The Shrewsbury and Telford Hospital NHS Trust

Paper 20

AUDIT COMMITTEE

Key summary points from the meeting held on **Thursday 2 June 2016**:

1. Annual Accounts

There was extensive discussion around the difference in opinion between the Trust and EY on the treatment of depreciation. EY explained that they considered that as depreciation was an estimation it should be applied in line with IAS08, ie prospectively. They therefore classified this as an uncorrected error and wished to bring it to the attention of Audit Committee. They confirmed it was not a material difference and would not affect the unqualified opinion on the accounts if it was not corrected. The Finance Director explained that, whilst accepting depreciation was an estimation, the Trust has treated depreciation in accordance with IAS 16 – Property, Plant and Equipment whereby equipment is depreciated by adopting a "straight line basis" and using predetermined asset lives as established by the NHSE. The exercise of reassessing asset lives also confirmed that the level of internally generated resources available to the Trust, would for the foreseeable future, be insufficient to support the replacement of equipment more quickly and as such the actual usage of asset lives provided a more accurate description of the "pattern of consumption" of these assets than used previously. IAS 16 requires organisations to review on an annual basis the asset lives. Given the findings of the review it was decided to change the asset lives to one based upon actual usage. This ensures that the carrying amount on the books is correctly stated. This approach was notified to the external auditors, and the methodology was audited in January as part of the pre – end of year review.

It was noted that the positions could not be reconciled and was an argument over the technical treatment of a change. It was further noted that previous differences in treatments had occurred between the Trust and previous External Auditors (KPMG) so this was not a novel situation. It was further noted that the TDA had been contacted and they confirmed over recent years a number of Trusts have found themselves in this position. Their Financial team have (as ours have) declared the one off benefit in year, as we have, and had a similar debate with their auditors which also saw them submit their annual accounts statement based upon their interpretation of the position and not correcting the position as suggested by External Audit.

In light of this the Committee agreed that it would reflect the difference in the management representation Letter and recommend that the Board adopt the accounts as stated

2. Value For Money

The Committee considered the qualified 'except for' opinion on Value for Money (VFM) to be a substantive issue. It was noted that against other external metrics the Trust is performing in the upper quartile and the Opinion seemed perverse and unfair in this context. The Committee recognised the framework that External Audit had to operate within but felt this was a framework constructed at a time when the NHS was in surplus and did not make sense in a national position where 80% of Trusts were in deficit and therefore breaking their statutory duty, which was a key, albeit unfair, condition applied to arriving at the VFM opinion, which did not reflect the efforts and hard work of NHS workforce both nationally and locally

The Committee discussed the many contributory factors to the Trust's financial position included a gap between contracted and actual activity levels, with associated impact on staffing levels and costs, along with an equally serious impact on achieving targets and pursuing clinical excellence and expressed its disappointment that External Audit had been unable to reflect this in their findings.

It was noted that the independent evidence for the Trust's very good VFM position included the Award for the 4^{th} year from CHKS as being in the top 40 of the most efficient and effective hospital. Furthermore the Trust's Reference costs were low (95 compared to an NHS average of 100) and that the Trust delivered and exceeded all the targets and measures that it committed to at the beginning of the year. So the technical evaluation by External Audit based on rigid criteria was a gross misinterpretation and reflected an inappropriate and unjust framework.

The Audit Committee asked for this view to be submitted nationally by the External Auditors and resolved to have their position recorded in the strongest terms in both the minutes of the Audit Committee and the Board meeting that followed to receive and adopt the Financial statements.

Name of Chair: Robin Hooper
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