

# Oxford University Hospitals NHS Trust

Annual Audit Letter for the year ended 31 March 2014

July 2014

Ernst & Young LLP



Building a better  
working world

Trust Board  
Oxford University Hospitals NHS Trust  
John Radcliffe Hospital  
Headley Way  
Headington  
OXFORD OX3 7LD

21 July 2014

Dear Board members

## **Annual Audit Letter 2013-14**

The purpose of this annual audit letter is to communicate to the members of the Board and external stakeholders, including members of the public, the key issues arising from our work on Oxford University Hospitals NHS Trust, which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work in our 2013-14 Annual Results Report to the 4 June 2014 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter.

We also make reference to our Limited Assurance work on the Trust's Quality Report, on which we issued our report on 25 June 2014.

The matters reported here are the most significant for the Trust.

Also, the Audit Commission recently published on its website the reports that set out performance against their requirements for compliance and quality for each of the firms. We are pleased that our report 'Ernst & Young 2013-14 Annual Regulatory Compliance and Quality Report' evidences that we have achieved the top rating available. This is an excellent result which reflects our drive to deliver first-rate external audit service to our clients and it provides assurance to you on the quality of our audit work.

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

Yours faithfully



Maria Grindley  
Director  
For and on behalf of Ernst & Young LLP  
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In April 2014 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the accountable officer of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

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.

# 1. Executive summary

## 1.1 Respective responsibilities

Our 2013-14 audit work has been undertaken in accordance with the Audit Plan that we issued on 12 February 2014 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Trust is responsible for preparing and publishing its statement of accounts, annual report and annual governance statement.

As auditors we are responsible for:

- ▶ expressing an opinion:
  - ▶ on the 2013-14 financial statements;
  - ▶ on the parts of the remuneration report to be audited; and
  - ▶ on the consistency of the information given in the annual report with the financial statements;
- ▶ reporting by exception:
  - ▶ if the annual governance statement does not comply with NHSE guidance or is not consistent with our understanding of the Trust;
  - ▶ to the Secretary of State for Health and NHS England 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;
- ▶ reporting to the National Audit Office (NAO) any differences over £250,000 between the accounts template used for the production of the whole of government accounts (WGA) and the audited financial statements; and,
- ▶ undertaking any other work specified by the Code of Audit Practice.

## 1.2 Audit findings

Summarised below are the results of our work across all of our areas of audit responsibility:

Area of work	Result
Opinion on the:	
<ul style="list-style-type: none"> <li>▶ Financial statements</li> </ul>	Unqualified opinion – the accounts reported a true and fair view on the Trust’s finances.
<ul style="list-style-type: none"> <li>▶ Parts of remuneration report to be audited</li> </ul>	No matters to report – the remuneration report was prepared properly within the rules set.
<ul style="list-style-type: none"> <li>▶ Consistency of the Annual Report with the Financial Statements</li> </ul>	Information in the Annual Report was consistent with the Financial Statements.
Reports by exception:	
<ul style="list-style-type: none"> <li>▶ Consistency of Governance Statement</li> </ul>	The Governance Statement was consistent with our understanding of the Trust.
<ul style="list-style-type: none"> <li>▶ Referrals to the Secretary of State and NHS England</li> </ul>	No matters to report or refer.
<ul style="list-style-type: none"> <li>▶ Public interest report</li> </ul>	No matters to report in the public interest.
Value for money conclusion	Unqualified conclusion - no matters to report.
Reporting to the National Audit Office (NAO) in line with group instructions	We reported to the NAO inconsistencies between the Annual Accounts and summaries of those accounts sent to the NAO resulting from incorrect treatment of partially completed spells and maternity care pathway prepayments.
Review of the Trust’s Quality Account	No matters to report.
Control themes and observations	Arrangements for maintaining full documentation to support exit packages need improvement (see section 3 of this letter).
<b><i>As a result of the above we have also:</i></b>	
Issue a report to those charged with governance of the Trust communicating significant findings resulting from our audit.	Audit results report (final) issued on 5 June 2014.
Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.	Issued on 3 July 2014.

## 2. Key findings

### 2.1 Financial statement audit

We audited the Trust's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and issued an unqualified audit report on 5 June 2014.

We noted a continued improvement in the quality of supporting working papers to the financial statements this year. This in turn supported a better delivery of our opinion audit. Working with your Finance and IT teams we implemented our analytics approach to our audit which also helped the delivery of the audit.

Our detailed findings were reported to the 3 June 2014 Audit Committee. The key findings are summarised as follows:

#### Significant risk

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##### Management override

The Trust operates in a health economy under significant financial pressure. Given these pressures, there is a risk that the financial statements could be manipulated to ensure breakeven is achieved.

We did not identify any issues with regards the management override risk.

Our planned work in this area identified misstatements in the non-disclosure of the maternity pathway prepayment of £2m and partially completed spells of £2.149m with your main commissioning Clinical Commissioning Group (CCG).

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We identified two misstatements in the draft financial statements on partially completed spells and the maternity pathway prepayment which the Trust chose not to adjust and explained this rationale in the letter of representation. There were also minor typographical misstatements which were corrected during the course of our work.

We have reviewed this year's progress with the Trust's finance leads for the opinion audit and will work with the finance team to secure further improvements for next year. The Trust has actions planned in response to the points raised on exit packages (see section 3 below) and the accounting treatment for partially completed spells and maternity pathway prepayment and will report on the results of these to the September 2014 Audit Committee as part of the 'lessons learnt' from this year's audit. These will involve strengthening arrangements with other departments within the Trust that provide information to support disclosures in the financial statements.

### 2.2 Value for money conclusion

We carry out sufficient and relevant work to conclude whether the Trust has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This is known as our value for money conclusion.

We identified one significant risk in relation to these criteria. We carried out the work required as follows:

- ▶ We reviewed the Governance Statement;
- ▶ We reviewed the results of the work of other regulatory bodies or inspectorates and considered the impact on our responsibilities; and
- ▶ We undertook risk-based work considering guidance from the Audit Commission. Our work focused on the specific areas of:

- ▶ Achievement of the 2013-14 Cost Improvement Programme (CIP); and
- ▶ Arrangements for setting the 2014-15 CIP and aligning this with the Trust's Foundation Trust application programme and transformational change in design and delivery of services.

### Significant risk

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#### Financial planning and management

The Trust operates in health economy both locally and wider that is under significant financial pressure.

We considered:

- ▶ Financial control, including delivery of the Trust's 2013-14 CIP and the delivery of longer-term transformational change;
- ▶ Financial reporting including achievement of financial targets; and
- ▶ The Trust's 2014-15 financial plan and its longer-term financial strategy in light of the local and wider financial pressures in the health economy.

We concluded that the Trust put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources. We therefore had no matters to report in our value for money conclusion.

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## 2.3 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 Department of Health guidance.

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

## 2.4 Department of Health group instructions

We reported to the National Audit office (NAO) on 5 June 2014 the outcomes of our review of your accounts template conducted under the departmental account group instructions issued by the NAO. We reported the misstatement in the disclosure of the maternity pathway prepayment of £2million and partially completed spells of £2.149million with your main CCG. We did not identify any other areas of concern.

### 3. Control themes and observations

As part of our audit of the financial statements, 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 of internal control we communicated to those charged with governance at the Trust, as required, significant deficiencies in internal control.

The matters reported are shown below and are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported to the Audit Committee.

#### **Exit packages**

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As with last year, we had difficulties obtaining adequate documentation for exit packages. The Trust needs to manage retaining complete documentation to support the process and the key decisions made and make these readily available for audit, having regard for any sensitivity of the information held for individual cases.

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## 4. Independent Assurance Report on the Quality Account

We are required by the Audit Commission to perform an independent assurance engagement in respect of Oxford University Hospitals NHS Trust's Quality Account for the year ended 31 March 2014.

As auditors we are required to:

- ▶ Review the content of the Quality Account for its compliance with relevant Regulations;
- ▶ Review the content of the Quality Account to ensure that it is consistent with other specified information sources specified in the NHS Quality Accounts Auditor Guidance 2013-14 issued by the Audit Commission on 17 February 2014;
- ▶ Undertake substantive sample testing on two indicators; and
- ▶ Provide the Trust with a Limited Assurance Report.

We reviewed the Trust's Quality Account and found that its content was compliant with the Regulations and the Audit Commission's Auditor Guidance and was consistent with other information published by the Trust.

We undertook testing on two indicators:

- ▶ Percentage of patient safety incidents that resulted in severe harm or death; and
- ▶ Rate of clostridium difficile infections.

We found no evidence to indicate the indicators were not reasonably stated.

## 5. Fees

We confirm that the final fee for 2013-14 was in line with the scale fee set by the Audit Commission and as reported to you in our Annual Results Report of £189,700.

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