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Oxford Health NHS
NHS Foundation Trust

Oxford Health NHS Foundation Trust

Report to the Governing Body on the external audit of the Trust's 2015/16 financial statements

Governors' report: issued on 6 September 2016

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"I am delighted to present this report which sets out the focus of our audit and how we addressed the identified audit risks for 2015/16."

Sue Barratt, FCA
Audit Partner

1. Executive Summary

We have issued a clean audit report for the year.

Context

This report summarises the findings of our external audit of the Trust's 2015/16 financial statements.

We have also reported on the Trust's Quality Report. Our findings from that work are set out in a separate report to you. As noted in that report, we have issued an unmodified opinion.

Approach

We have performed our audit in accordance with Monitor's Audit Code and International Standards on Auditing (UK and Ireland). Details of our approach are set out in section 2 of this report.

The format of our audit report, which is included the Annual Report, includes details on the risks which have had the greatest effect upon our audit approach, and how we responded to those risks. This is in line with the requirements for public reporting. The significant audit risks of key areas of focus in our work were:

- NHS revenue and provisions;
- Property valuations; and
- Going concern.

We have also considered management override and value for money, which although are not detailed in our audit report within the financial statements, were also areas of significant audit focus.

Findings

We provided detailed reports, on both our audit of the Trust's financial statements and our work on the Trust's Quality report, to the Trust's Audit Committee and Board on 19 May 2016.

On 25 May 2016, we signed our audit opinion on the Trust's annual accounts:

- **We issued a clean (unmodified) opinion on the Trust's 2015/16 financial statements.**
- **We did not report on any items 'by exception' in our audit report.**

We have reported control observations and recommendations for improvement to the Audit Committee.

2. Our approach

We have outlined an overview of our audit approach.

An overview of the scope of the audit

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work was performed at the Trust's head offices in Oxford directly by the audit engagement team, led by the audit partner, Sue Barratt.

The audit team included integrated Deloitte specialists bringing specific skills and experience in Information Technology systems and property valuations.

Data analytic techniques were used as part of audit testing, in particular to support profiling of populations to identify items of audit interest. Key areas where analytics were used included journal testing.

The focus of our audit work considered both the financial statements and the Quality Accounts. Note the limited assurance work performed for the audit of the Quality Accounts is discussed in a separate report. The assurance that our work provides to the Council of Governors and the Board of Directors, as a body, is not intended to be the only source of assurance for the Council of Governors.

Materiality

Our work is planned and performed to detect material misstatements. We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Trust to be £4.5m, which is 1.5% of revenue. This compares to a materiality for 2014/15 of £2.8m, and has increased due to the growth in the Trust's activity levels and, as agreed with the Audit Committee, an increase in the applied percentage of revenue used within the calculation (2014/15: 1.0%).

We agreed with the Audit Committee that we would report all audit misstatements in excess of £223k (2014/15: £138k) as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the annual accounts. For the avoidance of doubt, there were no misstatements or disclosure matters to report.

An overview of our assessment of material account balances, classes of transactions and disclosures

We perform an assessment of risk which includes considering the size, composition and qualitative factors relating to account balances, classes of transactions and disclosures. This enables us to determine the scope of further audit procedures to address the risk of material misstatement.

We performed procedures to review and understand significant movements in all material balances compared to the prior year. We reviewed breakdowns of current year balances to assess whether they contained any unusual items and we considered, based on our prior year audit knowledge, whether there was a history of error in the accounts balance.

2. Our approach (continued)

Procedures for auditing the Trust's financial statements

In summary, our audit of the Trust's financial statements included:

- developing an understanding of the Trust, including its systems, processes, risks, challenges and opportunities and then using this understanding to focus audit procedures on areas where we consider there to be a higher risk of misstatement in the Trust's annual accounts;
- interviewing members of the Trust's management team and reviewing documentation to test the design and implementation of the Trust's internal controls in certain key areas relevant to the financial statements; and
- performing sample tests on balances in the Trust's annual accounts to supporting documentary evidence, as well as other analytical procedures, to test the validity, accuracy and completeness of those balances.

Approach to audit risks

We focused our work on areas where we considered there to be a higher risk of misstatement. We refer to these areas as significant audit risks.

We provided a detailed audit plan to the Trust's Audit Committee on 24 November 2015 setting out what we considered to be the significant audit risks for the Trust, together with our planned approach to addressing those risks. We have provided a summary of each of the significant audit risks within this document.

Value for money

We are required to consider whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our work takes account of:

- the Accounting Officer's statement in the Annual Governance Statement; and
- the results of work of relevant regulators, including the Care Quality Commission ("CQC") and Monitor.

We have obtained an understanding of the Trust's arrangements for securing "value for money", through a combination of:

- "high level" interviews with Paul Dodd (Deputy Director of Finance) and Ros Alstead (Director of Nursing and Clinical Standards);
- review of the Trust's draft Annual Governance Statement;
- consideration of issues identified through our other audit and assurance work;
- consideration of the Trust's results, including benchmarking of actual performance (including on Cost Improvement Programme, "CIP") and the 2016/17 Annual Plan;
- review of the CQC's reports throughout the period;
- review of Monitor's Financial Sustainability Risk Rating ("FSRR");
- benchmarking of the Trust's performance; and
- consideration of the Trust's Information Governance toolkit score.

We have not identified any issues which we need to report in our audit opinion in respect of:

- the Trust's arrangements for securing the economy, efficiency and effectiveness of the use of resources; or
- the Annual Governance Statement.

3. The focus of our work: significant audit risks

NHS revenue and provisions

Risk identified

There are significant judgements in recognition of revenue from care of NHS patients and in provisioning for disputes with commissioners due to:

- the risk that revenue is recognised/billed from an outdated version of a contract or that contract amendments are not taken into account;
- the value of Commissioning for Quality and Innovation (CQUIN) scheme revenue to recognise from the main commissioners could be overstated; and
- correct identification and classification of partnership arrangements.

The Trust's income for the financial year totalled £297.7m, which includes £220.2m of Commissioner Requested Services. NHS debtors as at 31 March 2016 were £5.0m.

The majority of the Trust's income comes from key commissioners, increasing the significance of associated judgements.

How the scope of our audit responded to the risk

We evaluated the design and implementation of controls over the Trust's revenue recognition processes.

We performed test of details over the recognition of income through the year, and evaluated the results of the agreement of balances exercise. We reviewed a sample significant signed contracts, and reconciled these to the income recorded. We assessed the assumptions made in respect of achievement of CQUIN targets.

We challenged key judgements around specific areas of dispute and actual or potential challenge from commissioners and the rationale for the accounting treatments adopted. In doing so, we considered the historical accuracy of provisions for disputes and reviewed correspondence with commissioners.

We obtained a paper from management summarising the current partnership arrangements. We assessed the accounting treatment of these partnerships in conjunction with applicable accounting standards. Additionally, we read key meeting minutes to test the completeness of the identification of these arrangements.

Key observations

All significant balances were agreed to contract and the agreement of balances exercise.

Management's judgements were within a reasonable range.

We did not identify any new partnership or similar arrangements which management had not previously identified or accounted for.

3. The focus of our work: significant audit risks (continued)

Property valuations

Risk identified

The Trust holds property assets within Property, Plant and Equipment at a modern equivalent use valuation of £143.0m (2014/15: £159.4m). The valuations are by nature significant estimates, which are based on specialist and management assumptions (including the floor areas for a Modern Equivalent Asset, the basis for calculating build costs, the level of allowances for professional fees and contingency, and the remaining life of the assets) and which can be subject to material changes in value.

The valuation movements on the Trust's estate are an impairment of £5.6m, offset by upward movements of £6.7m.

How the scope of our audit responded to the risk

We evaluated the design and implementation of relevant controls over property valuations, and tested the accuracy and completeness of data provided by the Trust to independent valuer.

We used Deloitte internal valuation specialists to review and challenge the appropriateness of the key assumptions used in the valuation of the Trust's properties, including benchmarking against revaluations performed by other Trusts at 31 March 2016.

We have reviewed the disclosures in the notes to the annual accounts and evaluated whether these provide sufficient explanation of the basis of the judgements made in preparing the valuation.

We assessed whether the valuation and the accounting treatment of the impairment are compliant with the relevant accounting standards, and in particular whether impairments should be recognised in the Income Statement or in Other Comprehensive Income.

Key observations

We did not identify any misstatements or control weaknesses from our testing. The key assumptions were similar to previous years and were within a reasonable range.

3. The focus of our work: significant audit risks (continued)

Going concern

Risk identified

The Trust had forecast a deficit of £5.5m in 2015/16. The Trust operates in an increasingly financially constrained environment, with significant ongoing cost pressures from CIP requirements. In 2014/15, 50% of trusts were loss making, compared to 28% in 2013/14. Average EBITDA margin has fallen from 5.2% to 3.8% over the same period.

How the scope of our audit responded to the risk

We have reviewed the Trust's high level forecasts and CIP plans, including challenging key judgements and considered a period of at least 12 months from date of signing the annual accounts.

We considered the Trust's year-end and forecast cash positions.

We reviewed correspondence with Monitor/NHS Improvement in relation to the Trust's FSRR and any ongoing regulatory action.

We evaluated the design and implementation of controls over the Trust's consideration of the appropriateness of the going concern assumption.

Key observations

The Trust has continued to manage its cash position carefully. Management's forecasts contain assumptions that have been carefully derived from their knowledge of the Trust's current position, including a prudent approach to working capital and the level of CIP achievable.

The Trust achieved and actual deficit of £1.8m. The final outturn takes account of £2.7m of better than planned proceeds on the sale of land in relation to the former Manor and Tindal sites. We note that the year end Statement of Cash Flows shows a cash balance of £14.4m, an improvement on the £13.2m shown in the initial plan. Furthermore, the Trust's plan suggests that there is at least two to three more years' cash available to the Trust.

We did not note any control weaknesses or misstatements in our testing.

4. Analysis of audit fees

The professional fees earned by Deloitte in the period from 1 April 2015 to 31 March 2016 were as follows:

	2015/16 £'000	2014/15 £'000
Financial statements audit including Whole of Government Accounts	50.5	46.0
Financial statements independent examination – charity	4.0	4.0
Additional fee associated with enhanced audit report (ISA700)	2.5	2.5
Quality accounts work	10.0	9.0
Additional fee agreed in relation to 2014/15 Quality accounts work*	-	5.0
Total audit	**67.0**	**66.5**
Other non-audit services not covered above – CIP consultancy	89.0	80.0
Total non-audit services	**89.0**	**80.0**
Total fees	**156.0**	**146.5**

*This additional £5k amount was agreed with the Audit Committee during 2015/16, in relation to additional work required on the quality accounts audit for 2014/15.

5. Responsibility statement

What we report

Our report is designed to help the Council of Governors, Audit Committee, and the Board discharge their governance duties. Our report includes:

- Details of our audit approach; and
- The significant audit risks we have identified and our responses to those risks.

What we don't report

- As you will be aware, our audit was not designed to identify all matters that may be relevant to the Board or Governing body.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

The scope of our work

- Our observations are developed in the context of our audit of the financial statements.
- This report should be read alongside our "Briefing on audit matters" as previously circulated.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

Deloitte LLP
Chartered Accountants

Reading
6 September 2016

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