

LETTER OF REPRESENTATION 2015-16

Author: Nick Sone – Financial Controller **Sponsor:** Paul Traynor – Chief Financial Officer **Date:** 2 June 2016
Trust Board paper F5

Context

Auditing standards require written representations from management in respect of the following issues (as well as any additional required representations):

- related party disclosures;
- compliance with laws and regulations;
- accuracy of the financial statements;
- unadjusted audit differences;
- fraud;
- fair value measurements & disclosures;
- going concern; and
- post balance sheets & contingent liabilities.

The draft letter of representation was presented to the Audit Committee on the 25th May 2016 where it was recommended for approval to the Trust Board.

Questions

1. Have we prepared the necessary written representations?
2. Have we provided any additional representations?
3. What are the next steps?

Conclusion

1. A letter has been prepared which includes all required representations.
2. As well as the standard representations, we are also providing specific representations on the revaluation of the Trust's estate and the agreement of NHS balances exercise.
3. The Letter of Representation is required to be signed by the Chief Executive (as part of a separate agenda item) and passed to KPMG for inclusion with the final submitted accounts.

Input Sought

We require the Board to approve the Letter of Representation for 2015-16.

For Reference

Edit as appropriate:

1. The following objectives were considered when preparing this report:

| | |
|---|----------------|
| Safe, high quality, patient centred healthcare | Not applicable |
| Effective, integrated emergency care | Not applicable |
| Consistently meeting national access standards | Not applicable |
| Integrated care in partnership with others | Not applicable |
| Enhanced delivery in research, innovation & ed' | Not applicable |
| A caring, professional, engaged workforce | Not applicable |
| Clinically sustainable services with excellent facilities | Not applicable |
| Financially sustainable NHS organisation | Yes |
| Enabled by excellent IM&T | Not applicable |

2. This matter relates to the following governance initiatives:

| | |
|------------------------------|----|
| Organisational Risk Register | No |
| Board Assurance Framework | No |

3. Related Patient and Public Involvement actions taken, or to be taken: None

4. Results of any Equality Impact Assessment, relating to this matter: None

5. Scheduled date for the next paper on this topic: June 2017

6. Executive Summaries should not exceed 1 page. My paper complies

7. Papers should not exceed 7 pages. My paper complies

UNIVERSITY HOSPITALS OF LEICESTER NHS TRUST

REPORT TO: TRUST BOARD
FROM: PAUL TRAYNOR – CHIEF FINANCIAL OFFICER
DATE: 2nd JUNE 2016
SUBJECT: LETTER OF REPRESENTATION 2015/16

1. INTRODUCTION

- 1.1 Auditing standards require written representations from management in respect of the following issues:
- related party disclosures;
 - compliance with laws and regulations;
 - accuracy of the financial statements;
 - unadjusted audit differences;
 - fraud;
 - fair value measurements & disclosures;
 - going concern; and
 - post balance sheets & contingent liabilities.
- 1.2 The letter of representation was presented to the Audit Committee on the 25th May 2016 where it was recommended for approval to the Trust Board.

2 LETTER OF REPRESENTATION 2015-16

- 2.1 The final letter of representation from us to the external auditors is included in Appendix 1.
- 2.2 As well as the standard representations, we are also providing specific representations on the revaluation of the Trust's estate and the agreement of NHS balances exercise.

3. RECOMMENDATIONS

- 3.1 The Trust Board is asked to:
- **Approve** the Letter of Representation.

PAUL TRAYNOR
CHIEF FINANCIAL OFFICER

FINANCE & PROCUREMENT DIRECTORATE

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2 June 2016

Dear Sirs,

This representation letter is provided in connection with your audit of the financial statements of University Hospitals of Leicester (“the Trust”), for the year ended 31 March 2016, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the financial position of the Trust as at 31 March 2016 and of its income and expenditure for the financial year then ended; and
- ii. whether the financial statements have been prepared in accordance with the accounting policies directed by the Secretary of State with the consent of the Treasury as being relevant to NHS Trusts in England.

These financial statements comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Taxpayers Equity and notes, comprising a summary of significant accounting policies and other explanatory notes.

The Board confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Board confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Board has fulfilled its responsibilities for the preparation of financial statements that:
 - i. give a true and fair view of the financial position of the Trust as 31 March 2016 and of its income and expenditure for that financial year;
 - ii. have been prepared in accordance with the accounting policies directed by the Secretary of State with the consent of the Treasury as being relevant to NHS Trusts in England.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Board in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.

4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this representation letter.

Information provided

5. The Board has provided you with:
- access to all information of which it is 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 the Board for the purpose of the audit; and
 - unrestricted access to persons within the Trust from whom you determined it necessary to obtain audit evidence.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. The Board confirms the following:
- i) The Board has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

- ii) The Board has disclosed to you all information in relation to:
- a) Fraud or suspected fraud that it is 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; and
- b) allegations of fraud, or suspected fraud, affecting the Trust's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Board acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Board acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. The Board has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
9. The Board has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
10. The Board has disclosed to you the identity of the Trust's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.
11. The Board confirms that all intra-NHS balances included in the Statement of Financial Position (SOFP) at 31 March 2016 in excess of £100,000 have been disclosed to you and that the Trust has complied with the requirements of the Intra NHS Agreement of Balances Exercise. The Board confirms that Intra-NHS balances includes all balances with NHS counterparties, regardless of whether these balances are reported within those SOFP classifications formally deemed to be included within the Agreement of Balances exercise.
12. The Board confirms that:
- a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Trust's ability to continue as a going concern, and the Board's plans, as required to give a true and fair view and to comply with IAS 1 *Presentation of Financial Statements*.
- b) The uncertainties disclosed are material ones that may cast significant doubt on the Trust's ability to continue as a going concern.

- c) The Board confirms that the attached schedule contains its plans for future action relevant to the Trust's ability to continue as a going concern, and its assessment of the feasibility of these plans.
13. The Trust is required to consolidate any NHS charitable funds which are determined to be subsidiaries of the Trust. The decision on whether to consolidate is dependent upon the financial materiality and governance arrangements of the charitable funds. The Board confirms that, having considered these factors, it is satisfied that the charitable funds do not require consolidation as they are not material to the Trust's financial statements.

Additional representations

14. The Board confirms that:

- a) All information provided for the inter-NHS Agreement of Balances exercise is accurate, material disagreements with NHS bodies have been disclosed, and that it is content that current differences are due to counterparty errors and have no material impact on the financial statements.
- b) The assumptions and judgements made by management with regards to the valuation of the Trust's land and building assets are appropriate. The Board confirms that it has provided you with all relevant information regarding the significant assumptions applied in estimating fair values of property, plant and equipment, including the depreciated replacement cost of specialised assets on a modern equivalent asset basis, as required by IAS 16 *Property, Plant and Equipment* and any other applicable accounting guidance.
- c) It has appropriately performed impairment testing in accordance with IAS 36 *Impairment of Assets* including the following:
- o At the reporting date, the Board has performed impairment testing for any asset for which there is an indication of a possible impairment at that date. In this regard, the Board confirms that it has appropriately assessed whether there is any indication that an asset may be impaired; and
 - o The Board has performed impairment testing annually for intangible assets with indefinite useful lives or under development and not yet ready for use, regardless of whether there is an indication of impairment.

This letter was tabled and agreed at the meeting of the Board of Directors on 2 June 2016.

Yours faithfully,

Chief Executive

cc: Audit Committee

Appendix to the Board Representation Letter of University Hospitals of Leicester: Definitions

Financial Statements

IAS 1.10 states that “a complete set of financial statements comprises:

- a statement of financial position as at the end of the period;
- a statement of comprehensive income for the period;
- a statement of changes in taxpayers equity for the period;
- a statement of cash flows for the period;
- notes, comprising a summary of significant accounting policies and other explanatory information;
- comparative information in respect of the preceding period as specified in paragraphs 38 and 38A; and
- a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraphs 40A-40D.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

“Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity’s assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity’s financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue; and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to “management” should be read as “management and, where appropriate, those charged with governance”.

Related Party and Related Party Transaction

Related party:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the “reporting entity”).

- a) A person or a close member of that person’s family is related to a reporting entity if that person:
 - i. has control or joint control over the reporting entity;
 - ii. has significant influence over the reporting entity; or
 - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions applies:
 - i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - iii. Both entities are joint ventures of the same third party.
 - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
 - vi. The entity is controlled, or jointly controlled by a person identified in (a).
 - vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Related party transaction:

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.