

## Trust Board Report

<b>Meeting Date:</b>	29 June 2015
<b>Title:</b>	External Audit – Final ISA 260
<b>Executive Summary:</b>	The Board are asked to note the contents of the final ISA 260 provided by independent auditors PricewaterhouseCoopers
<b>Action Requested:</b>	To note the Final ISA 260
<b>Report of:</b>	Chief Financial Officer – Kevin Stringer
<b>Author:</b>	Kevin Stringer, Chief Financial Officer
<b>Contact Details:</b>	Tel: 01902 695953 Email: kevin.stringer@nhs.net
<b>Resource Implications:</b>	None
<b>Public or Private:</b> (with reasons if private)	Public Session
<b>References:</b> (eg from/to other committees)	Approved by the Audit Committee on the 4 June 2015
<b>Appendices/ References/ Background Reading</b>	
<b>NHS Constitution:</b> (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: <ul style="list-style-type: none"> <li>✦ Equality of treatment and access to services</li> <li>✦ High standards of excellence and professionalism</li> <li>✦ Service user preferences</li> <li>✦ Cross community working</li> <li>✦ Best Value</li> <li>✦ Accountability through local influence and scrutiny</li> </ul>

## Background Details

<b>1</b>	<p>Under International Auditing Standards PricewaterhouseCoopers (PWC) are required to report (ISA 260), on those charged with governance on any significant findings from their audit.</p> <p>The Board are asked to note the contents of the final ISA 260 prepared by PricewaterhouseCoopers.</p>
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# *The Royal Wolverhampton NHS Trust*

*Report to those charged with governance*

Report to the Audit Committee on the audit for the year ended 31  
March 2015 (*ISA (UK&I) 260*)

Government and  
Public Sector

May 2015

## **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 management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.*

*This Statement is still applicable for the financial year 2014/15 under the Audit Commission successor body arrangements.*

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*An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters. We have issued a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate as follows:*

- *External Audit Progress Report February 2015*
- *External Audit Progress Report April 2015*

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# **Executive summary**

## **Background**

This report tells you about the significant findings from our audit. We presented our plan to you in December 2014; we have reviewed the plan and concluded that it remains appropriate.

## **Audit Summary**

We have completed the majority of our audit work and expect to be able to issue an unqualified audit opinion on the financial statements once these are signed by the Trust after approval by the Audit Committee, on behalf of the Board, on 4 June 2015.

The key outstanding matters, where our work has commenced but is not yet finalised, are:

- Receipt and review of the final revised financial statements, Annual Report and Annual Governance Statement;
- Completion procedures including subsequent events review;
- Approval of the financial statements and letter of representation by the Audit Committee, in accordance with the delegated authority of the Trust Board; and
- Receipt of all relevant signed statements and the management representation letter.

There are key judgements which require the attention of the Audit Committee – further details are set out commencing on pages 7 to 13.

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

This is the final year of the Audit Commission framework contract and therefore our final year as your external auditor. We remain committed to providing you with a high quality service and will work with your incoming auditors to ensure a smooth transition.

We look forward to discussing our report with you on 4 June 2015. Attending the meeting from PwC will be Richard Bacon and Natalie Shaw.

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

The scorecard below summarises our view of your accounts and audit performance:

Area	Rating	Comments
Draft accounts	● Green	Your draft accounts were submitted on time and were of a good quality. As we would expect in any audit, we identified a small number of disclosure issues which the Trust agreed to amend within the financial statements; none of these disclosure issues were significant.
Readiness for start of audit and working papers	● Green	Working papers were ready for us at the start of the audit and were provided electronically, which helped the efficiency and smooth running of the audit, and allowed us to make a prompt and efficient start to our work on the first day we arrived on site. Supporting working papers were of a consistently good standard.
Availability and responsiveness of staff	● Green	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, the Trust's accounting performance is to be commended.
Significant audit and accounting issues	● Green	We identified some audit and accounting issues during the audit which are explained later in this report. We are satisfied that these are appropriately reflected and disclosed in the financial statements.
Deficiencies in internal control systems	● Green	We have not identified any significant or material deficiencies in internal control.
Annual Governance Statement	● Green	The Annual Governance Statement was submitted at the same time as the draft accounts. We have confirmed that the Annual Governance Statement has been prepared in accordance with guidance issued by the NHS Trust Development Authority.
Annual Report	● Green	The draft Annual Report was provided during the audit and we confirmed that this had been prepared in accordance with Chapter 2 of the Manual for Accounts.
Value for Money	● Green	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.

Key

- **Red** – significant improvements required
- **Amber** – some minor improvements required
- **Green** – no / minimal improvements required

# Audit approach

Our audit approach was set in our audit plan which we presented to you in December 2014.

As detailed in our audit plan, our audit approach consists of smart people, a smart approach and smart technology.

## Smart People

We continue to deploy an experienced team on your audit, supported by a substantial investment in training and in our industry programme.

We have maintained continuity of staff during the audit for this year through inclusion of Richard Bacon, Natalie Shaw, Tim Baker and Arron Jones in your audit team.

1. *Client acceptance & independence*

2. *Deep business understanding*

3. *Relevant risks*

4. *Intelligent scoping*

5. *Robust testing*

6. *Meaningful conclusions*

*PwC's audit is built on a foundation of smart people, a smart approach and smart technology. This together with our six-step audit process, results in an audit that is robust, insightful and relevant.*



## Smart Approach

### Centre of Excellence

We have a Health Centre of Excellence in the UK - a dedicated team of specialists which advises, assists and shares best practice with our audit teams in more complex areas of the audit.

Our team has been working side by side with the Centre of Excellence and followed the guidance issued to ensure we are executing the best possible audit approach.

### Delivery centres

We use dedicated delivery centres to deliver parts of our audit work through a protocol arrangement agreed with the Audit Commission and its successor bodies. The delivery centres undertake routine audit work and work that can be done by teams dedicated to specific tasks; for example these include confirmation procedures, preliminary independence checks and consistency and casting checks of the financial statements.

### Benefits for the audit

The key benefits of our approach for your audit have been:

- Continuity of staff – Staff who are familiar with your systems, processes and controls and therefore work in partnership with your finance team; and
- Use of the delivery centres freed up time for your audit team to concentrate earlier on more complex areas of accounting.

## Smart Technology

We have designed processes that automate and simplify audit activity wherever possible. Central to this is PwC's Aura software, which is a powerful tool, enabling us to direct and oversee audit activities. Aura's risk-based approach and workflow technology results in a higher quality, more effective audit and the tailored testing libraries allow us to build standard work programmes for key NHS audit cycles.



Smart people



Smart approach



Smart technology



The PwC Audit

We have summarised below the significant risks we identified in our audit plan and the audit approach we took to address them. There have been no changes to the audit approach since we presented our audit plan.

### Significant Risk

#### **Risk of management override of controls**

ISA (UK&I) 240 requires that we plan our 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.

### Audit approach

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 the following procedures:

- Tested the appropriateness of journal entries;
- Reviewed accounting estimates for bias and evaluated whether circumstances producing any bias represent a risk of material misstatement due to fraud;
- Evaluated the business rationale underlying significant transactions;
- Tested the Trust's bank account and other reconciliations; and
- Included an element of 'unpredictability' in our testing.

**We did not identify any issues to report.**



## Significant Risk

### **Risk of fraud in revenue and expenditure recognition**

Under ISA (UK&I) 240 there is a rebuttable presumption that there are risks of fraud in revenue recognition. There is a risk that the Trust could adopt accounting policies or treat income transactions in such a way as to lead to a material misstatement in the reported revenue position. Revenue recognition is a particular risk due to changing contracting arrangements.

We extend this presumption to the recognition of expenditure in the NHS. In the current economic downturn the Trust is subject to significant pressure to reduce its cost base. 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.

## Audit approach

We evaluated relevant revenue and expenditure controls as part of our review of Internal Audit work.

We evaluated and tested the accounting policy for income and expenditure recognition to ensure that it is consistent with the requirements of the NHS Manual for Accounts.

We reviewed intra NHS confirmations of balances and any disputed amounts to consider the implications for our audit and on your accounts. Some balances were different to those of NHS counterparties. The Trust is of the view that their balances have been recorded appropriately and we agree with the Trust.

We reviewed significant revenue contracts and reconciled these to the reported healthcare income, including consideration of unrecorded receivables.

We performed detailed testing of a sample of revenue and expenditure transactions, including deferred revenue, accruals and provisions, focussing on the areas we considered to be of greatest risk, and reviewed significant accounting estimates and judgements for indicators of management bias. Further details of the estimates and judgements are included in the Judgements and Accounting Estimates section of this report.

**We did not identify any issues to report.**

## Significant Risk

### Mid Staffordshire NHS Foundation Trust transfer agreement

In February 2014, the Secretary of State approved the Trust Special Administrators (TSA) recommendations for the future of the Mid Staffordshire NHS Foundation Trust, which recommended that the Trust assume responsibility for the staff, assets and services delivered at Cannock Chase Hospital.

The integration of these services supports the Trust's longer term strategy to deliver a broad portfolio of sustainable services across community, secondary and speciality services; and will enhance the Trust's ability to be at the forefront of innovative clinical developments and research.

The transactions and subsequent integration of these services into the Trust involves a significant amount of risk for the Trust.

The transfer took place on 1 November 2014, with a Transfer Agreement in place which sets out the details of the service transfer, and includes schedules of the assets and contracts transferred to the Trust, as well as details on the funding streams from which the Trust must ensure that it has sufficient resources available to cover the associated costs related to the activity and liabilities it has become responsible for.

The transaction has had involvement from the TSA; Monitor; NHS Trust Development Authority; Department of Health; NHS England; and local commissioners.

Guidance has been issued for absorption accounting to be adopted, which involved the Trust recognising in the Income and Expenditure Account the loss/receipt of assets/liabilities; recreating the associated revaluation reserves; and recognising PDC.

## Audit approach

We reviewed the transfer agreement with Mid Staffordshire NHS Foundation Trust which governs the transfer of services. We also reviewed the Acquisition Business Case which outlines the capital investment required both at New Cross Hospital and at Cannock Chase Hospital.

We considered how the Trust obtained assurance over the financial information supplied by Mid Staffordshire NHS Foundation Trust, including the valuation of assets liabilities which transferred. This included discussions over the processes performed in the run up to the 1 November 2014 to ensure that the services, staff and systems were integrated from day 1 of the transfer.

We engaged in conversations with the Mid Staffordshire NHS Foundation Trust external auditors to ensure we worked together to work through issues efficiently and to avoid duplication.

We assessed the control environment in the parts of the Trust into which the services from Cannock Chase Hospital transferred. This included understanding, assessing and validating relevant financial controls in place.

We reviewed how the Trust accounted for the transfer at the 1 November 2014 to ensure they this was in compliance with the guidance issued, and discussed with the Trust additional disclosures to be included in the financial statements.

We reviewed and tested the transactions relating to the transferred services to ensure they are compliant with guidance issued and are supported by appropriate evidence / documentation. This included testing the revenue and capital transfer funding of £6.9 million and £12.1 million respectively. £1.0 million of the revenue funding received has been provided for at 31 March 2015.

We physically verified a sample of assets which transferred to the Trust as part of the transfer agreement.

**Further details are included in the Accounting Issues section of this report.**

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# *Significant audit and accounting matters*

Auditing Standards require us to tell you about relevant matters relating to the audit of the financial statements sufficiently promptly to enable you to take appropriate action.

We have set out in this section the significant matters arising from our audit as well as the current outstanding matters.

## *Accounts*

We have completed our audit of the Trust's accounts in accordance with ISAs (UK&I), subject to the following outstanding matters:

- Receipt and review of the final revised financial statements, Annual Report and Annual Governance Statement;
- Completion procedures including subsequent events review;
- Approval of the financial statements and letter of representation by the Audit Committee, in accordance with the delegated authority of the Trust Board; and
- Receipt of all relevant signed statements and the management representation letter.

Subject to the satisfactory resolution of these matters, the finalisation of the financial statements and their approval by those charged with governance we expect to issue an unqualified audit opinion.

## *Accounting issues*

The qualitative aspects of the Trust's accounting practices are set out below.

### *Mid Staffordshire NHS Foundation Trust Transfer Agreement*

The Trust became responsible for the staff, assets and services delivered at Cannock Chase Hospital on 1 November 2014, with a Transfer Agreement in place which sets out the details of the service transfer, and includes schedules of the assets and contracts transferred to the Trust. Guidance was issued by the Department of Health for modified absorption accounting to be adopted, with the Trust required to:

- recognise in the Statement of Comprehensive Income the gain arising on receipt of the assets/liabilities;
- recreate the revaluation reserve for the property, plant and equipment which transferred; and
- recognise the transfer as a transfer of Public Dividend Capital.

We reviewed the Transfer Agreement and were able to understand and evaluate the nature of the agreement. The agreement set out the following assets and liabilities which were received by the Trust:

	<b>£000</b>
Property, plant and equipment	30,958
Inventories	366
Trade and other receivables	214
Cash and cash equivalents	1
Trade and other payables	(1,781)
Provisions	(357)
Borrowings	(49)
Other financial liabilities	(71)
<b>Total net assets</b>	<b>29,281</b>

The gain arising of £29.3 million has been recognised as part of the total gains recognised as a result of absorption accounting of £30.5 million. The remaining £1.2 million relates to the gains arising from the transfer of assets for the Pendeford Health Centre from NHS Property Services.

The Trust recognised the assets and liabilities which transferred on the 1 November 2014 within the Statement of Financial Position, and we confirmed that the proposed accounting entries were materially correct, with some classification adjustments made to reflect how the Trust present certain assets and liabilities. Our testing confirmed that the classification adjustments made by the Trust were reasonable and that the assets and liabilities recorded agreed to those included in the Transfer Agreement.

Although the total net book value of property, plant and equipment transferred to the Trust agrees to the consolidation schedule provided by the Department of Health, there are differences between the opening cost and accumulated depreciation to that included within the Transfer Agreement which are in excess of our reporting threshold of £250,000. These differences occurred due to the timing of when the final Transfer Agreement was agreed and received by the Trust and that which had been initially provided by the Department of Health. The Trust disclosed within the draft financial statements the opening cost and accumulated depreciation as included within the Transfer Agreement.

For the purpose of the summarisation schedules which accompany the financial statements, the Trust has been required to adjust these schedules to include the entries as instructed by the Department of Health for the purposes of consolidation at group level. The financial statements have not been amended for this, and we will report these differences as part of our opinion on the summarisation schedules.

Our testing on the transferred property, plant and equipment confirmed that these had been accurately recorded in the Trust's fixed asset register and depreciated in accordance with the Trust's existing accounting policies. The fixed asset register was updated to include these assets on receipt of the final transfer agreement in March 2015; this has meant that the remaining

useful economic lives of these assets at the 31 March need to be updated. This has no effect on the 2014/5 financial statements, but we have included this as a recommendation later in this report in the Internal Controls section of this report.

We checked that a sample of transferred assets actually exist, but one could not be found. Management established that this ultrasound scanner had previously been installed by Mid Staffordshire NHS Foundation Trust at a GP practice, but the GP practice no longer had it. We reviewed the remaining assets on the Transfer Agreement to confirm that there were no similar assets or assets with descriptions which may indicate that these were held by other parties and identified no other instances. While we are satisfied that there is no material error in the accounts, we recommend that the Trust carry out a physical verification exercise on assets transferred.

The Trust recognised £14.2m in the revaluation reserve for the assets which transferred which agrees to the Transfer Agreement. The remaining £0.1 million recognised in the revaluation reserve for assets which have transferred relates to the assets which transferred from NHS Property Services for Pendeford Health Centre.

We reviewed how the revaluation reserve for transferred assets was allocated. For assets such as plant and equipment, the Transfer Agreement lists the associated revaluation reserve for each asset. For buildings, due to the way in which the assets were recorded on the asset register by Mid Staffordshire NHS Foundation Trust, this was not possible, and therefore the Trust has allocated the revaluation reserve proportionately to the net book value of individual buildings. Our testing for a sample of assets confirmed that the revaluation reserve balance had been correctly calculated and recorded in the fixed asset register.

We have reviewed the Acquisition Business Case which sets out the revenue and capital funding to be received over the period 2014/15 to 2016/17. As part of our audit procedures we confirmed that the £6.9 million revenue and £12.1 million capital funding had been received during 2014/15, with £1.0 million provided for at the 31 March 2015. Further details of the provision are included later in this section of the report.

We discussed with management recommendations for improving the disclosures in the draft financial statements in relation to the transfer, which have been agreed to be implemented by the Trust in the revised version of the financial statements.

As part of our discussions with the external auditors of Mid Staffordshire NHS Foundation Trust, we discussed the valuation of the land and buildings for Cannock Chase Hospital in particular the treatment of VAT. It was confirmed that VAT had previously not been included in the valuation of the assets which transferred. The Trust's external valuers have since carried out a valuation of the Cannock Chase Hospital at the 31 March 2015 and we have confirmed that this now includes VAT.

Furthermore, we requested the external auditors of Mid Staffordshire NHS Foundation Trust to undertake work on the valuation and completeness of the remaining assets and liabilities which transferred. We have received the results of this request and no issues were identified arising from this work above our reporting threshold of £0.25 million which impact upon the values of the assets and liabilities which transferred.

Based on the procedures we have performed, we have concluded that the assets and liabilities which transferred for Cannock Chase Hospital have been appropriately recorded in the Trust's financial statements in line with the guidance issued by the Department of Health.

### *Provisions*

The financial statements include provisions totalling £6.5 million, which represents an increase of £1.4 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.

### *Cannock Chase Hospital transitional funding provision*

A provision of £1.0 million has been included within the accounts relating to transitional funding received for Cannock Chase Hospital from the Department of Health. This income had not been fully spent by the financial year-end. The Trust has provided for the difference between the monies received and spent, on the basis that these monies could be required to be repaid to the Department of Health.

This balance has not been treated as deferred income but rather as a provision, which means there is no agreement to support the balance. The circumstances under which the Trust would need to return the money to the Department of Health, should it fail to spend the funding, has however been formally set out in an email from the NHS Trust Development Authority to the Trust dated 24 April 2015.

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.

### *Cannock Chase Hospital drugs provision*

The Trust has recognised a provision of £0.5 million for potential loss of income in 2014/15 associated with the use of high cost drugs on unidentified patients. This is where the Trust has delivered the service in 2014/15 but there is a risk that commissioners will not pay for the service as the patients where the high cost drugs have been used are not able to be identified based on the information which transferred to the Trust from Cannock Chase Hospital.

The total amount of income at risk was initially £1.0 million with the Trust providing for 50% of its return to commissioners should the commissioners not agree that the activity has been delivered to these patients or was not part of the contracts which have been agreed. We understand that management is undertaking an exercise to match the use of the high cost drugs to patients with the total amount of income at risk reduced at the time of our final audit to £0.7 million.

We have 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.

## *Misstatements and significant audit adjustments*

We have to tell you about all uncorrected misstatements we found during the audit, other than those which are clearly trivial.

ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are “clearly trivial” i.e. those which we do not expect to have a material effect on the financial statements even if accumulated. As part of our audit planning procedures we identified that all misstatements less than £250,000 (prior year £100,000) could be classed as clearly trivial and we agreed this threshold with the Audit Committee on presentation and approval of the 2014/15 Audit Plan in December 2014.

We have identified no misstatements above the reporting level.

## *Significant accounting principles and policies*

Significant accounting principles and policies are disclosed in the notes to the financial statements. We will ask management to represent to us that the selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the financial statements have been considered. Please refer to the management representation letter in Appendix 1.

## *Judgements and accounting estimates*

The Trust is required to prepare its financial statements in accordance with the NHS 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.

For the most significant items, such as your land and buildings, you rely upon an expert in property valuation methodology to provide you with details of the movement in property indices and to value those assets that were coming into use after significant construction work which resulted in impairments. The Trust applied the property indices provided by the valuer to update the valuation of its property. The overall impact of these valuations was an increase in property net book values of £29.9 million for 2014/15.

We reviewed the valuation assumptions used by the Trust and did not find any issues with the valuation methodology or assumptions, with these being in line with our expectations.



### *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 2015 is £15.7 million, compared with £9.8 million as at 31 March 2014.

Testing was performed on a sample of accruals. A small number of misstatements were identified which were individually and in aggregate below the agreed reporting level of £250,000.

You also raise accruals for income where an invoice has not been raised at the year end, but you have provided the service during the year. This involves a degree of estimation.

Testing was performed on a sample of accruals with no misstatements identified.

### *Provisions*

Provisions at 31 March 2015 totalled £6.5 million (£5.1 million as at 31 March 2014). 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, as discussed above. We have requested that the Trust refers to the possible repayment of the Cannock Chase transitional funding and possible loss of income for Cannock Chase drugs that it has provided for within its management representation letter to us.

### *Deferred income*

Deferred income at 31 March 2015 totalled £1.1 million (£1.4 million as at 31 March 2014). When the Trust receives income 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 no issues with the Trust's judgement in relation to deferred income.

### *Bad debt provision*

The bad debt provision at 31 March 2015 totalled £1.1 million (£1.1 million as at 31 March 2014). 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 due to these being provided for in full. There is an inherent level of judgement involved in calculating this provision, which is £302,000 as at 31 March 2015 (£208,000 as at 31 March 2014). During 2014/15 you have also provided for additional invoices which are less than 57 days old based on particular circumstances associated with the debt, with the value provided for being £228,000 (£462,000 as at 31 March 2014).

A provision has also been included for Injury Costs Recovery which is £524,000 as at 31 March 2015 (£434,000 as at 31 March 2014). This is calculated as 18.9% for debts in the last 2 years, 50% for 2011/12, and 100% for debts older than this.



### *Consolidation of charitable funds*

From 2013/14 the HM Treasury dispensation for the consolidation of charitable funds no longer applies, meaning that NHS Trusts need to consolidate any material charitable funds which they deem to be a subsidiary, into their main financial statements.

In 2013/14 the Trust concluded that as the Board of the Trust has control over the operation of the Trust's charitable funds, they are a subsidiary under International Accounting Standard ("IAS") 27: Consolidated and Separate Financial Statements. The standard requires that any material subsidiaries are consolidated. However, management considered the removal of the exemption and determined that consolidation was not required on the grounds that neither charitable funds income/expenditure nor the fund value were material.

The latest finance information available showed the charitable funds have total charitable fund balances of £3.5 million. Management has once again concluded that consolidation is not required on the basis that neither charitable funds income/expenditure nor the fund value are material.

### *Financial statement and remuneration report disclosures*

As part of our audit work we have reviewed, and tested, the material disclosures in the financial statements. We identified no significant issues as part of this work. However we identified some areas where changes could be made to improve the accuracy and usefulness to the reader and these areas have been corrected by management.

### *Management representations*

A draft of the representation letter that we are requesting management and those charged with governance to agree and sign is included in Appendix 1. In addition to the standard representations we have requested specific representations regarding:

- The validity of the provision raised in the 2014/15 accounts for income received for the Acquisition Business Case of Cannock Chase Hospital which has not been spent in 2014/15;
- The assumptions and validity of the provision raised in the 2014/15 accounts regarding the Cannock Chase drugs provision; and
- The assumptions underpinning the recognition or disclosure criteria not being met following an Employment Appeal Tribunal judgement which confirmed that certain overtime payments and other elements of remuneration should be included in the calculation of a worker's holiday pay.

### *Financial standing*

We have not identified any material uncertainties related to events and conditions that may cast significant doubt on the entity's financial standing.

## *Related parties*

In forming an opinion on the financial statements, we are required to evaluate:

- Whether identified related party relationships and transactions have been appropriately accounted for and disclosed; and
- Whether the effects of the related party relationships and transactions cause the financial statements to be misleading.

We identified no matters during the course of our work of which we believe the Audit Committee should be aware of.

## *Audit independence*

We are required to follow both the International Standard on Auditing (UK and Ireland) 260 (Revised) “Communication with those charged with governance”, UK Ethical Standard 1 (Revised) “Integrity, objectivity and independence” and UK Ethical Standard 5 (Revised) “Non-audit services provided to audited entities” issued by the UK Auditing Practices Board (“APB ES”).

Together these require that we tell you at least annually about all relationships between PricewaterhouseCoopers LLP in the UK and other PricewaterhouseCoopers’ firms and associated entities (“PwC”) and the Trust that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

For the purposes of this report we have made enquiries of all PwC teams whose work we intend to use when forming our opinion on the truth and fairness of the financial statements.

### *Relationships between PwC and the Trust*

We are not aware of any relationships between PwC and the Trust that in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

### *Relationships*

We have not identified any potential issues in respect of personal relationships with the Trust.

### *Employment of PwC staff by the Trust*

We are not aware of any former PwC partners or staff being employed, or holding discussions in respect of employment, by the Trust as a director or in a senior management position covering financial, accounting or control related areas.

### *Business relationships*

We have not identified any business relationships between PwC and the Trust.

### *Services provided to the Trust*

The audit of the financial statements is undertaken in accordance with the UK Firm’s internal policies. The audit is also subject to other internal PwC quality control procedures.

We have not provided any additional services to the Trust.

#### *Fees*

The analysis of our audit fees for the year ended 31 March 2015 is included on page 25.

#### *Services to Directors and Senior Management*

PwC does not provide any services e.g. personal tax services, directly to directors, or senior management.

#### *Gifts and hospitality*

We have not identified any significant gifts or hospitality provided to, or received from, a member of Trust's Board, senior management or staff.

#### *Conclusion*

We hereby confirm that in our professional judgement, as at the date of this document:

- We comply with UK regulatory and professional requirements, including the Ethical Standards issued by the Auditing Practices Board; and
- Our objectivity is not compromised.

We would ask the Audit Committee to consider the matters in this document and to confirm that they agree with our conclusion on our independence and objectivity.

### *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 faced, drawing on evidence on governance, risk management and controls.

We reviewed the AGS and considered whether it complied with the relevant Trust Development Authority's 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*

The NHS Manual for Accounts requires NHS Trusts to include Directors' Report and Strategic Report in their Annual Report. 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.

As part of our final audit we reviewed your draft Annual Report which included the Directors' Report and Strategic Report and confirmed that this was compliant with the requirements of Chapter 2 of the NHS Manual for Accounts and was consistent with the financial statements.

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 4 June 2015.

### *Economy, efficiency and effectiveness*

Our value for money ('VFM') code responsibility 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 resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

The Audit Commission guidance (which has been adopted by the relevant successor body) includes two criteria:

- The organisation has proper arrangements in place for securing financial resilience; and
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We determine a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

The Code of Audit Practice issued by the Audit Commission and applicable to the financial year 2014/15 requires us to report to you our conclusion relating to proper arrangements, having regard to the relevant criteria outlined above, as specified by the Audit Commission in October 2014.

We anticipate issuing an unqualified value for money conclusion. However, we have identified the following matters which we wish to bring to your attention:

#### *Cost Improvement Programmes (CIPs) 2014/15 and 2015/16*

We have reviewed the Trust's cost improvement outturn for 2014/15 and plans going forward as reported to the Board and held discussions with the Head of Performance. Progress against the 2014/15 cost improvement programme as reported to the April 2015 Board was also reviewed.

##### 2014/15 Cost Improvement Programme

The key findings in relation to the 2014/15 cost improvement programme as reported are:

- For 2014/15 the way in which CIP schemes are managed was changed by splitting the programme into transactional and transformation schemes, with an overall target set for the year of £28.2 million;

- The transformational CIP target for 2014/15 was £9.1 million which was broken down into four programmes and the transactional CIP target for 2014/15 was £19.1 million;
- The Trust achieved a total of £20.4 million against the target of £28.2 million for 2014/15, which represents an under-achievement of £7.8 million. Of this £3.9 million and £16.5 million were delivered by transformational and transactional CIP schemes respectively;
- Recurrent CIPs of £11.6 million have been achieved against the target of £28.2 million, with the recurrent shortfall of £16.6 million carried forward by the Trust into 2015/16; 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; £8.8 million of the £20.4 million achieved in year has been delivered through non-recurrent schemes.

#### 2015/16 Cost Improvement Programme

The key findings from our review of the 2015/16 cost improvement programme are summarised below:

- The cost improvement programme for the Trust is £20.6 million, this was after the Board approved that a CIP programme of £36.6 million based on the requirement for 2015/16 of £20.0 million and carry forward of £16.6 million was not achievable for the Trust to deliver. This has resulted in an overall planned deficit of £5.9 million for 2015/16 (adjusted planned deficit of £2.4 million);
- The £20.6 million target has been broken down between transformational and transactional schemes which have targets of £7.6 million and £8.0 million respectively. The remaining £5.0 million is planned to be delivered through non-recurrent schemes based on the Trust's historic performance at delivering non-recurrent schemes;
- As at the end of month 1 £1.3 million has been withdrawn from the annual budget, with the Trust planning on the achieved savings materialising throughout the second half of the financial year. The risk to deliverability of schemes which is currently either red or amber rated totals £7.3 million and £12.0 million respectively.

#### *Mid Staffordshire NHS Foundation Trust transfer agreement*

In February 2014, the Secretary of State approved the Trust Special Administrators (TSA) recommendations for the future of Mid Staffordshire NHS Foundation Trust, which recommended that the Trust assume responsibility for the staff, assets and services delivered at Cannock Chase Hospital.

The transfer took place on 1 November 2014, and we have considered the impact of the transfer on the Trust and the steps taken by the Trust to manage this and the risks associated with the transfer, post 1 November 2014. We particularly focused on:

- Reviewing the governance arrangements put in place to integrate the Cannock Chase Hospital services into the Trust's existing operations. This included reviewing the financial information being presented and assessing how the Trust has consolidated these services into its existing Corporate Governance arrangements;
- Considering how the services have been integrated into the Trust's Quality Account and performance indicators;

- Considering the extent to which these transactions have impacted on the Trust's financial resilience, which has included reviewing the commissioner funding, other service related income and capital funding associated with the transfer; and
- Reviewing the Trust's procedures for developing and monitoring CIP schemes in relation to Cannock Chase Hospital for 2015/16 onwards.

Our work has identified no issues regarding the Trust's arrangements to secure economy, efficiency and effectiveness in the use of resources with regard to the transfer of Cannock Chase Hospital. In particular, our review noted that:

- The Trust used the knowledge and experience gained of the transfer of community services in 2011/12 to help them effectively plan for the transfer of Cannock Chase Hospital;
- The Trust appointed an Integration Programme Director to manage the transfer of the services into the Trust and strategic direction of the transfer going forward;
- The Trust used its management and service grouping structure in order to integrate the Cannock Chase Hospital services within existing divisions;
- Governance arrangements have been in place since the date of transfer which have monitored how in practice the Cannock Chase Hospital services have been integrated into the Trust, with these arrangements continuing to evolve and develop to ensure that they remain fit for purpose; and
- Performance management arrangements have been updated to include key performance indicators relating to services delivered at Cannock Chase Hospital.

### *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 2014/15 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 (rate of C.difficile infections and percentage of patients risk assessed for venous thromboembolism (VTE)), are misstated.

For the 2014/15 Quality Account we are required to complete the work before the publication of the Quality Account on the NHS Choices website. The deadline for publication is 30 June 2015. We have undertaken our testing of the indicators and our initial review of the content of the Quality Account during May 2015 and will report our findings back to management

during June 2015. We will report back to the Audit Committee our findings following completion of our work and presentation of our report to management.

### *Referrals to the Secretary of State*

We have a legal duty to report a matter to the Secretary of State where the Trust or one of its officers:

- is about to make, or has made, a decision which involves or would involve the Trust spending money unlawfully; or
- is about to take, or has taken, a course of action which, if pursued to its conclusion would be unlawful and likely to cause a loss or deficiency.

The Trust following notification from Non-Executive Directors of allegations being made of wrongful payments to Non-Executive Directors at another NHS organisation and subsequent legal advice received, identified unlawful payments made to former and current Non-Executive Directors above the statutory levels set by the Secretary of State for Health. We understand that actions have been taken by the Trust to recover these overpayments and have confirmed that during 2014/15 payments have been made in accordance with the statutory levels or approval obtained from the Secretary of State for Health for any amounts above the statutory limits.

We have considered our statutory responsibilities and in light of the payments which have previously been made have concluded that we are required to make a Section 19 referral to the Secretary of State for Health.

### *Additional procedures for the National Audit Office*

The National Audit Office ('NAO') issued procedures via the Audit Commission for the financial year 2014/15 in respect of two aspects of their audit of the Department of Health resource accounts. As auditors we are required to follow the group instructions issued under ISA(UK&I) 600; and adhere to specific audit procedures to provide the NAO with additional assurance over amounts recorded in the Whole of Government Accounts schedules within the Summarisation schedules (where full group audit procedures are applicable).

For 2014/15, the NAO has introduced a revised group audit approach which focusses primarily on significant components. Trusts are not deemed to be significant components within the DH group however each year the NAO selects a sample of non-significant components that will include some Trusts.

Auditors are required to apply more detailed group audit procedures for sampled non-significant components. Reduced group audit procedures are required for non-significant components.

We confirm that we have complied with the requirements of the NAO for non-significant components.

# Internal controls

## Accounting systems and systems of internal control

Management are responsible for developing and implementing systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the financial statements and our review of the annual governance statement.

## Reporting requirements

We have to report to you any deficiencies in internal control that we found during the audit which we believe should be brought to your attention.

No significant deficiencies in internal control were identified through our work. However, in our professional judgement we believe the following matters should be brought to your attention:

### Deficiency

### Recommendation

#### Physical verification of transferred assets

As part of our testing on assets which transferred from Mid Staffordshire NHS Foundation Trust, we encountered difficulties in physically verifying a sample from the transfer agreement due to the level of detail which was recorded on the asset register. Our testing also identified one asset for ultrasound equipment which was unable to be located which had a net book value at the time of transfer of £11,000.

We understand that as part of the 2015/16 asset verification exercise which is performed by the Finance Team, individual wards and departments at Cannock Chase Hospital will be required to confirm that assets are in existence and are being utilised in line with the Trust's current procedures..

That the Trust undertakes a physical verification exercise of the assets which were included in the transfer agreement relating to Cannock Chase Hospital to confirm the existence of these assets.

#### Useful Economic Lives of transferred assets

Assets which have transferred during the year with

That the Trust perform an exercise to go through the asset register



regards to Pendeford Health Centre from NHS Property Services and Cannock Chase Hospital from Mid Staffordshire NHS Foundation Trust were input on the ledger in March 2015. This has resulted in the useful economic lives recorded on the fixed asset register being overstated by 11 months for assets which transferred from NHS Property Services and 4 months for assets which transferred from Mid Staffordshire NHS Foundation Trust.

The Trust were aware of the overstatement of the useful economic lives of these assets at the 31 March 2015 and manually wrote back the depreciation so that the correct amount of depreciation was charged against the asset for the year and recorded in the draft financial statements. Our testing on depreciation confirmed the correct amount of depreciation had been recorded against the asset for the year.

and update the useful economic lives of assets which transferred from NHS Property Services and Mid Staffordshire NHS Foundation Trust to ensure that the asset lives accurately reflect the useful economic life.

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# *Risk of fraud*

International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

## *Auditors' responsibility*

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

## *Management's responsibility*

Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

## *Responsibility of the Audit Committee*

Your responsibility as part of your governance role is:

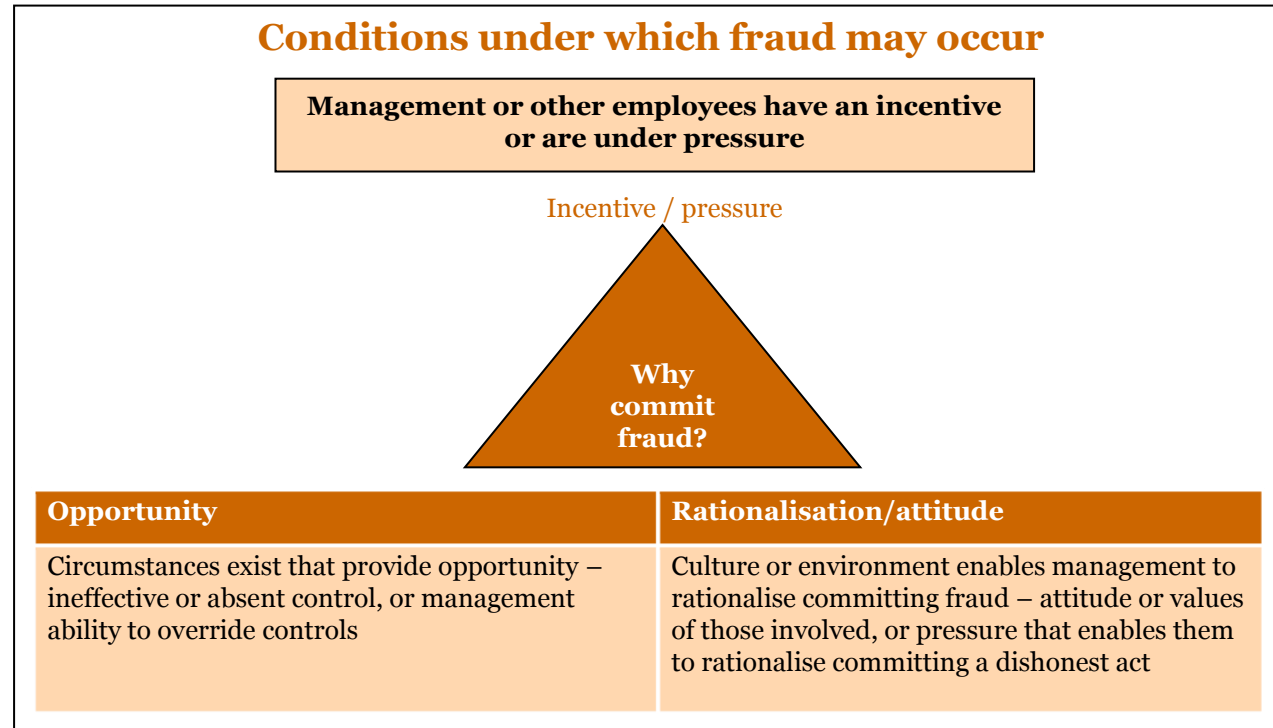
- to evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate "tone at the top"; and
- to investigate any alleged
- or suspected instances of fraud brought to your attention.

## Your views on fraud

In our audit plan presented to the Audit Committee in December 2014 we enquired:

- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistle-blower lines) are in place in the entity?
- What role you have in relation to fraud?
- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

We ask that the Audit Committee considers these questions again. We ask for your confirmation that there have been no changes to your view of fraud risk and that no additional matters have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud is included in the letter of representation in Appendix 1.



# *Fees update*

## *Fees update for 2014/15*

The Audit Commission has provided indicative scale fees for Trusts for the year ended 31 March 2015.

We reported our fee proposals in our plan. We varied our fee following NHS England issuing guidance for the assurance work over your Quality Account being issued during March 2015. We reported the work to be undertaken as part of our Progress Report to the Audit Committee in April 2015.

Our fees charged were therefore:

	2014/15 outturn (£)	2014/15 fee proposal (£)	2013/14 outturn (£)
Financial statements	59,320	59,320	59,320
Locally targeted work to address the Mid Staffordshire NHS Foundation Trust transfer agreement audit risk identified	10,000	10,000	-
Quality Account	10,000	-	10,000
Local value for money conclusion (including risk based audit work)	12,500	12,500	12,500
<b>TOTAL</b>	<b>91,820</b>	<b>81,820</b>	<b>81,820</b>

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# *Appendices*

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# *Appendix 1: Letter of representation*

[THE ROYAL WOLVERHAMPTON NHS TRUST LETTERHEAD]

***PricewaterhouseCoopers LLP***

Cornwall Court  
19 Cornwall Street  
Birmingham  
B3 2DT

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of The Royal Wolverhampton NHS Trust (the “Trust”) for the year ended 31 March 2015.

Your audit is conducted for the purpose of expressing an opinion as to whether the financial statements of the Trust give a true and fair view of the Trust’s affairs as at 31 March 2015 and of its income and expenditure and cash flows for the year then ended and have been properly prepared in accordance with the accounting policies directed by the Secretary of State with the consent of the Treasury as being relevant to the National Health Service in England.

We acknowledge that the Chief Executive has been designated as the Accountable Officer for the Trust by the Secretary of State and that the following requirements included in the Accountable Officer Memorandum have been complied with:

“You have a particular responsibility for ensuring that expenditure by the Trust complies with Parliamentary requirements. The basic principle which must be observed is that funds should be applied only to the extent and for the purpose authorised by Parliament...”

“As the Accountable Officer you have a responsibility to see that appropriate advice is tendered to the Board on all matters of financial probity and regularity...”

“If the Board or the Chairman is contemplating a course of action which you consider would infringe the requirements of propriety and regularity, you should set out in writing to the Chairman and the Board your objection to the proposal and the reasons for it.”

We confirm that the following representations are made on the basis of enquiries of management and staff of the Trust with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy ourselves that we can properly make each of the following representations to you.

We confirm, for all directors at the time the directors' report is approved, to the best of our knowledge and belief, and having made the appropriate enquiries, the following representations:

### ***Financial Statements***

We acknowledge as directors our responsibilities under the National Health Service Act 2006 for preparing financial statements of the Trust which give a true and fair view, in accordance with the accounting policies directed by the Secretary of State with the consent of the Treasury as being relevant to the National Health Service in England and for making accurate representations to you.

All transactions have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used by us in making accounting estimates, including those surrounding measurement at fair value, are reasonable.

All events subsequent to the date of the financial statements for which the accounting policies directed by the Secretary of State with the consent of the Treasury as being relevant to the National Health Service in England require adjustment or disclosure have been adjusted or disclosed.

The selection and application of accounting policies are appropriate.

We confirm that we have recognised all income receivable in 2014/15 in the Statement of Comprehensive Income except where this income relates to specific activity to be delivered in future years.

The losses and special payments forms have been compiled in accordance with the direction of the Secretary of State and there are no outstanding items that have been omitted from the losses and special payments register.

### ***Information Provided***

Each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that you (the Trust's auditors) are aware of that information.

We have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to persons within the Trust from whom you determined it necessary to obtain audit evidence.

So far as each director is aware, there is no relevant audit information of which you are unaware.

We are not aware of any reports from the Care Quality Commission or other regulators which have not been brought to your attention.

To the best of our knowledge reported information on the quality of care, including mortality rates, is accurate and has been compiled and submitted in line with national guidance.

### ***Fraud and non-compliance with laws and regulations***

We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Trust and involves:

- management;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the financial statements.

We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Trust's financial statements communicated by employees, former employees, analysts, regulators or others.

We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

### ***Related party transactions***

We confirm that the attached appendix to this letter is a complete list of the NHS Trust's related parties. All transfer of resources, services or obligations between the NHS Trust and these parties have been disclosed to you, regardless of whether a



price is charged. We are unaware of any other related parties, or transactions between disclosed related parties. We confirm that we have not transacted with any other bodies who sit under the Department of Health umbrella.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the accounting policies directed by the Secretary of State with the consent of the Treasury as being relevant to the National Health Service in England.

We confirm that we have identified to you all members of key management, as defined by IAS 24, and included their remuneration in the disclosures of key management compensation.

### ***Employee Benefits***

We confirm that we have made you aware of all employee benefit schemes in which employees of the Trust participate.

### ***Contractual arrangements/agreements***

All contractual arrangements (including side-letters to agreements) entered into by the Trust have been properly reflected in the accounting records or, where material (or potentially material) to the financial statements, have been disclosed to you.

### ***Litigation and claims***

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and such matters have been appropriately accounted for and disclosed in accordance with the accounting policies directed by the Secretary of State with the consent of the Treasury as being relevant to the National Health Service in England.

### ***Accounting estimates: measurement processes, assumptions, disclosures and effects of subsequent events***

Regarding the accounting estimates disclosed in the financial statements note 1.4:

We used appropriate measurement processes, including related assumptions and models, in determining the accounting estimate in the context of the accounting policies directed by the Secretary of State with the consent of the Treasury as being relevant to the National Health Service in England.

Measurement processes were consistently applied from year to year.

The assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Trust, where relevant to the accounting estimates and disclosures.

Disclosures related to accounting estimates are complete and appropriate under the accounting policies directed by the Secretary of State with the consent of the Treasury as being relevant to the National Health Service in England.

There has been no subsequent event that requires adjustment to the accounting estimates and disclosures included in the financial statements.

### ***Accounting estimate not recognised or disclosed in the financial statements***

We used an appropriate basis for determining that the recognition or disclosure criteria of the accounting policies directed by the Secretary of State with the consent of the Treasury as being relevant to the National Health Service in England. We do not feel it appropriate, at this time, to make a disclosure in the financial statements following an Employment Appeal Tribunal judgement which confirmed that certain overtime payments and other elements of remuneration should be included in the calculation of a worker's holiday pay.

### ***Using the work of experts***

We agree with the findings of DTZ, experts in evaluating the valuation of non-current assets and have adequately considered the competence and capabilities of the experts in determining the amounts and disclosures used in the preparation of the financial statements and underlying accounting records. We did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the objectivity of the experts.

### ***Assets and liabilities***

We have no plans or intentions that may materially alter the carrying value and, where relevant, the fair value measurements or classification of assets and liabilities reflected in the financial statements.

In our opinion, on realisation in the ordinary course of the business the current assets in the balance sheet are expected to produce no less than the net book amounts at which they are stated. In particular, the valuation of £800,000 for the eye infirmary asset held for sale prudently reflects our knowledge and understanding of the current status of the planning application.

The Trust has satisfactory title to all assets and there are no liens or encumbrances on the Trust's assets, except for those that are disclosed in the financial statements.

Provisions for depreciation and diminution in value including obsolescence have been made against fixed assets on the bases described in the financial statements and at rates calculated to reduce the net book amount of each asset to its estimated residual value by the end of its probable useful life in the Trust's business. In this respect we are satisfied that the probable useful lives have been realistically estimated and that the residual values are expressed in current terms.

We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties, including oral guarantees made by the Trust on behalf of an affiliate, director, officer or any other third party.

We confirm that we have completely and accurately accounted for all PFI lifecycle assets which have been purchased in 2014/15.

### ***Retirement benefits***

The Trust participates in the NHS pension scheme. We confirm that the Trust's share of the underlying assets and liabilities of this scheme cannot be identified and as a consequence the scheme has been accounted for as a defined contribution scheme.

### ***Provisions***

Full provision has been made for all liabilities at the balance sheet date including guarantees, commitments and contingencies where the items are expected to result in significant loss.

We do not have plans to implement any redundancy or early retirement programmes for which we should have made provision in the financial statements.

### **Cannock Chase Transitional Funding**

There is one provision, for £1.0 million, in the financial statements regarding income which has been received from the Department of Health as part of the Acquisition Business Case of Cannock Chase Hospital which has not been spent in 2014/15. The Trust would have deferred this income as at the year-end. However, due to the guidance in respect of the NHS agreement of balance exercise issued by the Department of Health, it has not been possible for the Trust to defer the income without this resulting in NHS agreement of balances differences.

Therefore, the Trust has recognised the income in year but provided in full for its return to the Department of Health should the Trust fail to spend the funding received as part of the Acquisition Business Case for Cannock Chase Hospital. The circumstances under which the Trust would need to return monies to the Department of Health, should it fail to spend the funding, were set out in an email from the NHS Trust Development Authority to the Trust dated 24 April 2015.

### **Cannock Chase Drugs**

The Trust has recognised a provision of £0.5 million for potential loss of income associated with the use of high cost drugs on unidentified patients. The Trust has recognised the income for the drug costs which have been incurred in 2014/15 but provided for 50% of its return to commissioners should the commissioners not agree that the activity has been delivered to these patients or was not part of the contracts which have been agreed.

***NHS Agreement of Balances***

We confirm that we have complied with the agreement of balances exercise in accordance with the Department of Health’s requirements for 2014/15. We confirm that all balances and transactions with counterparty NHS organisations are completely and accurately stated within our final summarisation schedules for 2014/15 with the exception of the following, where we are satisfied that the position reported in the Trust’s agreement of balances accurately reflects our understanding of transactions with each counterparty:

<b>Name of NHS Counterparty</b>	<b>Description</b>	<b>Amount reported by The Trust (£000)</b>	<b>Amount reported by counterparty (£000)</b>	<b>Difference between reported amounts (£000)</b>
University Hospitals of North Midlands NHS Trust	Debtor	1,090	1,817	(726)
Public Health Income	Debtor	410	4	462
Community Health Partnerships	Expenditure	2,088	1,740	348
Public Health England	Income	1,487	940	547

As minuted by the Audit Committee on behalf of the Trust Board at its meeting on 4 June 2015

.....

(Chairman)

For and on behalf of The Royal Wolverhampton NHS Trust

Date .....

.....

(Chief Financial Officer)



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.

This document has been prepared only for The Royal Wolverhampton NHS Trust and solely for the purpose and on the terms agreed through our contract with the Audit Commission. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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# ***The Royal Wolverhampton NHS Trust***

**ISA 260 Addendum to Report to the  
Audit Committee**

June 2015



Members of the Audit Committee  
The Royal Wolverhampton NHS Trust  
New Cross Hospital  
Heath Town  
Wolverhampton  
WV10 0QP

4 June 2015

Members of the Audit Committee

We are pleased to provide you with our addendum to our main ISA (UK&I) 260 report which we presented to you at your meeting on 4 June 2015. The main purpose of the report is to formally update you on how outstanding matters referred to in the report we presented to the Audit Committee on the accounts of The Royal Wolverhampton NHS Trust ("the Trust") for the year ended 31 March 2015 have been resolved before I signed the audit opinions today.

Yours faithfully



PricewaterhouseCoopers LLP

*PricewaterhouseCoopers LLP, Cornwall Court, 19 Cornwall Street, Birmingham B3 2DT  
T: +44 (0) 121 265 5000, F: +44 (0) 121 265 5050, [www.pwc.co.uk](http://www.pwc.co.uk)*

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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.*

*This Statement is still applicable for the financial year 2014/15 under the Audit Commission successor body arrangements.*

### *The purpose of this report*

As is often the case when we write our ISA (UK&I) 260 there are a small number of outstanding matters to be resolved. These outstanding matters were set out both in the Executive Summary, and page 7 of, the ISA (UK&I) 260 report. Set out below for your information are brief details on how each of these outstanding matters has been resolved. Please note that this addendum will be sent to the Public Sector Audit Appointments Limited and to the National Audit Office as a supplement to the report presented on 4 June 2015.

Description		Update
Receipt and review of the final revised financial statements, Annual Report and Annual Governance Statement.	✓	We have completed our final quality checks on the financial statements, Annual Report and Annual Governance Statement.
Completion procedures including subsequent events review.	✓	Completed prior to signing audit opinion on 4 June 2015.
Approval of the financial statements by the Audit Committee, in accordance with the delegated authority of the Trust Board.	✓	The Audit Committee approved the financial statements on 4 June 2015.
Receipt of all relevant signed statements and the management representation letter.	✓	All relevant documents were received on 4 June 2015 prior to signing our opinions today.

*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.*

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