Oxford University Hospitals NHS Foundation Trust

Letter to Governors for the year ended 31 March 2016

July 2016

Ernst & Young LLP
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 NHS 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

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

<table>
<thead>
<tr>
<th>Area of Work</th>
<th>Conclusion</th>
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<tbody>
<tr>
<td>Opinion on the:</td>
<td></td>
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<tr>
<td>► Financial statements</td>
<td>NHS Trust: Unqualified – the financial statements give a true and fair view of the financial position of the NHS Trust for the period 1 April 2015 to 30 September 2015 and of its expenditure and income for the period then ended. Foundation Trust: Unqualified – the financial statements give a true and fair view of the financial position of the Foundation Trust for the period 1 October 2015 to 31 March 2016 and of its expenditure and income for the period then ended.</td>
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<tr>
<td>► Parts of the remuneration and staff report to be audited</td>
<td>NHS Trust: We had no matters to report. Foundation Trust: We had no matters to report.</td>
</tr>
<tr>
<td>► Consistency of the Annual Report and other information published with the financial statements</td>
<td>NHS Trust: Financial information in the Annual report and published with the financial statements was consistent with the Annual Accounts. Foundation Trust: We had no matters to report.</td>
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<tr>
<td>► Consistency of the information in the performance report and accountability report with the financial statements</td>
<td>Foundation Trust: Financial information in the performance report and accountability report published with the financial statements was consistent with the Foundation Trust Accounts.</td>
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<tr>
<td>Reports by exception:</td>
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<tr>
<td>► Consistency of Governance Statement</td>
<td>NHS Trust: The Governance Statement was consistent with our understanding of the NHS Trust. Foundation Trust: The Governance Statement was consistent with our understanding of the</td>
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<tr>
<td>Area of Work</td>
<td>Conclusion</td>
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<tr>
<td>Referrals to the Secretary of State/ NHS Improvement (formerly Monitor)</td>
<td><strong>NHS Trust:</strong> We had no matters to report to the Secretary of State. <strong>Foundation Trust:</strong> We had no matters to report to NHS Improvement.</td>
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<tr>
<td>Public interest report</td>
<td><strong>NHS Trust:</strong> We had no matters to report in the public interest. <strong>Foundation Trust:</strong> We had no matters to report in the public interest.</td>
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<tr>
<td>Value for money conclusion</td>
<td><strong>Foundation Trust:</strong> We had no matters to report.</td>
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<tr>
<td>Examining the contents of the Trust’s quality report and testing of three indicators</td>
<td><strong>Foundation Trust:</strong> We issued an unqualified limited assurance report.</td>
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<tr>
<td>Reporting to the National Audit Office (NAO) in line with group instructions</td>
<td><strong>NHS Trust:</strong> We had no matters to report</td>
</tr>
<tr>
<td>Reporting to NHS Improvement (formerly Monitor) on the Trust’s consolidation schedules</td>
<td><strong>Foundation Trust:</strong> 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><strong>Foundation Trust:</strong> We had no matters to report.</td>
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As a result of the above we have also:

<table>
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<tr>
<th>Area of Work</th>
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<tr>
<td>Issued a report to those charged with governance of the Trust communicating</td>
<td>NHS Trust: Our Audit Results Report was issued on 25 May 2016.</td>
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<td>significant findings resulting from our audit.</td>
<td>Foundation Trust: Our Audit Results Report was issued on 25 May 2016.</td>
</tr>
<tr>
<td>Issued a report to governors on the Quality Report</td>
<td>Foundation Trust: Our report to Governors on the quality report was issued on 25 May 2016.</td>
</tr>
<tr>
<td>Issued a certificate that we have completed the audit in accordance with the</td>
<td>NHS Trust: Our certificate was issued on 25 May 2016.</td>
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<tr>
<td>requirements of the National Health Service Act 2006 and the National Audit</td>
<td>Foundation Trust: Our certificate was issued on 25 May 2016.</td>
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<tr>
<td>Office's 2015 Code of Audit Practice.</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 annual results reports for the NHS Trust and the Foundation Trust to the 25 May 2016 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 Foundation Trust’s quality report.
Responsibilities
Responsibilities

Responsibilities of the Appointed Auditor

Our audit work has been undertaken in accordance with the Audit Plan that we issued in January 2016 for the NHS Trust and in March 2016 for the Foundation Trust 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, for the Foundation Trust, NHS Improvement (formerly Monitor).

As auditors we are responsible for:

Expressing an opinion:

► On the 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;
► On whether the NHS Trust consolidation schedules are consistent with the NHS Trust’s financial statements for the relevant reporting period; and
► On whether the Foundation Trust’s 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 statements do not comply with relevant guidance or is not consistent with our understanding of the Trust;
► On the consistency of the Annual Reports within knowledge we have acquired during the course of our audit;
► To the Secretary of State/NHS Improvement (formerly Monitor) if we have concerns about the legality of transactions of decisions taken by the NHS Trust or Foundation Trust respectively;
► Any significant matters that are in the public interest; and
► Forming a conclusion on the arrangements the Foundation 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 NHS Trust consolidation schedules and 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 2016 and certain performance indicators contained within the report. Our review is undertaken in accordance with the detailed guidance issued by NHS Improvement (formerly Monitor) ‘Detailed Guidance for External Assurance on Quality Reports 2015/16’.

Responsibilities of the Trust

For the NHS Trust and the Foundation Trust, the Trust is responsible for preparing and publishing its statements of account, 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 audit work on the NHS Trust’s and the Foundation Trust’s statement of accounts has been undertaken in accordance with the audit plan we issued in January and March 2016 respectively 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, for the Foundation Trust, NHS Improvement (formerly Monitor).

NHS Trust: We issued an unqualified audit report on 26 May 2016.

Foundation Trust: We issued an unqualified audit report on 26 May 2016.

Our detailed findings were reported to the May 2016 Audit Committee, through our Audit Results Report.

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

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<tr>
<th>Significant Risk</th>
<th>Conclusion – NHS Trust</th>
<th>Conclusion – Foundation Trust</th>
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<tr>
<td>Management override of controls</td>
<td>We have not identified any material weaknesses in controls or evidence of material management override.</td>
<td>We have not identified any material weaknesses in controls or evidence of material management override.</td>
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<td></td>
<td>We did not identify any transactions during our audit which appeared unusual or outside the Trust’s normal course of business.</td>
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<td></td>
<td>We have not identified any instances of inappropriate judgements being applied.</td>
<td>We have not identified any instances of inappropriate judgements being applied.</td>
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Revenue and expenditure recognition
Auditing standards also require us to presume that a risk that revenue and expenditure may be misstated due to improper recognition or manipulation.
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. [tailor to local circumstances]

Our testing has not revealed any material misstatements with respect to revenue and expenditure recognition.

Valuation and impairment of property, plant and equipment
Property, Plant and Equipment (PPE) represent the largest asset values on the Trust’s balance sheet. We undertook audit procedures to be satisfied that the valuation and impairment of property, plant and equipment were appropriate and accurately reflected in the financial statements.

Our audit procedure did not reveal any matters to raise with those charged with governance.

Private Finance Initiative (PFI)
The PFI liability represents a large element of the balance sheet and is a significant balance at £262m. We undertook audit procedures to be satisfied that the PFI liability is appropriate and accurately reflected in the financial statements.

Our audit procedure did not reveal any matters to raise with those charged with governance.

This risk was not included in the Foundation Trust Audit Plan.
Other Key Findings

<table>
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<th>Revenue and expenditure cut-off</th>
<th>Conclusion – NHS Trust</th>
<th>Conclusion – Foundation Trust</th>
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<tr>
<td>Due to the need to prepare accounts for the 6 months ended 30 September 2015, there is a risk that revenue and expenditure could be incorrectly included in the period from 1 October 2015 to 31 March 2016 rather than the period from 1 April 2015 to 30 September 2015 or vice versa.</td>
<td>Our audit procedures did not reveal any matters to raise with those charged with governance.</td>
<td>This risk was not included in the Foundation Trust Audit Plan.</td>
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Opening balances

The Foundation Trust discloses opening balances for the Statement of Financial Position and related notes as at the date of the NHS foundation trust’s establishment. These should be drawn up in accordance with the provisions of the FT Annual Reporting Manual.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

Our audit did not identify any controls issues to bring to the attention of the Audit Committee.

Department of Health Group Instructions (Foundation Trust)

We issued an unqualified confirmation to the National Audit Office (NAO), under its group instructions, regarding the Foundation Trust’s Whole of Governments Accounts return, which supports the Department of Health’s account consolidation. We did not identify any areas of concern.

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 (NHS Trust and Foundation Trust)
We are required to consider the completeness of disclosures in the NHS Trust’s and Foundation Trust’s annual governance statements, 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 (Foundation Trust)
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 (NHS Trust and Foundation Trust)
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 Foundation 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. The NHS Trust did not require a 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.

Our audit did not identify any significant matters in relation to the Foundation Trust’s arrangements.
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 2016 (the ‘Quality Report’) and certain performance indicators contained within the report. Our review is undertaken in accordance with NHS Improvement (formerly Monitor)’s ‘Detailed Guidance for External Assurance on Quality Reports 2015/16’.

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 2015/16, which is combined with the quality accounts requirements in NHS Improvement (formerly Monitor)’s document ‘Detailed requirements for quality reports 2015/16’;

► 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 Improvement (formerly Monitor)’s requirements and that the two mandated indicators are reasonably stated in all material respects; and

► 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.

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

Findings - 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; and

► 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.
Focused on your Future
Focused on your future

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<tr>
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<th>Impact</th>
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<tr>
<td>NHS provider financial pressures</td>
<td>Draft 2015/16 financial statements show NHS providers overspent by a record £2.45 billion for the year. The scale of this overspending is unprecedented. Despite additional funding and significant efforts to reduce deficits, record numbers of trusts overspent and the overall deficit is likely to be three times higher than in 2014/15. Some 48 trusts reported a deficit of more than £20 million, including 11 trusts reporting an individual deficit of more than £50 million. At the same time, performance against key targets is continuing to deteriorate and there are increasing concerns over the quality of services. Providers as a whole missed the Accident and Emergency waiting target of seeing 95 percent of patients within four hours for the final quarter of the year, and waiting lists for routine operations reached 3.34 million. It is not yet clear whether trusts’ financial performance for the year will cause the Department of Health to exceed its spending limit for 2015/16, a serious breach of parliamentary protocol. Whether or not there is a breach, NHS trusts will start 2016/17 with a collective deficit of around £1 billion more than planned. Without change there is the potential for the increasing financial pressure to impact further on levels of patient care.</td>
<td>The scale of the financial challenges faced by NHS providers impacts all aspects of their operations. It is therefore a key driver of audit risk and impacts our approach.</td>
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<tr>
<td>Sustainability and Transformation Plans</td>
<td>NHS England’s document, Delivering the Forward View: NHS planning guidance 2016/17-2020/21, published in December 2015, asks local health systems, including local government, voluntary and community partners, to work together to secure transformation change in healthcare planning and delivery. For this purpose England has been divided into 44 local health systems, made up of local councils, CCGs and NHS and other providers. Each health system needs to produce, by the end of June 2016, a Sustainability and Transformation Plan covering the next five years. The initial requirement is for CCGs and providers to control</td>
<td>Bodies will need to work together to a far greater extent than ever before to ensure that sustainability and financial plans are viable, and successfully delivered. Failure to do this could have wider adverse financial and service delivery consequences across the whole local area. As your external auditor we need to gain an understanding of your wider approach and plans, and the impact of greater partnership working on your governance, internal control and financial reporting.</td>
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expenditure and stay within budget in 2016-17. Subsequently, spending and performance will need to be managed sustainably over the following four years in order to access the available transformation funding. This is intended to fund changes to service delivery while maintaining and improving patient safety and quality over the years 2017-21. Failure to deliver on targets agreed will result in bodies being unable to access transformation funding, which will from now on be the only additional funds available.

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<td>EU referendum result</td>
<td>The decision of the UK to begin the process of leaving the EU has introduced a period of significant uncertainty for the UK and indeed the Global economy. The Leave vote will lead to a significant impact for the public sector as it will be the sector that has to deliver the implementation of Brexit. We now know that there will be a change of Prime Minister plus it is likely that there will be other changes to the cabinet as a result. In addition it is possible that an opposition leadership contest will also take place in the near future. It is evident at this point that there is a danger of a political vacuum for a number of months - this will only increase uncertainty both within the public sector and in the business world.</td>
<td>Many of the issues and challenges that face the UK public sector will continue to exist, not least because continued pressure on public finances will need responding to. Additionally it may well be that the challenges are increased if the expected economic impacts of Brexit and loss of EU grants outweigh the benefits of not having to contribute to the EU and require even more innovative solutions. We are committed to supporting our clients through this period, and help identify the opportunities that will also arise. We will talk with you on the concerns and questions you may have and provide our insight at key points along the path. We will provide our June 2016 paper on the EU Referendum, and the impact of Brexit on the Government and Public Sector market.</td>
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