Oxford University Hospitals NHS Foundation Trust

Draft Letter to Governors for the year ended 31 March 2017

Ernst & Young LLP

May 2017
The contents of this report are subject to the terms and conditions of our appointment as set out in our engagement letter.

This report is made solely to the Board of Governors, Audit Committee, Board of Directors and management of Oxford University Hospitals Foundation Trust in accordance with our engagement letter. Our work has been undertaken so that we might state to the Audit Committee, Board of Directors and management of the Trust those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee, Board of Directors and management of the Trust for this report or for the opinions we have formed. It should not be provided to any third party without our prior written consent.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.
Executive Summary
Executive Summary

Below are the results and conclusions on the significant areas of the audit process.

NB – The audit is ongoing at the time that this report was drafted for papers and this Management Letter to Governors assumes that the final stages of the audit are concluded satisfactorily – We will provide an update on this position at the Audit Committee meeting on 24 May and provide a final version of this report for the Governors following that meeting.

<table>
<thead>
<tr>
<th>Area of Work</th>
<th>Conclusion</th>
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<tbody>
<tr>
<td>Opinion on the Trust’s:</td>
<td></td>
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<tr>
<td>► Financial statements</td>
<td>Unqualified – the financial statements give a true and fair view of the financial position of the Trust as at 31 March 2017 and of its expenditure and income for the year then ended.</td>
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<tr>
<td>► Parts of the remuneration and staff report to be audited</td>
<td>We had no matters to report.</td>
</tr>
<tr>
<td>► Consistency of the information in the performance report and accountability report with the financial statements</td>
<td>Financial information in the performance report and accountability report and published with the financial statements was consistent with the Annual Accounts</td>
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<tr>
<th>Area of Work</th>
<th>Conclusion</th>
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<tr>
<td>Reports by exception:</td>
<td></td>
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<tr>
<td>► Consistency of Governance Statement</td>
<td>The Governance Statement was consistent with our understanding of the Trust</td>
</tr>
<tr>
<td>► Consistency of the Annual Report within knowledge we have acquired during the course of our audit</td>
<td>We had no matters to report</td>
</tr>
<tr>
<td>► Referrals to NHS Improvement (formerly Monitor)</td>
<td>We had no matters to report</td>
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<tr>
<td>► Public interest report</td>
<td>We had no matters to report in the public interest.</td>
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<tr>
<td>► Value for money conclusion</td>
<td>We had no matters to report</td>
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<td>Area of Work</td>
<td>Conclusion</td>
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<td>------------------------------------------------------------------------------</td>
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<tr>
<td>Examining the contents of the Trust’s quality report and testing of three indicators</td>
<td>We issued an unqualified limited assurance report</td>
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<tr>
<td>Reporting to NHS Improvement (formerly Monitor) on the Trust’s consolidation schedules</td>
<td>We concluded that the Trust’s consolidation schedules agreed, within a £250,000 tolerance, to your audited financial statements</td>
</tr>
<tr>
<td>Reporting to the National Audit Office (NAO) in line with group instructions</td>
<td>We had no matters to report</td>
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As a result of the above we have also:

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<th>Area of Work</th>
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<tr>
<td>Issued a report to those charged with governance of the Trust communicating significant findings resulting from our audit.</td>
<td>Our Audit Results Report was issued on 24 May 2017</td>
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<tr>
<td>Issued a report to governors on the Quality Report</td>
<td>Our report to Governors on the quality report was issued on 24 May 2017</td>
</tr>
<tr>
<td>Issued a certificate that we have completed the audit in accordance with the requirements of the National Health Service Act 2006 and the National Audit Office’s 2015 Code of Audit Practice.</td>
<td>Our certificate was issued on 24 May 2017</td>
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We would like to take this opportunity to thank the Trust staff for their assistance during the course of our work.

Maria Grindley
Executive Director
For and on behalf of Ernst & Young LLP
Purpose
Purpose

The Purpose of this Letter

The purpose of this Letter is to communicate to Governors the key issues arising from our work, which we consider should be brought to the attention of the Trust.

We have already reported the detailed findings from our audit work in our 2016/17 annual results report to the 24 May 2017 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter but instead provide a summary of our key findings.

We also make reference to our limited assurance work on the Trust’s quality report.
Responsibilities
Responsibilities

Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued on 15 November 2016 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and NHS Improvement (formerly Monitor).

As auditors we are responsible for:

Expressing an opinion:

► On the 2016/17 financial statements;
► On the parts of the remuneration and staff report to be audited;
► On the consistency of the information in the performance report and accountability report with the financial statements; and
► On whether the consolidation schedules are consistent, within a £250,000 tolerance, with the Trust’s financial statements for the relevant reporting period.

Reporting by exception:

► If the annual governance statement does not comply with relevant guidance or is not consistent with our understanding of the Trust;
► On the consistency of the Annual Report within knowledge we have acquired during the course of our audit;
► To NHS Improvement (formerly Monitor) if we have concerns about the legality of transactions of decisions taken by the Trust;
► Any significant matters that are in the public interest; and
► Forming a conclusion on the arrangements the Trust has in place to secure economy, efficiency and effectiveness in its use of resources.

We report to the National Audit Office (NAO) on the Trust’s Whole of Government Accounts return, the Foundation Trust Consolidation schedules, which support the Department of Health’s account consolidation.

We also undertake an independent assurance engagement on the Trust’s quality report for the year ended 31 March 2017 and certain performance indicators contained within the report. Our review is undertaken in accordance with the NHS Foundation Trust Annual Reporting Manual and supporting guidance and the six dimensions of data quality issued by NHS Improvement “Detailed Guidance for External Assurance on Quality Reports”
Responsibilities of the Trust

The Trust is responsible for preparing and publishing its statement of accounts, annual report and annual governance statement. In the annual governance statement, the Trust publicly reports on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

The Trust is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
Financial Statement Audit
Financial Statement Audit

Key Issues

The Annual Report and Accounts is an important tool for the Trust to show how it has used public money and how it can demonstrate its financial management and financial health.

Our 2016/17 audit work on the Trust's statement of accounts has been undertaken in accordance with the audit plan we issued on 15 November 2016 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and NHS Improvement.

We issued an unqualified audit report on 24 May 2017.

Our detailed findings were reported to the May 2017 Audit Committee, through our Audit Results Report.

The key issues identified as part of our audit were as follows:

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<th>Significant Risk</th>
<th>Conclusion</th>
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<td>Management override of controls</td>
<td>We obtained a full list of the journals posted to the Trust’s general ledger during the year, and analysed these journals using criteria we set to identify unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation. We considered that the accounting estimates most susceptible to bias were the accruals. We have tested these as part of our audit work. We have not identified any evidence of material management override. We have not identified any instances of inappropriate judgements being applied. We did not identify any transactions during our audit which appeared unusual or outside the FT’s normal course of business.</td>
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A risk present on all audits is that management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.
Revenue and expenditure recognition
Auditing standards also require us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation.
We respond to this risk by reviewing and testing material revenue and expenditure streams and revenue cut-off at the year-end.

We considered that this risk could be increased by the Trust’s financial position resulting in a risk that the financial statements could be manipulated to ensure that the budgeted position was achieved.

Our testing focused on the Trust’s main income and expenditure streams. We also carried out cut-off testing where we examined a sample of receipts and payments after year end to ensure that where the transactions related to 2016/17 that they were properly recorded in the accounts.
We also reviewed the agreement of intra-NHS balances and investigated significant differences and disputes. We reviewed and tested revenue and expenditure recognition policies.
We tested year-end accruals and provisions and are satisfied that there are no indicators of management bias. We also noted that there were no individually material accruals or provisions included in the financial statements by management.
We tested a sample of cash payments and payables invoices logged on to the system in April 2017 and did not identify any material amounts of expenditure omitted from the 2016/17 financial statements.
We agreed journal entries back to supporting documentation and did not identify any indicators of management override of control or indicators of fraud in revenue and expenditure recognition.
Our testing has not revealed any material misstatements with respect to revenue and expenditure recognition.
Overall our audit work did not identify any issues or unusual transactions which indicated that there had been any misreporting of the Trust’s financial position.

Our application of materiality
When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

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<tr>
<th>Item</th>
<th>Thresholds applied</th>
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<td>Planning materiality</td>
<td>We determined planning materiality to be £ 10.3 million (2016: £5 million), which is 1% of gross operating expenditure. We consider gross operating expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Trust.</td>
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Reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.5 million (2016: £0.5 million)

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits: Payments over £50k were tested.
- Related party transactions.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

Control Themes and Observations

During the audit, we identified the following weakness and observations in internal control:

- Exit packages - There was no evidence of one of the exit packages tested going through the Remuneration Committee. This has been raised as an issue previously.

- PPE Fixed Asset Register (FAR) - FAR buildings are shown as componentised assets, but recent external valuation figures have not been produced in a componentised format, so the valuations are apportioned to the asset based on the original proportions. Although this would not affect the value of the assets in the Statement of Accounts, it may affect the accuracy of the revaluation reserve and impairment figures. Whilst not ideal, we consider the Trust’s approach to be reasonable given the information they have available to use,

- Capitalisation of staff costs - Working papers to support the capitalisation of staff costs were found to be inaccurate in terms of the individual allocated to the project. The value attributable is not material but the Trust should ensure that records are accurately maintained.
Department of Health Group Instructions

We are only required to report to the NAO on an exception basis if there were significant issues or outstanding matters arising from our work. There were no such issues.

We are also required by NHS Improvement (formerly Monitor) to provide to the Trust a statement that the consolidation schedules (FTCs) are consistent with the audited accounts, including a list of inconsistencies greater that £250,000 between the FTCs and the accounts. We reported that the FTCs were consistent with the audited statements.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Trust’s annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with relevant guidance.

We completed this work and did not identify any areas of concern

Referral to the Regulator

We must report to NHS Improvement (formerly Monitor) any matter where we believe a decision has led to, or would lead to, unlawful expenditure, or some action has been, or would be, unlawful and likely to cause a loss or deficiency. We had no exceptions to report.

Report in the Public Interest

We have a duty under the National Health Service Act 2006 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Trust or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.
Value for Money
Value for Money

We are required to consider whether the Trust has put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

We did not identify any significant risks in relation to these criteria.
We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties.

We recognise that the Trust set an ambitious plan for 2016/17 and in considering our responsibilities to issue a value for money conclusion we considered the outturn position reported by the Trust against its planned position and the circumstances that led to the deterioration in the reported position. We have concluded that whilst there is evidence of weaknesses in some areas of delivery against this plan, i.e. the delivery of some CIPs at divisional level, the Trust Board has taken clear and decisive action to strengthen arrangements. We therefore plan issued an unqualified opinion that concludes on the basis of our work, we are satisfied that, in all significant respects, Oxford University Hospitals NHS Foundation Trust put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017. Throughout our 2017/18 audit we will continue to monitor the Trust's progress with the implementation plan of their mandated controls and the impact of this on their financial position.

We have also considered our value for money conclusion in respect of informed decision making and working with partners. We have not identified anything that would indicate that the Trust does not have adequate arrangements in these areas. We have seen evidence that the Trust is proactively collaborating with its partners in the local health economy. The Trust engages well with its local health and social care organisations, and also with district general hospitals, universities and research institutions. The Trust is active in the local STP and works closely with Oxfordshire CCG, and the Health and Wellbeing Boards. This collaborative approach is central to the Trust's overall vision for the future of the Trust.
Quality Report
Quality Report

Responsibilities
We are required to perform an independent assurance engagement in respect of Oxford University Hospitals NHS Foundation Trust’s Quality Report for the year ended 31 March 2017 (the ‘Quality Report’) and certain performance indicators contained within the report. Our review is undertaken in accordance with the NHS Foundation Trust Annual Reporting Manual and supporting guidance and the six dimensions of data quality issued by NHS Improvement “Detailed Guidance for External Assurance on Quality Reports”.

As auditors we are required to:

► review the content of the Quality Report against the requirements set out in the NHS Foundation Trust Annual Reporting Manual 2016/17, which is combined with the quality accounts requirements in NHS Improvement’s document “Detailed guidance for External Assurance on quality reports 2016/17”;
► review the content of the Quality Report for consistency against the other information published by the Trust;
► undertake substantive sample testing on two mandated performance indicators and one locally selected indicator;
► provide the Trust with a Limited Assurance Report confirming that the Quality Report meets NHS Improvements requirements and that the two mandated indicators are reasonably stated in all material respects;
► provide the Trust’s Governors with a report setting out the findings of our work including the content of the quality report, mandated indicators and the locally selected indicator.

Compliance and consistency
We reviewed the Trust’s quality report and found that its content was in line with NHS Improvement’s requirements, and it was consistent with other information published by the Trust.

Performance indicators
We undertook testing on two mandated indicators:

► percentage of incomplete pathways within 18 weeks for patients on incomplete pathways at the end of the reporting period
► percentage of patients with a total time in A&E of four hours or less from arrival to admission, transfer or discharge

In both instances we found no evidence to suggest that the two mandated indicators have not been reasonably stated in all material respects.
The local indicator tested was:

- Venous Thromboembolism (VTE) - Percentage of patients who have had VTE Risk Assessment

We found no evidence to suggest that the local indicator has not been reasonably stated in all material respects.