cutting through complexity

Hounslow and Richmond Community Healthcare NHS Trust

ISA 260 Audit Highlights Memorandum

External Audit 2014/15

DRAFT: 2 June 2015

Contents

The contacts at KPMG in connection with this report are:

Neil Hewitson
Director
KPMG LLP (UK)

Tel: 0790 999 1009
Neil.Hewitson@kpmg.co.uk

Steve Lucas
Senior Manager
KPMG LLP (UK)

Tel: 07825 880024
Stephen.lucas@kpmg.co.uk

Tanushree Datta
Assistant Manager
KPMG LLP (UK)

Tel: 07468 740825
Tanny.Datta@kpmg.co.uk

This report is addressed to Hounslow and Richmond Community Healthcare NHS Trust (the Trust) and has been prepared for the sole use of the Trust. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is applicable to 2014/15 audits and is available on the Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Neil Hewitson, the engagement lead to the Trust, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Trevor Rees (on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

Introduction

Background

The Audit Commission's Code of Audit Practice (the Code) requires us to report on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. We report these areas to those charged with governance (in this case the Audit Committee) at the time you are considering the financial statements. International Standard on Auditing (ISA) 260 requires us to provide a summary of the work we have carried out to discharge our statutory audit responsibilities to those charged with governance at the time they are considering the financial statements. ISA 260 requires that we consider the audit matters detailed in Appendix C and we do this by exception through this report. We are also required to communicate with those charged with governance significant matters arising during the audit in connection with the entity's related parties. This report summarises the key issues we have identified during our audit of the financial statements and will be presented to the Audit Committee on 2 June 2015.

As auditors we have a responsibility for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management, those charged with management or those charged with governance of their responsibilities.

Use of Resources (UoR)	Hounslow and Richmond Community Healthcare NHS Trust ('the Trust') is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and regularly reviewing the adequacy and effectiveness of these arrangements. Our responsibility is to satisfy ourselves that you have proper arrangements in place, by reviewing and examining evidence relevant to your corporate performance management and financial management arrangements and reporting on these arrangements. We reflect our judgements from the Use of Resources (UoR) work in the value for money (VfM) conclusion. Our conclusion provides assurance on the Trust's arrangements for achievement economy, efficiency and effectiveness in its use of resources. The Trust is responsible for putting in place systems of internal control to ensure the regularity and lawfulness of transactions, to maintain proper accounting records and to prepare financial statements that give a true and fair view of its financial position and its expenditure and income. It must also publish an Annual Governance Statement (AGS) with its Annual Report.
Accounts	We audit the financial statements and provide our opinion as to whether they give a true and fair view of your financial position and expenditure and income, and whether they have been prepared in accordance with the relevant accounting policies as directed by the Secretary of State.

Structure of report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 outlines our findings and final conclusions on the UoR work.
- Section 4 sets out our findings on the audit of the accounts.

Headlines

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

Use of Resources and audit certification	■ Based on the findings of our work, we concluded that the Trust has adequate arrangements to secure economy, efficiency and effectiveness in its use of resources. ■ We are required to certify that we have completed the audit of the financial statements in accordance with the requirements of the Code. If there are any circumstances under which we cannot issue a certificate, then we must report this to those charged with governance. There are no issues that would cause us to delay the issue of our certificate of completion of the audit.
Accounts, unadjusted audit differences and management representations	■ The Trust has produced its Annual Report and Accounts in accordance with the Manual for Accounts. We intend to issue an unqualified audit opinion on the accounts following the Audit Committee adopting the accounts and receipt of the management representation letter. ■ We have completed our audit of the financial statements. We have also read the content of the Annual Report (including the remuneration report) and reviewed the AGS. Our key findings are: – There are no unadjusted non trivial audit differences. – We identified adjustments required in relation to Property, Plant and Equipment including decreasing the value of land by £189,000 and increasing buildings by £466,000 in order to correctly reflect the District Valuer Services' (DVS) valuation. – We have agreed presentational and minor changes to the accounts with management.
Recommendations	■ We have made three recommendations as a result of our 2014/15 audit work. These recommendations, which are shown in Appendix A, relate to the estimated life of assets, overall review processes and title deeds of land owned.
Whole of Government Accounts	■ We intend to issue an unqualified confirmation to the NAO regarding the Whole of Government accounts submission, made through the Trust's submission of the summarisation schedules to the Department of Health.
Public Interest Reporting	■ We have a duty to refer any matter to the Secretary of State if we have a reason to believe that the Trust is about to make, or has made, a decision involving unlawful expenditure, or is about to take, or has taken, unlawful action likely to cause a loss or deficiency. We also have a duty to consider whether, in the public interest, to report on any matter that comes to our attention in order for it to be considered by the Trust or brought to the attention of the public. ■ We did not issue a report to the Secretary of State or a report in the public interest in 2014/15.
Fraud	■ We have a responsibility to consider fraud and we addressed this in our assessment of your controls framework. We have also reviewed your arrangements for the prevention and detection of fraud and corruption, alongside our use of resources work. ■ This work is complete and has not identified any matters which we wish to draw to your attention.

Use of Resources

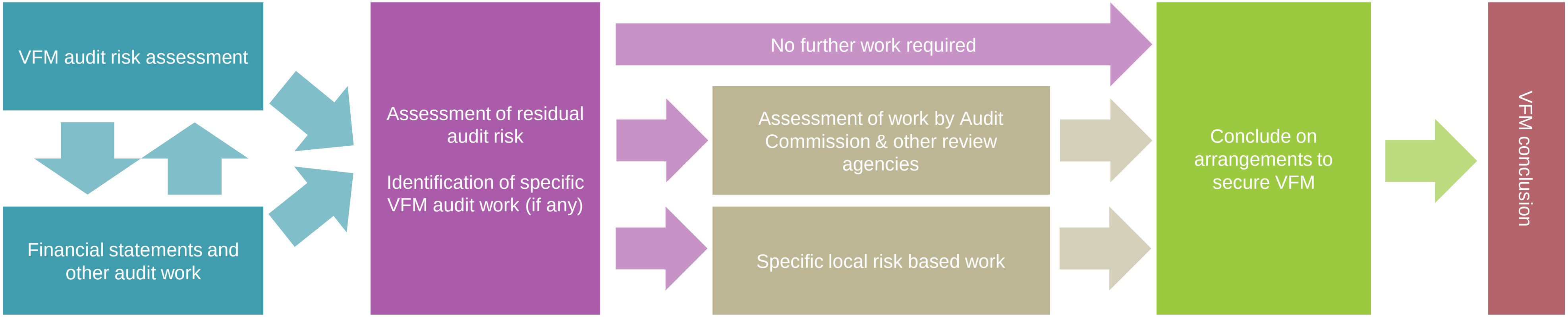
Background

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

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

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

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



Conclusion

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

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

VFM risk assessment

As part of our audit planning, and throughout our financial statements audit work, we identified VFM risks relating to specified criteria. We reviewed high level controls to manage these risks. Where we identified residual risk, we completed detailed work to form our VFM conclusion. The table below summarises the work we have completed:

Specified criteria for VFM conclusion	Focus of the criteria	Work undertaken and key findings
The organisation has proper arrangements in place for securing **financial resilience**.	The organisation has robust systems and processes to: ▪ manage effectively financial risks and opportunities; and ▪ secure a stable financial position that enables it to continue to operate for the foreseeable future.	We reviewed the financial governance, financial planning and financial control arrangements. This included reviewing the medium term financial plan and considering views from the TDA following its clinical and financial sustainability assessment. The Trust has delivered a surplus for the year of £679K against its initial budget of £649K. The Trust reported that recurrent Cost Improvement Plan schemes totalling £2,601K were delivered against a target of £2,676K. The budget for 2015/16 has been agreed that shows a target surplus of £679K with signed block contracts in place with its main two commissioners. This requires further CIPs of £3,258K. The Trust operates in a competitive London market with c.75% of its income being received from Richmond CCG and Hounslow CCG. Richmond CCG is currently looking at developing an outcome based model of service delivery from 1 April 2016, replacing block contracts including the current c.£19M contract with the Trust. Management is working closely with the CCG on developing this and has become one of four preferred providers - the only one delivering community services. The Trust is working on a draft Memorandum of Understanding which it is expecting to sign in June 2015 and a signed contract in December 2015. If the CCG decides on this type of contract, it is likely to be at least a five year contract. If the Trust is unsuccessful and the current £19M contract is lost then its long term financial sustainability is questionable. The Trust works very closely, and has good working relationships, with Hounslow CCG, the other main provider. They have not given any indication that they are currently thinking of either changing their service delivery model or thinking of putting the contract out to tender. The Trust delivered its financial targets for 2014/15 and has put in place a budget, with signed service level agreements and agreed CIP targets, to deliver a surplus for 2015/16. 2016/17 onwards may be a more challenging and uncertain time with changes in the way services are delivered. Richmond CCG is looking to change the way in which it delivers services to an outcome based model and the Trust has positioned itself to work with the CCG in designing the new model and prepare draft Memorandums of Understandings to deliver the service. Through this work, we identified no residual risks that affected our ability to form our VFM conclusion. As a result, we did not consider it necessary to perform further work in this area.

VFM risk assessment (Continued)

Specified criteria for VFM conclusion	Focus of the criteria	Work undertaken and key findings
The organisation has proper arrangements for challenging how it **secures economy, efficiency and effectiveness**.	The organisation is prioritising its resources within tighter budgets, for example by: ■ achieving cost reductions; and ■ improving efficiency and productivity.	We reviewed the arrangements for prioritising resources and improving efficiency and productivity. This has included consideration of the Trust's progress in developing and delivering its CIP. The Trust set itself a CIP savings target of £2,676K and reported delivering £2,601K, with the difference of £75K found through non recurrent savings. A CIP target for 2015/16 of £3,258K has been set and schemes have been identified to deliver. This has been reviewed by the Finance Panel to ensure that the plans are robust and deliverable. We reviewed the Trust's response to its vacancy rate of 22% in April 2014. A workforce strategy was agreed by the Board, recruitment and retention plans put in place and by March 2015 the vacancy rate had decreased to 15%. This reduces the cost of the relatively more expensive agency staff. We reviewed the Trust's reference costs for 2013/14 and noted these had reduced to 105 from 112 in 2012/13. While the figure for 2014/15 isn't submitted until July with the actual index not available until the Autumn, the Trust uses its own system to monitor reference costs during the year. This is showing there may be a slight increase which has been attributable to using more agency staff in district nursing and community matrons and additional spend in inpatients due to safer staffing costs incurred. This has been reported to the Board on a monthly basis. Through this work, we identified no residual risks that affected our ability to form our VFM conclusion. As a result, we did not consider it necessary to perform further work in this area.

Overall, we identified no residual risks that would impact on our overall VFM conclusion. We did not therefore consider it necessary to perform further local risk based work in order to conclude our opinion on the Trust's use of resources in 2014/15.

To audit your financial statements we perform tasks split between those which are undertaken before, during and after the accounts production. These are summarised below:

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

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

Business Understanding and External Audit Plan	■ In our *2014/15 External Audit Plan* we assessed your current operations to identify significant issues that might have a financial consequence. ■ We have provided an update on the key accounts audit issues on page 10.
Assessment of the Control Framework	■ We have assessed the effectiveness of your key financial system controls in place that prevent and detect material fraud and error. We found that the financial controls on which we seek to place reliance are operating effectively. We have raised four recommendations to strengthen your controls that are shown in Appendix A.
Prepared by Client Request	■ We issued our final prepared by client list to the Trust on 27 March 2015. This document summarises the working papers and evidence we ask you to collate as part of the preparation of the financial statements. ■ The prepared by client list was followed by the Trust and all corresponding working papers were made available to us by day one of the audit.

Accounts

Accounting Standards	■ In our regular meetings with the finance team we have discussed potential issues and how the Trust could address them. This included the allocation of the revaluation reserve and the benefits of having a full valuation of land and buildings inherited in April 2013. From these meetings we have agreed with you an approach to key technical issues prior to the Trust's production of the annual accounts.
Accounts Production	■ We received the Trust's submitted accounts on 23 April 2015 in accordance with the Department of Health's deadline. ■ The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Department of Health. ■ As in previous years, we will debrief with the Finance team to share views on the final accounts audit. Hopefully this will lead to further efficiencies in the 2015/16 audit process. ■ Trust finance staff were available throughout the audit visit to answer our queries as they arose. ■ We thank the finance team for their cooperation throughout the visit which allowed the audit to progress smoothly and complete within the allocated timeframe.
Testing	■ During the audit we identified that the value of land and buildings as valued by the District Valuer Service did not agree to the draft financial statements. In addition, there remained accumulated depreciation of £1.2 M that should have been reversed out. We have summarised this issue in Appendix C. ■ There are no unadjusted non trivial audit differences. ■ Our findings related to areas of high audit risk are shown on page 10.
Representations and Opinions	■ You are required to provide us with representations on matters such as your financial standing and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Finance Director on 25 May 2015. ■ We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. ■ We are asking management to provide specific representations on; – the appropriateness and accuracy of the valuation of the provision for dilapidations at Thames House of £684,000; – The accuracy of the valuation of property, plant and equipment; and – The appropriateness of including £800,000 for impairments against NHS receivables.
Other Matters	■ We are required under ISA 260 to communicate to you any matters specifically required by other auditing standards to be communicated to those charged with governance; and any other audit matters of governance interest. ■ We have not identified any matters to specifically report.

Next Steps

Following consideration of the issues highlighted in this report, the Audit Committee which has delegated authority will sign the management representations letter at the Board meeting on 2 June 2015. Once we have received your representations we issue our audit opinion. For 2014/15 this provides confirmation that:

- your financial statements present a true and fair view;
- you have complied with the Department of Health's disclosure requirements set out in the guidance supporting the Department of Health Group Manual for Accounts in the preparation of your AGS and we are not aware of any inconsistencies with the information that you have recorded within this statement and our other work;
- we have read your Annual Report and in our view it does not contain information which is inconsistent with your financial statements; and
- the numerical part of your Remuneration Report has been presented in a way which complies with the accounting requirements as set out in the Department of Health Group Manual for Accounts.

Independence and Objectivity

ISA 260 also requires us to make an annual declaration that we are in a position of sufficient independence and objectivity to act as your auditors. We have provided this declaration at Appendix D.

Audit Fees

Our fee for the audit in 2014/15 was £47,535 plus VAT. This fee was in line with that highlighted within our audit plan that was communicated to the Audit Committee in February 2015.

We did not carry out any non audit work at the Trust during the year.

Results of our testing on areas of high audit risk

In our External Audit Plan 2014/15, presented to you in February 2015, we identified the areas assessed as significant risks in terms of their impact on our financial statements audit opinion. We have now completed our testing of these areas and set out our final evaluation following our substantive work.

Areas of SIGNIFICANT audit risk	Summary of findings
Valuation of Land and Buildings Audit areas affected ■ Property, Plant and Equipment ■ Revaluation Reserve	■ In 2014/15, the Trust commissioned DVS to undertake a full revaluation exercise on land and buildings as at 31 March 2015. We assessed the expertise of the DVS and found that we could place reliance on them as an expert. ■ DVS valued the properties in the past for the former Primary Care Trusts and held information on the assets being valued previously given to them. We noted that information such as floor areas of buildings were not checked by the Trust but as all sites were visited, and the terms of reference included confirmation that any material discrepancies in the property information held would be reported back to the Trust, this gave us assurance over this information. There were no material discrepancies reported back to the Trust . ■ We identified that the value of land and buildings as valued by DVS did not agree to the draft financial statements. In addition, there remained accumulated depreciation of £1.2M that should have been reversed out as the buildings were valued at 31 March 2015. The overall impact to the net book value was to decrease the value included in land in the financial statements by £189,000, increase the value of buildings by £466,000 and increase the revaluation reserve by 277,000. The Trust adjusted for these items. ■ We also noted that DVS revisited the remaining estimated useful lives of the assets which for some assets were quite different. While this did not impact on this year's financial statements, the fixed asset register should be updated to reflect the latest estimated useful lives provided by DVS. This may impact on depreciation in 2015/16. ■ We were able to obtain sufficient evidence for our existence testing of material items of property, plant and equipment. For land and buildings, we were able to place reliance upon the DVS who visited the properties. We also tested a sample of IT equipment existed.. ■ Our testing over the ownership of assets inherited by the Trust confirmed that title deeds of these assets have yet to be transferred into the Trust's name. We have made recommendations relating to asset values and title deeds in Appendix A.

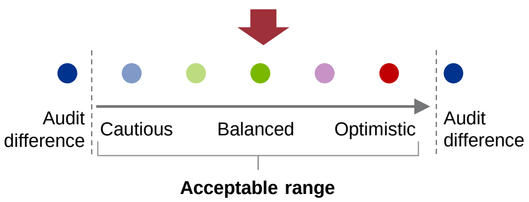
In our *External Audit Plan 2014/15* we also reported that we would focus on other areas as specifically required by professional standards. These risk areas were management override of controls, and the fraud risk of revenue recognition.

The table below and overleaf sets out the outcome of our audit procedures and assessment on these risk areas.

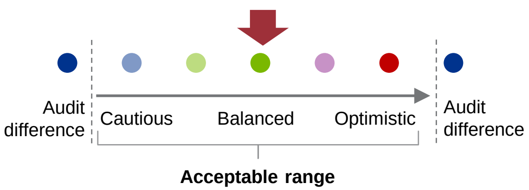
Other areas of audit focus	Summary of findings
Management override of controls Audit areas affected ■ All areas	Our audit methodology incorporates the risk of management override as a default significant risk. Management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We have not identified any specific additional risks of management override relating to this audit. In line with our methodology, we carried out appropriate controls testing and substantive procedures, including testing over journal entries, accounting estimates such as accruals and provision and significant transactions that are outside the normal course of business, or are otherwise unusual. We also tested the Trust’s register of interests and considered the appropriateness of any related party transactions and their disclosure within the financial statements. There are no matters arising from this work that we need to bring to your attention.

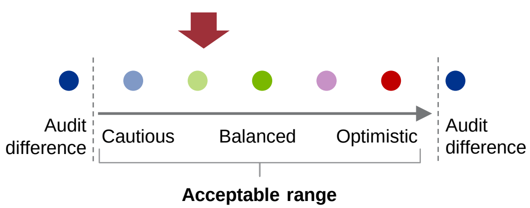
Income recognition and associated fraud risk Audit areas affected ■ NHS and non-NHS income	Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. We do not consider this to be a significant risk for NHS bodies, and the Trust in particular, as there is unlikely to be an incentive to fraudulently recognise revenue. This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work. In our audit plan we reported that we have classified income recognition as a significant audit risk for 2014/15 and outlined the audit work we planned to undertake. The work focused on the recognition of NHS and non-NHS Income and our testing considered the completeness, existence and accuracy of the balances recorded within the financial statements. ■ We agreed the income recorded in your financial statements to the signed contracts that you have in place with your key commissioners, Hounslow and Richmond CCGs. ■ We investigated contract variations and sought explanations from management. ■ We reviewed the outcome from the Agreement of Balances (AoB) exercise with other NHS organisations and sought explanations for any differences over £250,000. Differences identified are included in Appendix E. ■ We made enquiries regarding contractual disputes or arbitration in relation to any material income balances and examined the supporting correspondence, including if appropriate any legal advice given, in relation to the expected outcome as recorded within the financial statements. ■ We confirmed the basis upon which any provisions for debt have been made. We tested the assumptions taking into account both past performance and any circumstances specific to the year ended 31 March 2015. ■ We carried out year end cut off testing to support the work we undertake on the completeness of income balances recorded in the financial statements. There are no matters arising from this work that we need to bring to your attention.

During the audit we have considered a number of significant judgements and estimates affecting the Trust this year and have summarised our findings below to give the Audit Committee a view as to whether we believe these judgement are reasonable and were within the acceptable range they sit:

<table>
<tr><th colspan="2">Areas of significant audit judgment</th><th>Summary of findings</th></tr>
<tr><td>Accruals and deferred income (£2.1M; 2013/14: £2.7M)</td><td>
</td><td>We reviewed a sample of non-NHS accruals to assess the judgements made in calculating the accrual. We agreed each accrual sampled back to supporting documentation and/or calculation to determine reasonableness of the basis of including the accrual.

In addition, we reviewed accruals made in 2013/14 against actual payments made to gain additional assurance that the controls in place and assumptions used in the prior year were reasonable.

We were satisfied with the method for calculating the accruals, and that suitable evidence and judgements had been used to reach the valuation.</td></tr>
<tr><td>Valuation (£22.9M; 2013/14: £19.2M)</td><td>
</td><td>The Trust commissioned DVS, an independent external valuer, to complete a full valuation of land and buildings in accordance with International Financial Reporting Standards (IFRS) as interpreted and applied by the NHS Manual for Accounts which is largely compliant with HM Treasury Financial Reporting Manual (FReM). The valuations also accord with the requirements of the Royal Institution of Chartered Surveyors RICS Valuation - Professional Standards 2014 UK edition (known as 'the Red Book') in so far as these are consistent with IFRS and NHS guidance

We believe judgement relating to valuation to be balanced as the Trust uses the valuations provided by DVS within the financial statements without alteration.</td></tr>
<tr><td>Provisions (£684K; 2013/14: £8K)</td><td>
</td><td>We reviewed the provision that the Trust has calculated for the cost of restoring Thames House to its required condition as required by the lease when it ends in 2019.

Our review found that the Trust had identified aspects such as the roof and air conditioning units of the building that are likely to require expenditure to bring the building back to the required condition as stated in the contract when the lease expires in 2019. The need for this is supported by the Trust receiving £292,000 from Richmond CCG in respect of dilapidations when they took over responsibility for the lease. The Trust has valued the individual aspects, some based on hard evidence such as similar costs involved/considering average industry standards for dilapidations, others based on estimates made by officers using their professional knowledge. Our review of the information provided found that while the estimate fell within an acceptable range it appeared a little cautious in our view.

We understand that a more formal assessment of the entire dilapidation provision is to be undertaken during 2015/16 and we recommend this is completed during 2015/16 to both enable the Trust to be aware of the full potential costs, and any interim action they could take, and to support the year end provision.</td></tr>
</table>

Appendix A: Key issues and recommendations

This appendix summarises the recommendations that we have identified from our work. We have given each of our recommendations a risk rating (as explained below) and agreed with management what action you will need to take.

Priority rating for recommendations		
❶ ***Priority one***: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷ ***Priority two***: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸ ***Priority three***: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

#	Risk	Issue, Impact and Recommendation	Management Response/Responsible Officer/Due Date
1	❸	**Preparedness for Audit** While we appreciate the Trust has a limited time and resources to prepare the year end accounts and required working papers, our review of the key account balances and areas of estimates and judgement found either initial gaps in the evidence to support them and/or a sense check didn't appear to have been completed. For example; ▪ There was limited information available to support the individual aspects of the provision for dilapidations of £684,000; ▪ The value of land and buildings did not agree to the DVS valuation at 31 March 2015 – land was £189,000 overstated and buildings £466,000 understated - this was adjusted; and ▪ There was no readily available explanations for differences on the Agreement of Balances exercise. We recommend that the Trust ensures it has effective review process in place to critically review evidence to support key judgements and sense check key balances to mitigate avoidable audit adjustments and to help make the audit a smooth process.	The Trust agrees that it will critically review the year-end processes in order that audit adjustments are avoidable where possible. This will include the availability of evidence to support key judgements, and will endeavour to factor in a further review procedure within the strict submission deadlines. David Hawkins. 31st March 2016.
2	❸	**Fixed Asset Register (FAR) – asset lives** We noted that the DVS revisited the remaining estimated useful lives of the buildings. Whilst this did not impact on the 2014/15 accounts, the fixed asset register will need to be updated to reflect the latest estimated useful lives provided by the DVS. This may impact on depreciation for the 2015/16 financial year. We recommend the Trust updates its Fixed Asset Register with the new remaining estimated useful lives.	The Trust will update the Fixed Asset Register with the new remaining estimated useful lives. Andrew Lawal. 30th June 2015.

Appendix A: Key issues and recommendations

#	Risk	Issue, Impact and Recommendation	Management Response/Responsible Officer/Due Date
3	3	**Revaluation** The Trust at the year end did not allocate the revaluation on buildings to individual buildings in the FAR or in the Revaluation Reserve. This did not have any impact on the 2014/15 financial statements but will need to be completed in 2015/16 to ensure that depreciation is correctly calculated and that proper records exist in relation to the Revaluation Reserve. The current Revaluation Reserve will also need to be split between the individual buildings. We recommend that the revaluation relating to buildings is included in the FAR against individual buildings and this is mirrored in the revaluation reserve.	The Revaluation reserve was split between individual buildings in 2014/15. The Fixed Asset Register will be updated to reflect against individual buildings. Andrew Lawal. 30th June 2015.
4	3	**Title Deeds** Land and buildings were transferred to the Trust from demising Primary Care Trusts in April 2013. The Land Registry has not been notified of the transfer. We recommend that the Trust notifies the Land registry of the change in ownership and has the land registered in the Trust's name.	The Trust will notify the Land Registry of the change in ownership. Michelle Lawrence. 30th September 2015.
5	3	**Provisions for dilapidations** The Trust has a lease at Thames House that is due to expire in 2019 and the conditions of the lease means the Trust needs to make good any defects in the property as stated within the lease. Officers have identified that there are aspects of the building that already require making good and have made a provision. The Trust is looking to commission a specialist in this area to review the potential dilapidation costs during 2015/16. We recommend the Trust obtains this specialist view of the likely costs that may be incurred to enable them to be aware of the full potential costs, and any interim action they could take, and to support the 2015/16 year end provision.	The Trust is planning to engage a specialist to review potential dilapidation costs. Michelle Lawrence. 30th September 2015.

Appendix B: Follow up of prior year recommendations

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

Number of Prior Year Recommendations	Number of Recommendations implemented	Number outstanding (re-iterated below)
3	1	2

Recommendations Outstanding

#	Risk	Issue and Recommendation	Officer Responsible and Due Date	Status as at May 2015
1	❶	**Exit/severance payments** The Trust incurred an exit cost of £40,000 in respect of a former employee who was taking the Trust to an Employment Tribunal. The Trust reported the case to the Remuneration Committee setting out the value for money considerations it was considering in negotiating a settlement and contacted the Trust Development Agency (TDA) who are required to approve such payments. The Trust received approval from the TDA to proceed with the negotiations but the formal business case for TDA to approve the settlement cannot be located by the Trust and TDA can find no receipt of it. It is noted the person who was dealing with this has left the Trust. The Trust will need to obtain retrospective approval of this payment. It was also noted that for two redundancy payments, while the accounts agreed with the amounts paid, the payment could not be agreed to detailed calculations although both differences were less than £1,000 from the draft redundancy calculation provided. We recommend that the Trust ensures all severance costs and exit packages are approved by the TDA and Treasury in line with NHS guidance prior to payment and evidence to support payments are maintained.	David Hawkins Immediate	**Outstanding** The Trust gained retrospective approval for the item reported. There were no exit/severance payments disclosed in the 2014/15 accounts. Therefore it is not possible to conclude whether the recommendation has been implemented. .

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

<table>
<tr><th>#</th><th>Risk</th><th>Issue and Recommendation</th><th>Officer Responsible and Due Date</th><th>Status as at May 2015</th></tr>
<tr><td>2</td><td>2</td><td>Asset transfer
The Trust received the transfer of assets from the demising PCTs on 01 April 2013, via the DH. We are satisfied the balances disclosed in the accounts are materially correct but there are number of areas the Trust needs to assure itself over in 2014/15:
The Trust’s asset base has not been revalued by a professional valuer since December 2012 and this was under instructions issued by the former PCTs. Given the changes in the economy at the moment, the Trust should engage a professional valuer to ensure that the Trust’s assets are not materially mis-stated at 31 March 2015;
Our review of the asset register identified some outliers in the remaining lives of assets, some buildings had a remaining lifespan of 82 years – in line with the valuation. Asset lives should be reviewed in order for the Trust to satisfy itself that the year end asset valuation and annual depreciation charges are materially correct;
The Trust has been unable to obtain a detailed breakdown of the revaluation reserve balance but will need to consider how it allocates it over the individual assets in order to account for future revaluations and impairments correctly; and
The Trust should seek to obtain the formal deeds confirming legal ownership of the assets.
Accounting for property, plant and equipment can impact on the Statement of Comprehensive Income and Expenditure and the Statement of Financial Position. There is therefore a risk of misstatement to both the Statement of Comprehensive Income and Expenditure and the Statement of Financial Position if the above actions are not implemented.</td><td>Officer responsible David Hawkins

31 March 2015

The Trust will review the assets and consider a desktop review of lives and values prior to the 5 year DV Valuation.

The Trust will allocate the Revaluation Reserve to individual assets during 2014/15.</td><td>Implemented
The Trust commissioned the District Valuers Service to complete a full valuation of its land and buildings. This included carrying out a review of the estimated remaining lives of assets.

The revaluation reserve was investigated and allocated against individual sites. Following the detailed valuation, the Trust will now need to further split this down into individual buildings/assets.

The Land Registry have not been informed of the change in owner of land and buildings – see recommendation 4 in appendix A.</td></tr>
</table>

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

#	Risk	Issue and Recommendation	Officer Responsible and Due Date	Status as at May 2015
3	2	**Lease agreements** The Trust leases some premises for the provision of services that belonged to the legacy Hounslow and Richmond PCTs. These assets transferred on 1 April 2013 to NHS Property Services. However, there are no formal lease agreements in place for the use of all of these assets although the Trust is currently discussing this with NHS Property Services. Without formal lease agreements in place the Trust is more exposed to the risk of financial loss if there are disputes over the use of the premises. In addition, from an accounting perspective it is more difficult to ensure the correct accounting for the leases without formal agreements being in place. The Trust should seek to establish formal lease agreements with NHS Property Services and Community Health Partnerships for all of the premises it leases.	David Hawkins 2013/14	**Outstanding** Progress has been made to have signed agreements in place for all leases. We reviewed the current position for the Thames House, Heart of Hounslow and O'Block properties and found that draft leases had been prepared but not yet been signed. There are also other leases outstanding that the Trust is taking forwards. Revised lease agreements should be signed and in place for all leases.

Appendix C: ISA260 Communication of Audit Differences

We are required by ISA (UK and Ireland) 260 Communication of Audit Matters to Those Charged with Governance to communicate all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance. We are also required to report all material misstatements that management has corrected but that we believe should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

This appendix sets out the audit differences that we identified following the completion of our audit of Hounslow and Richmond Community Healthcare NHS Trust for the year ended 31 March 2015.

Unadjusted audit differences

We are pleased to report that there were no unadjusted audit differences.

Adjusted audit differences

Detailed below are the audit differences which have been identified during the course of our work which have been corrected by management in the financial statements.

	Statement of Financial Position (£'000)		Statement of Comprehensive Expenditure (£'000)	
Issue	**Dr**	**Cr**	**Dr**	**Cr**
Decrease in value of land (PPE)		189		
Increase in value of buildings (PPE)	466			
Increase in revaluation reserve		277		
Decrease in audit fees – reallocation of amounts included in audit fees				33
Increase in consultancy fees – reallocation of amounts included in audit fees			33	
Amount potentially owed to borough shown as creditor rather than netted off debtors (Debtors)		88		
Amount potentially owed to borough shown as creditor rather than netted off debtors (Creditors)	88			

We identified a number of minor presentational issues during our audit and these have all been amended by the Trust. These included a reversal of accumulated depreciation at £1.2 M disclosed within PPE.

Other Matters

There are no other matters to report.

Appendix D: Declaration of Independence and Objectivity

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

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

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

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

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

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

Ethical Standards require auditors to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

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

General procedures to safeguard independence and objectivity

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

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

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

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

Audit matters

We are required to comply with *ISA (UK and Ireland) 260 Communication of Audit Matters to Those Charged with Governance* when carrying out the audit of the accounts.

ISA 260 requires that we consider the following audit matters and formally communicate them to those charged with governance:

- Relationships that may bear on the firm’s independence and the integrity and objectivity of the audit engagement lead and audit staff.
- The general approach and overall scope of the audit, including any expected limitations thereon, or any additional requirements.
- The selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the Trust’s financial statements.
- The potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements.
- Audit adjustments, whether or not recorded by the entity that have, or could have, a material effect on the Trust’s financial statements.
- Material uncertainties related to event and conditions that may cast significant doubt on the Trust’s ability to continue as a going concern.
- Disagreements with management about matters that, individually or in aggregate, could be significant to the Trust’s financial statements or the auditor’s report. These communications include consideration of whether the matter has, or has not, been resolved and the significance of the matter.
- Expected modifications to the auditor’s report.

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

Audit matters (cont.)

- Other matters warranting attention by those charged with governance, such as material weaknesses in internal control, questions regarding management integrity, and fraud involving management.
- Any other matters agreed upon in the terms of the audit engagement.

We continue to discharge these responsibilities through our attendance at audit committees, commentary and annual audit letter and, in the case of uncorrected misstatements, through our request for management representations.

Auditor Declaration

In relation to the audit of the financial statements of Hounslow and Richmond Community Healthcare NHS Trust for the financial year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and the Trust, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission’s requirements in relation to independence and objectivity.

Appendix E: National Audit Office Group Assurance

For significant and sampled non-significant components we are required to report to the National Audit Office ('NAO') in connection with the audit of the Department of Health Resource Account, NHS Summarised Accounts and the Whole of Government Accounts (WGA). You have not been sampled as per NAO DH Group Instructions. We therefore intend to issue an unqualified confirmation to the NAO regarding the WGA submission, made through the Trust's submission of the summarisation schedules to Department of Health.

We are required to report any inconsistencies greater than £250,000 between the signed audited accounts and the consolidation data and details of any unadjusted errors or uncertainties in the data provided for intra-group and intra-government balances and transactions. We have provided details of the inconsistencies that we are reporting to the NAO below:

Counter party	Type of balance/ transaction	Balance as per Hounslow and Richmond Community Healthcare NHS Trust (£)	Balance as per counter party (£)	Difference (£)	Comments on Difference
Non-contracted activity	Income	(513k)	0	(513k)	This difference is linked to the Trust taking a view that there is a risk that some of their NHS debtors may not be settled in full and have put in a provision.
NHS Hounslow CCG	Income	27,063k	27,448k	(385k)	NHS Hounslow CCG are to adjust their figure to £27,097k.
NHS Richmond CCG	Income	22,583k	23,349k	(766k)	The Trust has investigated the difference and has had difficulties in getting a response from the CCG. The Trust is satisfied with its figures.
London North West Healthcare NHS Trust	Income	0	280k	(280k)	The Trust has confirmed to us they have received no income from this Trust and thus their figure is correct.
Non-contracted Activity	Receivables	(800k)	0	(800k)	The Trust is aware that there is a risk that some of their NHS debtors may not be settled in full and have put in a provision. We have sample tested this and seen that some items are in dispute with the outcome uncertain.

cutting through complexity