

Council of Governors Meeting: Tuesday 20 November 2018
CoG2018.33

Title	Auditors Report to the Governors on the Annual Accounts 2017/2018
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Purpose	For discussion.
History	

Oxford University Hospitals NHS Trust

Letter to the Council of Governors for the year ended 31
March 2018

Ernst & Young LLP

June 2018

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The contents of this report are subject to the terms and conditions of our appointment as set out in our engagement letter dated 27 April 2017.

This report is made solely to the Governing Body, Audit Committee 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 Governing Body, Audit Committee 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 Governing Body, Audit Committee and management of the Trust for this report or for the opinions we have formed.

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.

A hand with white nail polish is writing on a document with a blue pen. In the background, there is a calculator, a laptop, and a white mug. A yellow rectangular box is overlaid on the left side of the image.

Executive Summary

Executive Summary

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

Area of Work	Conclusion
Opinion on the Trust's:	
▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Trust as at 31 March 2018 and of its expenditure and income for the year then ended.
▶ Parts of the remuneration and staff report to be audited	We had no matters to report.
▶ Consistency of the information in the performance report and accountability report with the financial statements	Financial information in the performance report and accountability report and published with the financial statements was consistent with the Annual Accounts.

Area of Work	Conclusion
Reports by exception:	
▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Trust.
▶ Consistency of the Annual Report within knowledge we have acquired during the course of our audit	We had no matters to report.
▶ Referrals to NHS Improvement (formerly Monitor)	We had no matters to report.
▶ Public interest report	We had no matters to report in the public interest.
▶ Value for money conclusion	We had no matters to report.

Area of Work	Conclusion
Examining the contents of the Trust's Quality Report and testing of two mandated performance indicators and one indicator selected by the Council of Governors	We issued an unqualified limited assurance report.
Reporting to NHS Improvement (formerly Monitor) on the Trust's consolidation schedules	We concluded that the Trust's consolidation schedules agreed, within a £300,000 tolerance, to your audited financial statements.
Reporting to the National Audit Office (NAO) in line with group instructions	We reported 6 differences above £300,000 between the data submitted by the Trust and that submitted by its counterparties as part of the DH agreement of balances exercise. We had no other matters to report.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Trust communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 18 May 2018.
Issued a report to Governors on the Quality Report	Our report to Governors on the Quality Report was issued on 23 May 2018.
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.	Our certificate was issued on 23 May 2018.

We would like to take this opportunity to thank the Trust staff for their assistance during the course of our work.



Maria Grindley
Associate Partner
For and on behalf of Ernst & Young LLP



Purpose

Purpose

The Purpose of this Letter

The purpose of this Letter is to communicate to the Council of 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 2017/18 annual results report to the 22 May 2018 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.

A person wearing teal scrubs is holding a yellow folder. A yellow rectangular box is overlaid on the folder, containing the text "Responsibilities".

Responsibilities

Responsibilities

Responsibilities of the External Auditor

Our 2017/18 audit work has been undertaken in accordance with the Audit Plan that we issued on 22 November 2017 Audit Committee 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 2017/18 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 £300,000 tolerance, with the Trust's financial statements for the relevant reporting period.

Reporting by exception:

- ▶ If 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 or decisions taken by the Trust; and
- ▶ Any significant matters that are in the public interest.

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 Trust Accounts Consolidation schedules, which support the Whole of Provider account consolidation.

We also undertake an independent assurance engagement on the Trust's Quality Report for the year ended 31 March 2018 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 governance statement. In the 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.

A hand holding a pen writing on a document, with a calculator and a laptop in the background. The scene is set on a desk with a white mug on the left. A yellow rectangular box is overlaid on the left side of the image, containing the text 'Financial Statement Audit'.

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 2017/18 audit work on the Trust's statement of accounts has been undertaken in accordance with the audit plan we issued on the 22 November 2017 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and NHS Improvement (formerly Monitor).

We issued an unqualified audit report on 23 May 2018 Audit.

Our detailed findings were reported to the 18 May 2018 Audit Committee, through our Audit Results Report.

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

Significant Risk	Conclusion
<p>Management override of controls</p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>We considered that the accounting estimate most susceptible to bias and tested these as part of our audit work.</p> <p>We have not identified any material weaknesses in controls or evidence of material management override.</p> <p>We have not identified any instances of inappropriate judgements being applied.</p> <p>We did not identify any transactions during our audit which appeared unusual or outside the FT's normal course of business.</p>

Significant Risk	Conclusion
<p>Revenue and expenditure recognition</p> <p>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.</p> <p>We respond to this risk by reviewing and testing material revenue and expenditure streams and revenue cut-off at the year end.</p> <p>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 report an improved position against the FT's control total.</p>	<p>Our testing focused on the Trust's main income and expenditure streams, particularly its income from patient care activities and year-end adjustments. 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 2017/18 that they were properly recorded in the accounts.</p> <p>We also reviewed the agreement of intra-NHS balances and investigated significant differences and disputes.</p> <p>Our testing has not revealed any material misstatements with respect to revenue and expenditure recognition</p> <p>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</p>

Other Key Findings	Conclusion
Energy Centre accounting treatment	We reviewed the proposed accounting treatment for compliance with accounting standards. We had no matters to report.
Valuation of land and buildings	We reviewed the output of the Trust's valuer, including challenging the assumptions used by the Trust's valuer by reference to external evidence; and testing the journals for the valuation adjustments to confirm that they have been accurately processed in the financial statements. We had no matters to report.
Joint Venture	We reviewed the proposed classification of the new entities against the relevant accounting standards. We provided the Trust with areas to consider to conclude on the accounting treatment in 2018/19 when group accounting will be required.
Private Finance Initiative (PFI)	We reviewed the accounting model used by the Trust for its PFI and confirmed there had been no significant changes. We reviewed completeness and accuracy of disclosures in the financial statements based on the model. We had no matters to report.

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.

Item	Thresholds applied
Planning materiality	<p>We determined materiality for the Trust to be £10 million (2016/17: £10.3 million), which is 1% (2016/17: 1%) of operating expenses.</p> <p>We consider operating expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Trust.</p>
Reporting threshold	<p>We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.5 million (2016/17: £0.5 million)</p>

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, where a £1k materiality level was applied as this is the rounding point in the accounts; and
- Related party transactions, where disclosures were considered on a case by case basis.

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

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.

We have adopted a fully substantive approach and have therefore not tested the operation of controls. Our audit did not identify any controls issues to bring to the attention of the Audit Committee.

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 reported 6 differences above £300,000 between the data submitted by the Trust and that submitted by its counterparties as part of the DH agreement of balances exercise. We had no other matters to report.

We are also required by NHS Improvement (formerly Monitor) to provide to the Trust a statement that the Trust Accounts Consolidation schedules (TACs) are consistent with the audited accounts, including a list of inconsistencies greater than £300,000 between the TACs and the accounts. We reported that the TACs 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

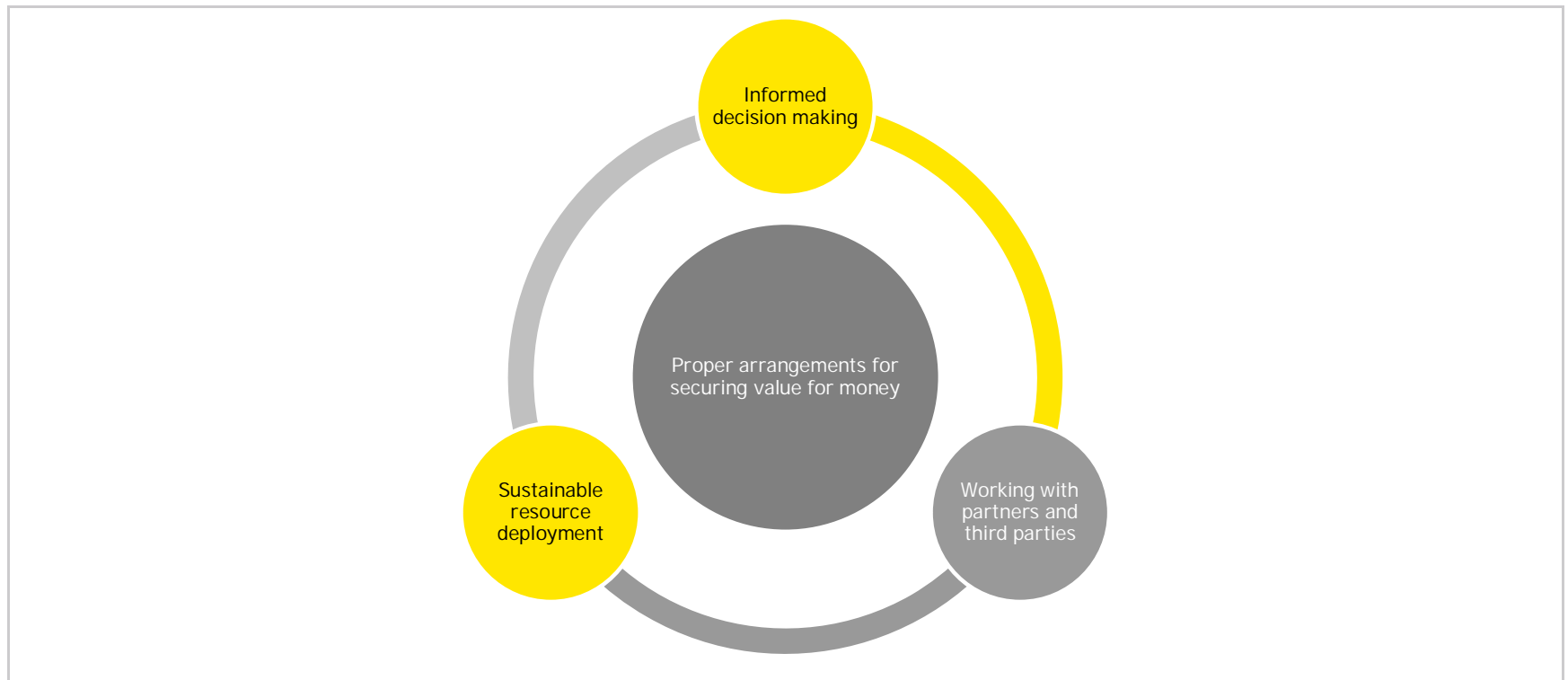


Value for Money

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 identified the following significant risk in relation to these criteria.

Significant Risk	Conclusion
<p>The Trust experienced a significant deterioration in its financial position at quarter 4 of 2016/17.</p> <p>Subsequently, the Trust has completed a detailed re-forecast exercise based at month 5, including a review of divisional and corporate opportunities and updated views on central assumptions. A reforecast of a £5.2 million deficit was agreed with NHS improvement in October. Savings of £55.7 million are included within this reforecast.</p> <p>Details of the proposed reforecast, including actions to achieve this, were agreed by the Finance and Performance Committee and the Trust Board prior to submission to NHSI.</p> <p>Under the NHSI Oversight Framework, the Trust's Use of Resources rating was 3 at the end of September 2017 and as such the Trust is eligible for support.</p> <p>The Trust has secured external support to assist its financial recovery and is reporting weekly on progress.</p>	<p>In considering our responsibilities to issue a value for money conclusion we consider the arrangements the Trust has put in place to address the financial performance.</p> <p>The Trust has identified the issues leading to the position and the Board have put in place a clear implementation plan of mandated controls which is being closely monitored. This has provided assurance of decisive action taken to address the issues.</p> <p>The Trust has submitted its 2018/19 financial plan to NHSI. In producing the plan, it has carefully considered the risks to delivery and is in discussions with NHSI as to what the agreed control total should be. In its initial submission, the Trust has been prudent in determining whether to include, for example, benefits from non-recurrent items that have risks attached to them.</p> <p>The Trust has finalised its contract position with the local Clinical Commissioning Groups.</p>

A close-up photograph of a laboratory setup. A glass pipette is positioned over a test tube, dispensing a small amount of liquid. Several other test tubes are visible in the foreground and background, some containing liquid. The background is a bright, out-of-focus yellow. A yellow rectangular box is overlaid on the left side of the image, containing the text "Quality Report".

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 2018 (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 2017/18, which is combined with the quality accounts requirements in NHS Improvement's document 'Detailed guidance for External Assurance on quality reports 2017/18';
- ▶ 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; 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.

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; 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 were not been reasonably stated in all material respects.

The local indicator tested was:

- ▶ Friends and family test inpatients survey

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

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ED None

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