cont.)

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual (‘the Manual’). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of the principles. To facilitate this, a hard copy of the Manual is provided to staff annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff must follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual Ethics and Independence Confirmation. Failure to follow these policies can result in disciplinary action.

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.
- 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.

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Appendix C: Declaration of Independence and Objectivity (cont.)

Audit matters (cont.)

- 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 committees, 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 Whittington Hospital NHS 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 and its affiliates 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 and the Audit Commission's requirements in relation to independence and objectivity.

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Appendix D: National Audit Office Group Assurance

As auditors of the Whittington Hospital NHS Trust we are required to report to the National Audit Office ('NAO') in connection with the audit of the Department of Health Resource Account, NHS Summarised Accounts and the Whole of Government Accounts (WGA). We intend to issue an unqualified confirmation to the NAO regarding the WGA submission, made through the Trust's submission of the summarisation schedules to Department of Health. 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 as per the Whittington (£000)	Balance as per counter party (£000)	Difference (£000)	Comments on Difference
Camden and Islington NHS FT	Receivable	1,210	914	296	Evidence to support the Whittington disclosure reviewed and considered appropriate.
Health Education England	Payable	676	0	676	Evidence to support the Whittington disclosure reviewed and considered appropriate.
NHS Islington CCG	Receivable	4,888	5,166	278	Evidence to support the Whittington disclosure reviewed and considered appropriate.
Community Health Partnerships	Revenue	4,858	4,433	(425)	Evidence to support the Whittington disclosure reviewed and considered appropriate.
Camden and Islington NHS FT	Expenditure	2,658	3,326	668	Evidence to support the Whittington disclosure reviewed and considered appropriate.
NHS North and East London CSU	Expenditure	592	281	(311)	Evidence to support the Whittington disclosure reviewed and considered appropriate.
London Regional Office	Expenditure	35,676	34,108	(1,568)	Evidence to support the Whittington disclosure reviewed and considered appropriate.
NHS City and Hackney CCG	Revenue	5,360	5,689	329	Evidence to support the Whittington disclosure reviewed and considered appropriate.
NHS Haringey CCG	Revenue	76,447	76,733	286	Evidence to support the Whittington disclosure reviewed and considered appropriate.
NHS Islington CCG	Revenue	102,166	102,636	470	Evidence to support the Whittington disclosure reviewed and considered appropriate.
Central and North West London MH NHS FT	Expenditure	339	603	264	Evidence to support the Whittington disclosure reviewed and considered appropriate.
University College London NHS FT	Expenditure	330	1,029	699	Evidence to support the Whittington disclosure reviewed and considered appropriate.

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