The Royal Wolverhampton NHS Trust

Trust Board Report

Meeting Date:	24 June 2013
Title:	External Audit – Final ISA 260
Executive Summary:	The Board are asked to note the contents of the final ISA 260 provided by independent auditors PricewaterhouseCoopers.
Action Requested:	To note the Final ISA 260
Report of:	Chief Financial Officer – Kevin Stringer
Author: **Contact Details:**	Kevin Stringer, Chief Financial Officer Tel: 01902 695954 Email: kevin.stringer@nhs.net
Resource Implications:	None
Public or Private: **(with reasons if private)**	Public Session
References: **(eg from/to other committees)**	Approved by the Audit Committee on the 6 June 2013
Appendices/ **References/** **Background Reading**	
NHS Constitution: **(How it impacts on any decision-making)**	In determining this matter, the Board should have regard to the Core principles contained in the Constitution of: - Equality of treatment and access to services - High standards of excellence and professionalism - Service user preferences - Cross community working - Best Value - Accountability through local influence and scrutiny

Background Details

1	Under International Auditing Standards PricewaterhouseCoopers (PWC) are required to report (ISA 260), on those charged with governance on any significant findings from their audit. The Board are asked to note the contents of the final ISA 260 prepared by PricewaterhouseCoopers.

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The Royal Wolverhampton NHS Trust

Report to those charged with governance

2012/13 audit

Members of the Audit Committee
The Royal Wolverhampton NHS Trust
New Cross Hospital
Heath Town
Wolverhampton
WV10 OQP

31 May 2013

Members of the Audit Committee

We are pleased to enclose our report to the Audit Committee in respect of our audit of The Royal Wolverhampton NHS Trust ("the Trust") for the year ended 31 March 2013. The primary purpose of this report is to communicate the significant findings arising from our audit that we believe are relevant to those charged with governance.

The scope and proposed focus of our audit work was summarised in our Audit Plan, which we presented to the Audit Committee in December 2012. We have subsequently reviewed our Audit Plan and concluded that our original risk assessment remains appropriate. The procedures we have undertaken in response to this assessment of audit risk are detailed later in this report.

We have substantially completed our audit and expect to be able to issue an unqualified audit opinion on the financial statements and an unqualified conclusion on the Trust's use of resources. At the time of writing, the key outstanding matters are:

- approval of the financial statements by the Audit Committee, in accordance with the delegated authority of the Trust Board;
- receipt and review of the final revised financial statements, Annual Report and Annual Governance Statement; and
- receipt of all relevant signed statements and the management representation letter.

We look forward to discussing our report with you, which will include providing an oral update on the outstanding matters referred to above, at your meeting on 6 June 2013. Attending the meeting from PwC will be Mark Jones and Natalie Ingles.

Yours faithfully

PricewaterhouseCoopers LLP

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Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In April 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to directors or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any director or officer in their individual capacity or to any third party.

Executive summary

Under the Auditing Practices Board's International Auditing Standard (UK and Ireland) 260 (ISA (UK&I) 260) - "Communication of audit matters with those charged with governance" we are required to report to those charged with governance on the significant findings from our audit before giving our audit opinion on the accounts of The Royal Wolverhampton NHS Trust ('the Trust'). As agreed with you previously, "those charged with governance" at the Trust are considered to be the members of the Audit Committee.

We set out in this report the significant findings from our audit of the Trust for 2012/13, together with those matters which auditing standards require us to report to you as "those charged with governance" of the Trust.

We carried out our audit work in line with our 2012/13 Audit Plan that we presented to you in December 2012. Our audit is not designed to identify all matters that may be relevant to you. Accordingly the audit does not identify all such matters.

We have issued a number of reports during the audit year, which set out in detail our findings from our work and which make recommendations for improvement, where appropriate. We set out in the table overleaf those matters that we consider to be the most significant arising from our audit.

This scorecard summarises our view of your accounts and audit performance using the following 'RAG' rating definitions:

Key

R Red – significant improvements required

A Amber – some improvements required

G Green – no or some minor improvements required

Area	RAG	Comments
Draft accounts	G	Your draft accounts were submitted to the Department of Health on time. Our audit identified no material issues with respect to the quality of the accounts presented for audit. Disclosure issues identified have been amended appropriately. Last year we commented that there was a lack of sufficient tailoring of the original financial statements' template to the circumstances of the Trust. This was not the case this year.
Readiness for start of audit and working papers	A	We met with the finance team in advance of the audit to discuss the status of working papers, and identified that due to unforeseen circumstances the Trust had experienced delays in preparing working papers for income and expenditure and that these would not be ready until the second week of our audit. Working papers for other areas were either ready for us when we arrived or provided to us during the first few days of the audit, with working papers for capital provided to us in advance of the audit. Papers were provided electronically which helped the efficiency and smooth running of the audit. Due to the Trust making us aware of the delays in income and expenditure working papers prior to commencement of the audit, this meant that we could reassess the planned timing of our work for areas to be audited during the audit and reprioritise our work on other areas at the start of the audit where working papers were ready. This meant we could still make a prompt and efficient start to our work on the first day we arrived on site.
Availability and responsiveness of staff	G	The finance team was easily accessible to us during the audit and responded promptly to our audit questions and requests for information. In light of the other pressures on the finance team, including preparing the working papers for income and expenditure during the course of the first week of the audit and changes within the team for the preparation of the accounts, the Trust's accounting performance is to be commended.
Significant audit and accounting issues	G	We identified some audit and accounting issues during the audit which are explained later in this report. None of these matters are material to the financial statements, either individually or in aggregate. The most significant of these (provisions and deferred income) had been raised by, and discussed with the Trust during the year and in advance of the audit. We are satisfied that these are appropriately reflected and disclosed in the financial statements. We anticipate issuing an unqualified audit opinion on the financial statements.
Internal control systems	G	We have not identified any significant deficiencies in internal control.
Value for Money conclusion	G	We will be issuing an unqualified Value for Money conclusion. We report in more detail a summary of our work and the findings that we wish to bring to your attention and that support our overall conclusion later in this report.

Please note that copies of this report will be sent to the Audit Commission in accordance with its requirements and to the National Audit Office as auditors of the Department of Health's Resource Accounts.

We thank the management and staff of the Trust for their co-operation and assistance during the course of our work.

Significant audit and accounting matters

We have set out in this section the significant matters arising from our audit.

Accounts

We have substantially completed our audit of the Trust's accounts in line with auditing standards. Subject to the satisfactory resolution of the following matters**, we anticipate issuing an unqualified audit opinion**:

- approval of the financial statements by the Audit Committee , in accordance with the delegated authority of the Trust Board;
- receipt and review of the final revised financial statements, Annual Report and Annual Governance Statement; and
- receipt of all relevant signed statements and the management representation letter.

Accounts preparation

Your draft accounts were submitted to the Department of Health on time. Our audit identified no material issues with respect to the quality of the accounts presented for audit; any disclosure issues identified have been amended appropriately. We commented last year that a number of disclosure issues were raised due to a lack of sufficient tailoring of the original financial statements' template to the circumstances of the Trust. We are pleased to report that the finance team addressed these comments as part of the first draft submission this year.

We agreed what we would need for our audit and met with the finance team in advance of the audit to discuss the Trust's progress. This identified that, due to unforeseen circumstances, the Trust was behind schedule in terms of preparing working papers in support of the accounts. As a result some working papers (relating to income and expenditure items) were delayed until the second week of the audit.

The finance team kept us up to date on its progress and worked closely with us to make sure the audit was completed on time. When working papers were ready for us the quality of those papers was generally very good. The finance team were also very helpful in resolving our queries during the audit.

We would like to thank the finance team for their support and assistance during the audit. We would like to continue to work with you to help further improve and strengthen this process going forward.

Accounting issues

We identified three accounting issues during the course of our work that we wish to draw to your attention:

Provisions

The financial statements include provisions totalling £4.3 million, which represents an increase of £0.6 million from the prior period. We focussed our work on three key elements of your provisions: the creation of new provisions in year, the utilisation of provisions raised in prior years and the reversal of provisions which have been unused. We have considered each of these areas in turn as part of our audit.

Restructuring provisions

The Trust has recognised £1.0 million for redundancy provisions in 2012/13 in relation to Dental services (£0.5 million) and Cytology services (£0.5 million).

Under International Accounting Standard (IAS) 19 there is required to be a "*detailed formal plan with no realistic possibility of withdrawal*" in place for recognition of a provision for redundancy costs.

Management provided us with the detailed plans and communications which had been issued to staff in respect of both provisions along with evidence of the assumptions and basis for the method of calculation. We have concluded that there is sufficient basis for this provision, and that the amount recognised is reasonable.

Discharge re-enablement monies provision

A provision of £600,000 has been included within the accounts relating to monies received for the discharge re-enablement service. This service had not been fully delivered by the financial year-end. The Trust has provided for the difference between monies received and spent, on the basis that these monies could be required to be repaid to the PCT/CCG.

This balance has not been treated as deferred income but rather as a provision. This is consistent with the prior year treatment but means that there is no NHS agreement to support the balance. The circumstances under which the Trust would need to return the money to the CCG, should it fail to deliver the activity associated with the income, has however been formally set out in a letter from the CCG to the Trust dated 27 March 2013.

We have therefore concluded that there is sufficient basis for this provision, and that the amount recognised is reasonable. We have requested management representations from you to clarify the basis for assumptions supporting the amount provided, due to the degree of judgement involved.

Legal provision

A legal provision for £100,000 has been created in anticipation of a potential case of unfair dismissal. However, as at 31 March 2013, the employee was still contracted with the Trust and no case had been submitted. In our view, this does not meet the criteria for establishing a provision as set out in International Auditing Standard 37. Whilst we have proposed an adjustment to the financial statements, the Chief Financial Officer has indicated that he is not minded to adjust for this; therefore, this item appears as an unadjusted misstatement in Appendix 1.

Deferred income in relation to the Safe Hands project

The Trust was approached by the Department of Health back in 2009/10 to pilot the 'Safe Hands project', which was intended to be rolled out to other NHS organisations upon completion at the Trust. In 2009/10 the Trust received a payment of £1.0 million from the West Midlands SHA relating to the Safe Hands project, the total amount of which was deferred at the year-end (31 March 2010). A subsequent amount of £1.5 million was received from the Department of Health in 2010/11; both the £1 million and the £1.5 million were deferred as at 31 March 2011. As part of the 2010/11 audit, we reviewed the contract that had been entered into by the Trust with the supplier, which was for £2.1 million excluding VAT.

In the 2011/12 financial statements, the Trust recognised a £0.5 million release to income and accounted for the balance of £2.0 million as deferred income at 31 March 2012.The Trust has continued to account for £2.0 million of the monies received as deferred income as at 31 March 2013, with the Trust recognising no release to income in 2012/13.

During 2012/13 there has been a further delay in the project as a result of a change in suppliers for the project, which effectively stopped progress on the project, as the Trust was unable to utilise the existing hardware until an alternative software supplier was identified. A new contract was entered into by the Trust with Teletracking on 18 February 2013. The proposed completion of delivery and implementation across the Trust is now anticipated to be 31 December 2013.

The Trust has subsequently reforecast the expenditure to be incurred during the lifetime of the project; this has been based on the actual spend incurred in 2012/13 and the forecast spend going forward to complete the project. During 2012/13, the Trust has incurred actual expenditure of £0.4 million against a total reforecast spend for the remaining lifetime of the project (from 1 April 2012) of £2.4 million. Whilst it is entirely reasonable that the Trust should carry forward some part of the deferred income balance into 2013/14 in order to fund the expenditure that is to be incurred in future years, the question is how much of the deferred income should be released in 2012/13 and how much should be carried forward.

The following table sets out how much of the income received for the Safe Hands project (£2.5 million) would have been released by 31 March 2013 if the Trust was to match it on a proportionate basis to the amount of spend it has incurred to date on this project.

Forecast expenditure to be incurred from 1 April 2013 onwards	£2.014 million
Total project expenditure incurred up to 31 March 2013	£2.748 million
Total estimated project spend	**£4.762 million**
Percentage of costs to be incurred post 31 March 2013	42%
Deferred income balance to be carried forward into 2013/14 if the income is matched in proportion with project expenditure (£2.5 million x 42%)	**£1.05 million**
Income to have been released by 31 March 2013 (£2.5 million x 58%)	£1.45 million
Income released in previous years	£0.5 million
Income that would have been released in 2012/13 if the income is matched in proportion with project expenditure	**£0.95 million**

The above table shows that an alternative 'proportionate' approach to this deferred income balance would result in a £950,000 reduction in the Trust's 2012/13 year-end deferred income balance.

This is a key area of judgement and estimation in the accounts. The amounts involved are not material. We will be seeking specific representations from management that there is a valid expectation that expenditure will be incurred against the deferred income in future years.

Radiology PFI

The Trust has one PFI scheme in relation to the provision of radiology services. During our 2010/11 audit, we identified that capital spend included in the 2010/11 accounts had been overstated by £1.024 million. This was due to the purchase of an MRI scanner having been delayed. During 2011/12 the Trust proposed the following accounting treatment:

- reverse all depreciation charged to I&E for the MRI scanner in 2011/12;
- reverse all depreciation charged for the MRI scanner in 2010/11, as a 2011/12 adjustment; and
- reclassify the asset from fixed assets to a deferred asset (within current assets).

During 2011/12 the Trust reversed all depreciation charged relating to the MRI scanner in respect of both 2010/11 and 2011/12. However, the reclassification of the asset from fixed assets to deferred assets was not performed. The Trust attempted to make this adjustment after it had been identified during the 2011/12 audit. However, this would have resulted in differences between the summarisation schedules and the accounts so the Trust decided not to action the adjustment.

In 2012/13, the Trust has not reclassified the asset from fixed assets to deferred assets for the same reason as in 2011/12, which leaves the item as an unadjusted misstatement; hence it is included as an unadjusted misstatement in Appendix 1.

Misstatements and significant audit adjustments

We report to you all misstatements that we have identified during the course of our audit, other than those of a trivial nature, which have not been corrected by management in the financial statements. A reporting level of £100,000 was agreed with the Audit Committee on presentation and approval of the 2012/13 Audit Plan in December 2012. We have identified two unadjusted misstatements above the reporting level, which we describe in Appendix 1 to this report.

We are also required to bring to your attention misstatements that have been corrected by management but which we consider you should be aware of in fulfilling your governance responsibilities. Details of such adjustments are included within Appendix 2. These matters did not impact on the Trust's surplus position.

For the benefit of new members of the Audit Committee, we discussed and agreed with the Chief Financial Officer that we would also report details of any unadjusted and adjusted misstatements which fall below the £100,000 reporting threshold. These are included within Appendix 1 and Appendix 2 respectively.

Management representations

A draft of the representation letter that we are requesting management and those charged with governance to agree and sign is included as a separate agenda item to this Audit Committee meeting. In addition to the standard representations we have requested specific representations regarding:

- the validity of the provisions raised in the 2012/13 accounts for income received from Wolverhampton City PCT for services which have not been delivered in 2012/13; and
- the assumptions underpinning the carry forward of all deferred income recorded in the 2011/12 financial statements regarding the Safe Hands project.

Accounting policies, judgements and accounting estimates

The Trust is required to prepare it financial statements in accordance with the Manual for Accounts, which specifies in many areas the accounting policies and estimation techniques that must be applied. Nevertheless, there are still many areas where management need to apply judgement to the recognition and measurement of items in the financial statements. These include:

Property, Plant and Equipment - Depreciation and Valuation

You charge depreciation based on an estimate of the Useful Economic Lives of your Property, Plant and Equipment (PPE). This involves a degree of estimation. You also value your PPE in accordance with your accounting policies to ensure that the carrying value is true and fair. This involves some judgement for specialised buildings, where the value is based on a modern equivalent replacement were you to build these again now. The Trust applied property indices to update the valuation of its property. This resulted in a decrease in property net book values of £3.2 million during 2012/13. The Trust also valued those assets that were coming into use after significant construction work and wrote off the net book value of assets which were demolished in 2012/13. This resulted in impairments of £1.6 million and £0.9 million respectively.

For the most significant items, such as your land and buildings, you rely upon an expert in property valuation methodology. We reviewed the valuation assumptions used by the Trust and did not find any issues with the Trust's valuation methodology or assumptions.

Accruals

You raise accruals for expenditure where an invoice has not been raised or received at the year end, but you know there is a liability to be met which relates to the current year. This involves a degree of estimation. The level of accruals raised as at 31 March 2013 is £8.3 million, compared with £15.1 million as at 31 March 2012. Testing was performed on significant accruals as well as on a sample of low value accruals. A small number of accrual misstatements were identified which were below the agreed reporting level of £100,000. In aggregate these errors, if adjusted, would have had a net impact of decreasing expenditure by approximately £51,000. Although not required, given the reporting threshold agreed with the Audit Committee, for the benefit of new members to the Audit Committee the details of this misstatement are also contained in Appendix 1.

Provisions

Provisions at 31 March 2013 totalled £4.3 million (£3.7 million as at 31 March 2012). Because provisions are liabilities of an uncertain timing or amount, there is an inherent level of judgement to be applied. Testing was performed on significant provisions. We found one issue with the Trust's judgement in relation to provisions as outlined previously within the Accounting Issues section of this report. We have also requested that the Trust refers to the possible repayment of the re-enablement funding that it has provided for within its management representation letter to us.

Deferred income

Deferred income at 31 March 2013 totalled £2.7 million (£2.7 million as at 31 March 2012). Because deferred income is income that the Trust has received for services to be provided in the future, the amount should be accounted for as deferred income if the Trust has the right to do so. Testing was performed on significant deferred income. We found one issue with the Trust's judgement in relation to deferred income as outlined previously within the Accounting Issues section of the report. We have requested that the Trust refers to the Safe Hands income that it has deferred within its management representation letter to us.

Bad debt provision

Your bad debt provision is calculated by assessing the potential recoverability of invoices that are beyond the due date for payment and are aged over 57 days and are not associated with overseas visitors or salary overpayments. There is an inherent level of judgement involved in calculating this provision, which is £219,000 as at 31 March 2013.

A provision has also been included for Injury Costs Recovery (ICR) previously known as the Road Traffic Accident Scheme which is £840,000 as at 31 March 2013. This is calculated as 12.8% for debts in the last 2 years, 30% for 2010/11, 55% for 2009/10 and 100% for debts older than this. The guidance that is issued by the Department of Health does not include providing for a further 55% and 100% above the 3 years. Abiding strictly to this guidance would result in a provision of £303,000. The provision that has been calculated by the Trust is therefore £537,000 higher. This has been considered in further detail within the Internal Controls section of this report.

Financial statement disclosures

As part of our audit work we have reviewed, and tested, the material disclosures in the financial statements. We identified some areas where changes could be made to improve the accuracy and usefulness to the reader and these have been corrected by management.

Other matters relating to the financial reporting process

Annual Governance Statement

You are required to produce an Annual Governance Statement (AGS) for inclusion in the Annual Report and Accounts. The aim of the AGS is to give a sense of how successfully the Trust has coped with the challenges it faces and of how vulnerable the organisation's performance is or might be, drawing on evidence on governance, risk management and controls.

We reviewed the AGS and considered whether it complied with relevant guidance and whether it was misleading or inconsistent with what we know about the Trust. We found no areas of concern to report in this context.

Annual Report

As part of our final audit we reviewed your draft Annual Report. We identified instances where the draft presented for our review was not fully compliant with the requirements of Chapter 2 of the NHS Manual for Accounts.

We have discussed these matters (none of which are individually significant) with management and anticipate that they will be amended for. Before we issue our audit opinion we will review the final version of the Annual Report. We anticipate being able to update the Audit Committee on this matter at its meeting on 6 June 2013.

The NHS Trust Manual for Accounts requires NHS trusts to include a Directors' Report in their Annual Reports. The Audit Code requires auditors to read the Directors' Report and assess whether it is consistent with the financial statements. We are then required to report on this assessment in our audit opinion.

We have reviewed the draft Directors' Report to assess whether it is consistent with the financial statements. We found no areas of inconsistency to report in this context.

Our value for money conclusion

The Audit Commission's Code of Audit Practice requires us to carry out sufficient and relevant work in order to conclude on whether the Trust has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. In accordance with guidance issued by the Audit Commission on 1 November 2012, our conclusion is based on two criteria:

Whether the Trust has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

We anticipate issuing an unqualified value for money conclusion. In forming our judgement we have identified the following matters which we wish to bring to your attention:

Cost Improvement Programmes (CIPs) 2012/13 and 2013/14

We have reviewed the Trust's cost improvement programme outturn for 2012/13 and plans going forward as reported to the Board and held discussions with the Head of Performance. Progress against the 2012/13 cost improvement programme as reported to the April 2013 Board was also reviewed.

2012/13 Cost Improvement Programme

The key findings in relation to the 2012/13 cost improvement programme as reported are:

- the Trust achieved a total of £12.9 million against the target of £15.3 million for 2012/13, which represents an under-achievement of £2.4 million;
- recurrent CIPs of £9.1 million have been achieved against the target of £15.3 million, with the recurrent shortfall of £6.2 million carried forward by the Trust into 2013/14; and
- the Trust monitored the CIP schemes throughout the year, with non-recurrent schemes put in place during the year to replace schemes which were assessed as no longer being achievable; £3.8 million of the £12.9 million achieved in year has been delivered through non-recurrent schemes.

2013/14 Cost Improvement Programme

The key findings from our review of the 2013/14 cost improvement programme are summarised below:

- the cost improvement programme for the Trust is £21.3 million;
- the current CIP programme totals £15.2 million, which delivers the target amount for 2013/14, however there still remains a shortfall in relation to the carry forward elements of the CIP programme that were identified non-recurrently during 2012/13;
- all divisions and corporate areas across the Trust have been tasked with identifying additional schemes to recover the shortfall, with divisions held accountable on a monthly basis by the Change Programme Board for progress against action plans;
- the PMO is monitoring 140 schemes across all areas of the Trust, which are categorised into three groups:
    - Category 1: There is a full PID in place with milestones that are delivered/deliverable. Financial phasing is in place and the scheme can be closed;
    - Category 2: As category 1 but scheme has milestones still to be delivered and/or the financial phasing covers period across the year;
    - Category 3: Risk to the deliverability of the scheme. Either the confidence factor is rated as amber or red or the quality impact assessment is rated as yellow, amber or red; and
- as at the end of month 1 the risk to deliverability schemes totals £6.0 million.

Clinical performance and views of regulators

We have considered the views expressed by regulators in order to identify any issues which may have an impact on our value for money conclusion. We have identified no significant issues that would have an adverse impact upon our value for money conclusion.

Quality Account

You have a duty to publish an annual Quality Account which must contain the elements required by regulations. The Department of Health agreed with the Audit Commission that Trust auditors would carry out work on the Quality Account in 2012/13 and issue a limited assurance report on whether anything has come to our attention that leads us to believe that:

1. the Quality Account has not been prepared in line with the requirements set out in the Regulations;
2. the Quality Account is not consistent with the requirements set out in the guidance; and
3. the two performance indicators reviewed as part of our work, are misstated.

The work that we are required to undertake in relation to your Quality Account is set out in guidance published by the Audit Commission. For the 2012/13 Quality Account we are required to complete this work before the publication of the Quality Account on the NHS Choices website. The deadline for publication is 30 June 2013. We have undertaken our testing of the indicators during May 2013 and expect to report our findings to management during June 2013. We will report back to the Audit Committee our findings following completion of our work and presentation of our report to management.

As a result of the timing of completion of this work we will not be issuing our completion certificate on the audit at the same time as our audit opinion on the financial statements and our conclusion on your use of resources. We will issue the completion certificate once we have completed and reported on our work on the Quality Account.

National Audit Office

Last year the NAO issued procedures to auditors via the Audit Commission in respect of two aspects of the audit of accounts. For this year we received similar procedures, as follows:

- the first are Group Instructions under ISA (UK&I) 600; and
- the second is a request to undertake specific audit procedures in order to provide the NAO with additional assurance over the amounts recorded in the Whole of Government Accounts (WGA) schedules within the Summarisation Schedules.

We have completed our work and will be reporting our findings directly to the National Audit Office. Whilst we identified two differences in relation to balances with Birmingham East and North PCT that will need to be reported, we have satisfied ourselves that the Trust's accounting for these matters is reasonable and that the financial statements are not materially misstated.

Risk of Fraud

As part of our work on fraud, we enquire with management as to whether there have been any actual, suspected or alleged frauds affecting the Trust which as auditors we should be made aware of. Investigations at the Trust are reported by your counter-fraud specialist to the Audit Committee.

We are not aware of any instances of fraud that would impact on our audit opinion. If this status changes between the date of this report and the signing of our audit opinion, we will be required to consider the impact on our audit opinion.

We are also required to make inquiries of those charged with governance to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity that have not already been brought to our attention.

Audit Plan – audit risks update

We presented our Audit Plan to the Audit Committee in December 2012, which included our initial risk assessment. We have made no changes to this assessment since that time. Set out below is a summary of our response to these risks.

Risks identified in our Audit Plan	Audit response
Fraud and management override of controls ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk that management may override controls in order to manipulate the financial statements.	We reviewed the work performed by Internal Audit and the level of assurance that they provided regarding management's ability to override controls. We performed procedures to: • test the appropriateness of journal entries; • review accounting estimates for bias and evaluate whether circumstances producing any bias, represent a risk of material misstatement due to fraud; • evaluate the business rationale underlying significant transactions; • test the Trust's bank account and other reconciliations; and • include an element of 'unpredictability' in our testing, which this year included a range of additional procedures to identify potential related party transactions. **We did not identify any issues to report to you as a result of our work.**
Recognition of income and expenditure Under ISA (UK&I) 240 there is a (rebuttable) presumption that there are risks of fraud in revenue recognition. We extend this presumption to the recognition of expenditure in the NHS. This is because the opportunities to perpetrate fraud, which the ISA considers are usually present in relation to revenue, are more likely to present themselves through manipulation of expenditure in the public sector. Accounting policies or the treatment of income and expenditure may lead to material misstatements in the reported revenue position.	We evaluated relevant revenue and expenditure controls as part of our review of Internal Audit work. We evaluated and tested the accounting policies for income and expenditure recognition to ensure that they are consistent with the requirements of the Department of Health's NHS Trust Manual for Accounts ("Manual for Accounts"). We reviewed Intra NHS confirmations of balances and disputed amounts to consider the implications for our audit. Two differences were identified with Birmingham East and North PCT where the income and creditors recognised by the Trust were £1.768 million and £0.258 million respectively less than that reported by the PCT. The Trust is of the view that neither income nor creditors are understated and based upon the work that we have undertaken we agree with the Trust. However, as part of our reporting requirements to the NAO we are required to report all mismatches which are greater than £250,000. We performed detailed testing of a sample of revenue and expenditure transactions, including deferred income and provisions, focussing on the areas of greatest risk. We reviewed significant accounting estimates and judgements for indicators of management bias. **Other than the point above with respect to intra NHS confirmations of balances and disputed amounts, we did not identify any issues to report to you as a result of our work.**

Risks identified in our Audit Plan	Audit response
Clinical performance and views of regulators (relevant to our value for money conclusion) The regulatory environment requires you to maintain your registration with a number of regulators as well as being subject to regular inspections, often unannounced, which pose significant reputational and other risks.	We have considered the views expressed by regulators in order to identify any issues which may have an impact on our value for money conclusion. We have identified no significant issues that would have an adverse impact upon our value for money conclusion. Similarly, our review of your proposed Annual Governance Statement identified no concerns for our audit. **We did not identify any issues to report to you as a result of our work.**

Internal Controls

The Chief Executive, as Accounting Officer, in conjunction with management and the Audit Committee is responsible for developing and implementing systems of internal financial control and having in place proper arrangements to monitor their adequacy and effectiveness in practice.

We review these arrangements for the purposes of our audit of the financial statements and for our review of the Annual Governance Statement and report to you any significant deficiencies in internal control that we find during our audit. No such matters were identified. However, in our professional judgment we believe the following matter should be brought to your attention:

Deficiency and impact	Recommendation
Bad debt provision The Trust has a year-end bad debt provision of £1.059 million which is split between the sales ledger provision of £0.219 million and the Injury Cost Recovery ("ICR") provision of £0.840 million. Review of the ICR provision against the prior year confirmed that there has been no movement in respect of debts which have been provided for from 1999/2000 to 2002/03, which total £285,000 and there has been little movement in the balances for 2003/04 onwards up to 2006/07.	We recommend the Trust reviews the items that are currently provided for in the ICR provision to identify which debts are unlikely to be recovered and therefore could/should be written off. We understand through discussions with the finance team, that the Trust has started to undertake this process by contacting the relevant organisations to obtain a current listing where it is likely that the debt will be recovered and action is ongoing to reclaim the debt, which the Trust will then reconcile to its listing of debts provided for, and write off those that are no longer recoverable.

Independence

Independence and objectivity

We have made enquiries of all PricewaterhouseCoopers' teams providing services to you and of those responsible in the UK Firm for compliance matters.

As we have reported to you previously, we are aware of the following relationship that, in our professional judgement, may be perceived to impact upon our independence and the objectivity of our audit team, together with the related safeguards:

- PwC has a partnership arrangement with Coventry and Warwickshire Audit Services (CWAS), who also provide your local counter fraud service. We have put in place arrangements to ensure that our independence as external auditors is not impaired. We do not provide input to the routine internal audit or counter fraud work in bodies for which we are the external auditors. Given that we do not seek to place reliance upon the work of the Local Counter Fraud Officer (although it is used to guide our assessment of the fraud risk) and given that we do not supply any staff to CWAS to work at the Trust we do not believe there is a risk to our independence at the Trust and therefore that no further measures are required.

Other services provided to the Trust

In addition to our audit under the Code of Audit Practice, the Firm has also undertaken other work for you in the past 12 months:

- Provision of Board to Board Support; and
- Independent review of Quality Governance.

Date	Support provided	Fees
May 2012	At the request of the Trust, we agreed that we would provide support for a mock 'Board to Board' event on 14 May 2012. The scope of this work was to provide support and challenge to the Trust in the form of a panel of senior professionals who undertook a mock Board to Board challenge. This work was reported to you at the May 2012 Audit Committee meeting.	£4,551
May 2013	We were requested by the Trust to perform an independent review in relation to quality governance which covered four areas: • the function and effectiveness of the Board in assuring quality and safety of services; • the sub-committee structure including the role and remit of each committee in respect of quality; • the adequacy, volume, usage and flow of quality performance information; and • reviewing and commenting on the role and function of the Trust's central governance unit. The work was above the de-minimis over which non-audit work has to be approved by the Audit Commission. The request for approval that we are required to send to the Audit Commission sets out in detail our assessment of the threats and safeguards to our independence. The Audit Commission gave its approval for us to undertake this work in a letter dated 2 January 2013.	£55,000

Based on the scope of the work undertaken we do not believe that our independence as auditors to the Trust has been impaired by PwC undertaking this additional work. We assessed the threats to our independence and identified appropriate safeguards. This was done in accordance with the provisions of the ICAEW's Ethical Standards. The scale of the second piece of non-audit work also required that we obtain the approval of the Audit Commission to undertake the work, which we did.

Independence conclusion

At the date of this report, we confirm that in our professional judgement, we are independent accountants with respect to the Trust within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

Fees update

Fees update for 2012/13

We reported our original fee proposals in our 2012/13 Audit Plan that was presented to you in December 2012. We updated our fee proposals as a result of the guidance issued by the Department of Health regarding the transfer of property assets under TCS not transferring in 2012/13 and communicated the reduction of our audit fee to you in our Progress Report to the Audit Committee in February 2013. An update against this revised fee (excluding VAT) has been provided below:

	2012/13 Expected Outturn £	2012/13 Revised Audit Plan Fee (per February 2013 progress report) £
Accounts	59,320	59,320
Value for Money	12,500	12,500
Quality Accounts	10,000	10,000
Total	**81,820**	**81,820**

Audit of Charitable Funds' accounts - fees update for 2012/13

At the Audit Committee meeting in February 2013 we presented our Charitable Funds 2012/13 Audit Plan, which included a planned audit fee of £6,800. Following clarification from the Audit Commission, the fee reduction of 40% that has been applied to the main Trust audit for 2012/13 should also be applied to the Charitable Funds' audit; our revised fee for the 2012/13 audit of the Charitable Funds will therefore now be £3,660 (+VAT).

Recent developments

Foundation Trust ARM 2013/14

Monitor intends to publish the consultation in respect of the 2013/14 ARM in the near future. The key changes to the ARM are likely to be in the following areas:

- Absorption accounting - for transfers related to PCT demise that occur on 1 April 2013, the net gain or loss will be recognised in reserves rather than in the Statement of Comprehensive Income. For all other machinery of government changes, absorption accounting will apply as normal i.e. with the gain/loss recognised in the Statement of Comprehensive Income.

- Public Dividend Capital calculation of average relevant net assets (ARNA) – from 2013/14 the Government Banking Service (GBS) cash balance deducted in the calculation of ARNA is now to be calculated as the average daily cleared balance in the GBS account. This is to dissuade FTs from depositing large cash balances into GBS on 31 March and then removing them on 1 April. Investments held with the National Loans Fund will also qualify for deduction from ARNA.

- For 2013/14 only, the net assets taken on from PCTs will be excluded from the ARNA calculation as at 1 April 2013 and 31 March 2014. This is because large numbers of FTs have not budgeted for the 2013/14 PDC dividend impact of taking on these net assets. From 2014/15 these net assets will be included within ARNA.

- Protected Assets disclosure - this category of assets has been deleted from the Act and therefore the disclosure has also been removed.

- Annual Governance Statement - the example in the ARM has been amended to remove reference to Condition 4 of the Authorisation, which no longer exists.

- Consolidation of charitable funds – from 2013/14, Foundation Trusts are required to consolidate their charitable funds into the Trust's accounts. Monitor is currently deciding on how this will be presented. Some FTs currently prepare group accounts and so Monitor had considered having a third column in the accounts to show 'Group'; 'FT and CF'; and 'Parent FT only' but now will probably just have 'Group' and 'FT' columns as this is more reflective of commercial practice.

- Quality Reports - some of the detail in chapter 7 of the ARM will not be included for 2013/14 and instead will be published separately and at a later date by Monitor. This is being done because Monitor has committed to publish the ARM earlier and it is the Quality Reports guidance within the ARM that currently causes the majority of the delays in publication.

- The ARM will reflect changes to the UK Corporate Governance Code to include disclosures in the annual report of significant issues discussed by the Audit Committee in preparing and approving the accounts, and for the Directors to state that the annual report and accounts are a true and fair summary of the business for the year.

Appendices

Appendix 1 - Summary of unadjusted misstatements

We found the following misstatements in the draft financial statements that have not been corrected by management. We ask the Audit Committee to consider the misstatements detailed below and determine whether you wish the financial statements to be corrected. If the misstatements are not corrected we will require from you a written representation explaining the reasons for not making the adjustments.

	Description of misstatement (factual, judgemental, projected)		Statement of Comprehensive Income (£'000)		Statement of Financial Position (£'000)	
			Dr	Cr	Dr	Cr
1	**Movement of MRI Fixed Assets into Prepayments**	F				
	Dr Prepayments – Deferred Assets				1,024	
	Cr Fixed Assets Equipment					1,024
	Included within PPE Equipment is £1.024 million in relation to PFI additions which should be shown as deferred assets. This relates to the MRI scanner which was originally scheduled to be purchased in 2010/11.					
2	**Legal case provision**	J				
	Dr Provisions				100	
	Cr Operating Expenses			100		
	The Trust has recognised a provision for a potential unfair dismissal case. However, as at 31 March 2013 the employee was still contracted with the Trust. In our view, this does not meet the criteria for establishing a provision as set out in International Auditing Standard 37.					
Total uncorrected misstatements (>£100,000)			**0**	**100**	**1,124**	**1,024**
3	**Accruals**					
	Dr Accruals	F			1	
	Cr Operating Expenses			1		
	Dr Accruals	P			50	
	Cr Operating Expenses			50		
	Testing undertaken on accruals identified differences in the estimated value of the accrual compared to supporting documentation obtained after the year end. This resulted in a net overstatement of £1,000. The extrapolated error arising from this was £50,000 on the remaining population of accruals.					
Total uncorrected misstatements (<£100,000) for information only			**0**	**51**	**51**	**0**

Appendix 2 – Summary of corrected misstatements

We have identified the following misstatements during our audit of the financial statements that have been corrected by management.

	Description of misstatement (factual, judgemental, projected)		Statement of Comprehensive Income (£'000)		Statement of Financial Position (£'000)	
			Dr	Cr	Dr	Cr
1	**Misclassification of income**	F				
	Income from activities		233			
	Other operating income			233		
2	**Misclassification of audit fees**	F				
	Audit fees			25		
	Other auditors fees		72	69		
	Other		94	72		
Total corrected misstatements			**399**	**399**		

In the event that, pursuant to a request which The Royal Wolverhampton NHS Trust has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. The Royal Wolverhampton NHS Trust agrees to pay due regard to any representations which PwC may make in connection with such disclosure and The Royal Wolverhampton NHS Trust shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, The Royal Wolverhampton NHS Trust discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.