

Oxford University Hospitals NHS Trust

Annual Audit Letter for the year ended 31 March 2015

July 2015

Ernst & Young LLP



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working world



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14 July 2015

Dear Board Members

Annual Audit Letter 2014/15

The purpose of this annual audit letter is to communicate to the Board and external stakeholders, including members of the public, 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 2014/15 annual results report to the 3 June 2015 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter.

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

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

Yours faithfully

Maria Grindley
Executive Director
For and on behalf of Ernst & Young LLP
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Relevant parts of the Audit Commission Act 1998 are transitionally saved by the Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015 for 2014/15 audits.

The Audit Commission's '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

Our 2014/15 audit work has been undertaken in accordance with the Audit Plan that we issued on 11 February 2015 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. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ on the 2014/15 financial statements;
 - ▶ on the parts of the remuneration report to be audited;
 - ▶ on the consistency of other information published with the financial statements, including the annual report; and
 - ▶ on whether the summarisation schedules are consistent with the Trust's financial statements for the relevant reporting period.
- ▶ Reporting by exception:
 - ▶ if the annual governance statement does not comply with Department of Health guidance or is not consistent with our understanding of the Trust;
 - ▶ to the Secretary of State for Health 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 summarisation schedules and the audited financial statements.

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

Area of work	Result
Opinion on the:	
Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Trust as at 31 March 2015.
Parts of remuneration report to be audited	No matters to report – the remuneration report was prepared properly within the rules set.

Consistency of the Annual Report and other information published with the financial statements

Financial information in the Annual report and published with the financial statements was consistent with the Annual Accounts.

Reports by exception:

- ▶ Consistency of Governance Statement
- ▶ Referrals to the Secretary of State
- ▶ Public interest report

The Governance Statement was consistent with our understanding of the [Trust](#).

No matters to report or refer.

No matters to report in the public interest.

Value for money conclusion

No matters to report.

Reporting to the Trust on its summarisation schedules

We concluded that the Trust's summarisation schedules agreed to your audited financial statements.

Reporting to the National Audit Office (NAO) in line with group instructions

No matters to report.

Review of Trust's Quality Account

No matters to report.

Control themes and observations

Arrangements for filing employees HR records need improvement.

As a result of the above we have also:

Issued a report to those charged with governance of the Trust communicating significant findings resulting from our audit.

Audit results report issued on 3 June 2015.

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 June 2015.

2. Key findings

2.1 Financial statement audit

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.

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 3 June 2015.

Our detailed findings were reported to the 3 June 2015 Audit Committee and 3 June 2015 Board meeting.

The main issues identified as part of our audit were:

Significant risk 1:

Revenue and expenditure recognition

The Trust operates in a wider health economy under significant financial pressure. The Trust's main commissioners face ongoing financial pressures and wider health economies face significant financial challenge that is underpinned by payment for over-activity by trusts.

The Trust is also well-advanced in its trajectory to achieving Foundation Trust status and this places pressure on Trust management to meet the financial targets set by the regulator.

Given these pressures, there is a risk that the revenue and expenditure in the financial statements could be manipulated to ensure breakeven is achieved.

Our approach focused on:

- ▶ evaluating the types of revenue and expenditure and the associated risks;
- ▶ evaluating the selection and application of relevant accounting policies by the Trust;
- ▶ understanding the systems relevant controls; and
- ▶ carrying out audit procedures to obtain the necessary assurance.

We had no matters to report.

Significant risk 2:

Management override

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our approach focused on:

- ▶ testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- ▶ reviewing accounting estimates for evidence of management bias, and
- ▶ evaluating the business rationale for significant unusual transactions.

We had no matters to report.

Significant risk 3:

Revaluation of the Trust estate

The District Valuer carried out a five-yearly valuation of the Trust's land and buildings using an 'optimal site' basis for valuation. This resulted in material changes in the overall value of the Trust's land and buildings.

We are satisfied that the valuation methodology utilised is appropriate and compliant with the manual for accounts and accounting standards.

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.

In accordance with guidance issued by the Audit Commission, our 2014/15 value for money conclusion was based on two criteria. We consider whether the Trust had proper arrangements in place for:

- ▶ securing financial resilience; and,
- ▶ challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 3 June 2015.

The Trust revised its long-term financial model (LTFM) in March 2015. Management has increased the contingency for additional cost pressures built into the revised LTFM by £6million to £15million. This remains a challenging financial position for the Trust and requires it to respond rapidly to any deterioration in financial performance during the year if the Trust is to make a financial surplus in 2015/16.

The Trust has a challenging cost improvement plan of £51.8million. The wider financial pressures on the Trust mean the potential for additional income from increased activity to offset any shortfall in delivery of the overall cost improvement programme is reduced. Delivery of the programme for 2015/16 will be a significant challenge and risk for the Trust and rapid action will be needed to address any potential shortfall collectively and on individual schemes that occurs during the year.

2.3 Department of Health group instructions

We reported to the National Audit office (NAO) on 3 June 2015 the outcomes of our review of your summarisation schedules conducted under the group instructions issued by the NAO. We did not identify any areas of concern.

2.4 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.

3. 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.

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.

Description	Impact
<p>Controls within HR department.</p> <p>In prior years there had been difficulties in finding the correct paperwork regarding exit packages. This year the items selected in our sample could all be found satisfactorily. However, there were difficulties in obtaining employee files for our payroll testing when employees were selected at random.</p>	<p>Without supporting employee files, the Trust is open to ghost employees on their payroll.</p> <p>The Trust may also have difficulty responding to employee enquiries if records cannot be easily identified.</p>

4. Fees

Our fee for 2014/15 is in line with the scale fee set by the Audit Commission and reported in our June 2015 Annual Results Report.

	Planned fee 2014/15	Final fee 2014/15	Scale fee 2015/16
Total Audit Fee – Code work	£179,700	£179,700	£134,775
Non-audit work – Review of Quality Account and Tax Efficiencies	£20,000	£20,000	-

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