

# Annual governance report

Oxford Health NHS Foundation Trust

Audit 2011/12



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# Key messages

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**This report summarises the findings from the 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to satisfy myself that you have made proper arrangements for securing economy, efficiency and effectiveness in your use of resources.**

## **Financial statements**

As at 21 May 2012 I expect to issue an unqualified audit opinion. The audit has progressed well and I have not identified any material errors in the accounts. A small number of amendments have been identified and these have all been corrected. Details are set out in Appendix 3. I have received good cooperation from the Director of Finance and his team.

## **Economy, efficiency and effectiveness**

I have satisfied myself that you have made proper arrangements for securing economy, efficiency and effectiveness in your use of resources. I expect to issue my certificate by 30 May 2012.

I plan to complete the quality report review and issue a Governors report by 15 June 2012.

# Before I give my opinion

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**My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.**

## **Independence**

I can confirm that I have complied with the ethical standards issued by the Auditing Practices Board, including ES 1 (revised) – Integrity, Objectivity and Independence. I have also complied with the additional requirements on independence and objectivity in Monitor's Audit Code.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you. I reported to you in my Audit Plan that the fee would be £93,700 and would include my work on the financial statements, Quality report and Whole of Government Accounts. At the moment I do not intend to raise additional fees. However should there be delays with the Quality Report that mean it is not completed before 31 May 2012, I may have to charge more.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Trust during 2011/12.

## **I ask the Audit Committee to:**

- take note of the adjustments to the financial statements included in this report (appendices 2 and 3);
- approve the letter of representation (appendix 4), on behalf of the Trust before I issue my opinion and certificate; and
- agree your response to the proposed action plan (appendix 6).

# Financial statements

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**The Trust's financial statements and annual governance statement are important means by which the Trust accounts for its stewardship of public funds. As Directors you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.**

## **Opinion on the financial statements**

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

## **Uncorrected errors**

I have not identified any errors that have not been corrected.

## **Corrected errors**

I have not identified any material errors that required correction. A schedule of amendments is attached at appendix 3.

## **Risks and my findings**

I reported to you in my Audit Plan the risks that I identified relevant to my audit of your financial statements. In table 1 I report to you my findings against each of these risks.

Table 1: **Risks and findings**

| Risk   | Finding   |
|--|---|
| Valuation of property plant and equipment  | The method of valuation of property has been reviewed and compared to our independent valuer’s guidance, to satisfy myself that the valuation of property accounted for by the Trust and disclosed in the financial statements, was in line with the requirements of the IAS 16 and the Annual Reporting Manual. My testing has not identified any significant issues to bring to your attention. |
| Merger accounting following transfer of community services from Oxfordshire PCT        | I have evaluated the procedures carried out to transfer the figures coming across from the PCT, to satisfy myself that balances, amounts and disclosures included in the financial statements on TCS were complete, accurate and in line with the requirements of the Annual Reporting Manual. My testing has not identified any significant issues to bring to your attention.                   |
| Change of payroll provider   | I have evaluated the design and implementation of controls in place, to satisfy myself that the change of payroll provider was carried out correctly and accurately. My testing has not identified any significant issues to bring to your attention.   |
| Disclosures for members of the local government pension scheme who work for the Trust. | I have evaluated the disclosures, in the financial statements, for members of the local government pension scheme who work for the Trust, with the actuary report, to satisfy myself that it was in line with the requirements of the IAS 19 and the Annual Reporting Manual. My testing has not identified any significant issues to bring to your attention.                                    |

### Significant weaknesses in internal control

My work has not identified any significant weaknesses in internal control. I have tested the controls of the Trust only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control.

It is the responsibility of the Trust to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Trust has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have reviewed the Annual Governance Statement and have satisfied myself that:

- it complies with the requirements of the Annual Reporting Manual; and
- it is consistent with other information that I am aware of from my audit of the financial statements, including the quarterly board statements required under the Compliance Framework, the quality report and the annual report.

## Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Trust's financial reporting process including the following.

- Qualitative aspects of your accounting practices;
- Matters specifically required by other auditing standards to be communicated to those charged with governance, for example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions; and

Other audit matters of governance interest.

I have no matters that I wish to report.

## Consolidation reports

Alongside my work on the financial statements, I have also reviewed and reported on the consolidation schedules submitted by the Trust to Monitor. I have also reported to the National Audit Office under its Group Audit Instructions. I have not identified any matters to date that I need to report.

## Annual Report

The Trust has to produce an integrated document that includes the Annual Report, Quality Report and the Financial Statements and submit this to Monitor by 31 May 2012. The Trust developed a process to monitor progress in the development of the Report. Whilst this led to some improvement in delivery, milestones were not adhered to and submissions for the Report from Trust staff were delivered late in the process and over a short space of time.

## Quality Report

The Trust has developed a process to manage the production of the Quality Report following the recommendations we made last year. Improvements have been made but the process put in place needs to be followed more closely to allow a smoother production of the Report by 31 May. In particular the local indicator was not agreed with Governors until late in the process and a draft was not sent out to stakeholders for their comment until 30 April 2012.

The Trust has ongoing arrangements in place to produce a lot of the information required.

- Operational performance reports are considered by the Board on a regular basis.
- Quarterly Complaints reports are reported to the Board.
- Quality Report information is reported to the Board.
- Regular meetings are held with stakeholders, including Commissioners and Scrutiny Committees.
- Quarterly meetings are held with Governors.
- Regular returns are made to Monitor.

The Trust should use the information it has available during the year to prepare an earlier draft of the Quality Report. This would allow more time for review of the Report and more time for Stakeholders to respond to the report before the submission date.

Monitor has recognised for 2011/12 that Quality Reports may not be completed by the 31 May 2012 deadline, and allows for changes to the integrated Annual Report for this section only. It is not clear whether responses from stakeholders will be received and the Quality Report completed by 31 May 2012, therefore my current plan is to complete my work by 15 June 2012. If the Quality Report is not complete I will not be able to certify completion of the audit, and will be required to undertake additional audit procedures after that date and by the end of June 2012. If these are required, I expect to charge an additional fee.

## Recommendations

- R1** That the local indicator for the Quality Report is identified as early as possible for 2012/13 to ensure that proper arrangements are put in place to collect and monitor performance and allow earlier testing by your auditors.
- R2** Prepare a draft of the Quality Report before the year end to allow sufficient time for review and consideration both internally and by Stakeholders.

# Economy, efficiency and effectiveness

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**I am required to satisfy myself that the Trust has proper arrangements for securing economy, efficiency and effectiveness in its use of resources.**

I have:

- reviewed the statement made by the Chief Executive as part of the Annual Governance Statement (AGS), which includes details of the arrangements put into place to secure economy, efficiency and effectiveness; and
- I have not identified any weaknesses in your arrangements from reviewing the above.

# Appendix 1 – Draft independent auditor’s report

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## **INDEPENDENT AUDITOR’S REPORT TO THE BOARD OF GOVERNORS OF OXFORD HEALTH NHS FOUNDATION TRUST**

I have audited the financial statements of Oxford Health NHS Foundation Trust for the year ended 31 March 2012 under the National Health Service Act 2006. The financial statements comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Taxpayers’ Equity, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

I have also audited the information in the Remuneration Report that is described as having been audited.

This report is made solely to the Board of Governors of Oxford Health NHS Foundation Trust in accordance with paragraph 24(5) of Schedule 7 of the National Health Service Act 2006. My audit work has been undertaken so that I might state to the Board of Governors those matters I am required to state to it in an auditor’s report and for no other purpose. To the fullest extent permitted by law, I do not accept or assume responsibility to anyone other than the Foundation Trust as a body, for my audit work, for this report or for the opinions I have formed.

### **Respective responsibilities of the Accounting Officer and auditor**

As explained more fully in the Statement of Accounting Officer’s Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

My responsibility is to audit the financial statements in accordance with applicable law, the Audit Code for NHS Foundation Trusts and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice’s Board’s Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Trust's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Trust; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view of the state of affairs of Oxford Health NHS Foundation Trust's affairs as at 31 March 2012 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the accounting policies directed by Monitor as being relevant to NHS Foundation Trusts.

### **Opinion on other matters**

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the accounting policies directed by Monitor as being relevant to NHS Foundation Trusts; and
- the information given in the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which I report by exception**

I report to you if, in my opinion the Annual Governance Statement does not reflect compliance with Monitor's requirements. I have nothing to report in this respect.

### **Delay in certification of completion of the audit**

I cannot formally conclude the audit and issue an audit certificate until I have completed the work necessary to provide external assurance over the Trust's annual quality report. I am satisfied that this work does not have a material effect on the financial statements.

Kevin Suter

Officer of the Audit Commission

Collins House

Eastleigh

Hampshire

SO50 6AD

31 May 2012

# Appendix 2 – Uncorrected errors

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There are no errors identified during the audit which management has not corrected in the revised financial statements.

# Appendix 3 – Corrected errors

I identified the following misstatements during the audit which management has addressed in the revised financial statements.

| Item of account                             | Nature of error  | Statement of comprehensive income |          | Statement of financial position |          |
|---|--|-----------------------------------|----------|---------------------------------|----------|
|   |  | Dr £000s                          | Cr £000s | Dr £000s                        | Cr £000s |
| Note 12 Leases                              | The Trust has identified an amendment to the disclosure note that did not affect the SoCI or SoFP.   |                                   |          |                                 |          |
| Note 32 PFI schemes                         | The original workings by the Trust picked up an incorrect figure and this affected the figures in the tables of the note. However it did not affect the SoCI or the SoFP.    |                                   |          |                                 |          |
| Note 41 Intra-Government and other balances | Payables with other Government bodies were understated by £2.4m because the note originally did not include other payable balances.<br>This did not affect the SoCI or SoFP. |                                   |          |                                 |          |

A number of minor presentational amendments have been made and these are set out below.

| Statement or note              | Issue   |
|--------------------------------|---|
| Changes in Taxpayers Equity    | The disclosure of the PPA note requires further disclosure to explain the changes and the actual impact from the previous SoFP to the restated version shown. |
| Note 8.4 - Staff exit packages | To comply with Monitor a narrative description of exit packages agreed in year needs to be provided.  |

| Statement or note                   | Issue  |
|-------------------------------------|--|
| Note 11 – Pension costs             | Note amended for revised wording to reflect changes in valuation cycle.  |
| Note 20 - Impairments               | <p>The note needs a narrative detailing each material impairment loss recognised or reversed during the period for an individual asset, including:</p> <ul style="list-style-type: none"> <li>■ the amounts;</li> <li>■ the circumstances and significant events giving rise to impairments;</li> <li>■ the nature of the asset;</li> <li>■ the operating segment to which it belongs;</li> <li>■ whether the recoverable amount is fair value less costs to sell or value in existing use;</li> <li>■ if recoverable amount is fair value less costs to sell, the basis used to determine fair value less costs to sell; and</li> <li>■ if recoverable amount is value in use, the discount rate(s) used in the current estimate and previous estimate (if any) of value in use.</li> </ul> |
| Note 20 - Impairments               | <p>The Trust needs to expand the note to disclose the aggregate impairment losses and the aggregate reversals of impairment losses recognised during the period for which no information is disclosed:</p> <ol style="list-style-type: none"> <li>a. The main classes of assets affected by impairment losses and the main classes of assets affected by reversals of impairment losses?</li> <li>b. The main events and circumstances that led to the recognition of these impairment losses and reversals of impairment losses?</li> </ol>   |
| Note 36 - Related Party Transaction | The note needs expansion to provide some context for the material transactions.  |

# Appendix 4 – Draft letter of management representation

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## **Oxford Health NHS Foundation Trust - Audit for the year ended 31 March 2012**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other [insert relevant details] directors of Oxford Health NHS Foundation Trust the following representations given to you in connection with your audit of the Trust's financial statements for the year ended 31 March 2012.

### **Compliance with the statutory authorities**

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the NHS Foundation Trust Annual Reporting Manual which give a true and fair view of the financial position and financial performance of the Trust, for the completeness of the information provided to you, and for making accurate representations to you.

### **Supporting records**

I have made available all relevant information and access to persons within the Trust for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Trust.

### **Irregularities**

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

### **Law, regulations, contractual arrangements and codes of practice**

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Trust has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

### **Accounting estimates including fair values**

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

### **Related party transactions**

I confirm that I have disclosed the identity of the Trust's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Annual Reporting Manual.

### **Subsequent events**

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of Oxford Health NHS Foundation Trust

I confirm that the this letter has been discussed and agreed by the Audit Committee on [date]

Signed

Name

Position

Date

# Appendix 5 – Glossary

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## **Annual Governance Report**

The auditor's report on matters arising from the audit of the financial statements presented to the Audit Committee before the auditor issues their opinion and conclusion.

## **Annual Governance Statement**

The accounting officer's report on the Trust's systems of internal control that supports the achievement of the Trust's policies aims and objectives. This replaces the Statement on Internal Control which has been produced by the Trust in earlier years.

## **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out an auditor under Monitor's Audit Code to meet their statutory responsibilities under the National Health Service Act 2006.

## **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

## **Auditing standards**

Pronouncements of the APB, which contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

## **Audit Code**

The Audit Code for NHS Foundation Trusts issued by Monitor.

## **Ethical Standards**

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

## **Financial statements**

The annual accounts that the Trust is required to prepare, which report the financial performance and financial position of the Trust. The financial statements are produced in accordance with the Treasury Financial Reporting Manual as supported by Monitor's Annual Reporting Manual for Foundation Trusts.

## **Group accounts**

Consolidated financial statements of a parent Trust, subsidiaries, associates and jointly controlled entities.

## **Internal control**

The whole system of controls, financial and otherwise, that the Trust establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

## **Materiality**

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

The term 'materiality' applies only to the financial statements. Auditors have responsibilities and duties under the Audit Code, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

## **Quality Report**

An annual report about the quality of services provided by the Trust required by the National Health Service Act 2006.

## **Significance**

The concept of 'significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

## **Whole of Government Accounts**

The Whole of Government Accounts (WGA) initiative is to produce a set of consolidated financial accounts for the entire UK public sector on commercial accounting principles. Monitor consolidates the foundation trust consolidation schedules (FTCs) of individual NHS FTs, which are based on their financial statements, for inclusion in the Department of Health's accounts for use in preparing the WGA...

# Appendix 6 – Action plan

## Recommendations

### Recommendation 1

That the local indicator for the Quality Report is identified as early as possible for 2012/13 to ensure that proper arrangements are put in place to collect and monitor performance and allow earlier testing by your auditors.

Responsibility \_\_\_\_\_

Priority \_\_\_\_\_

Date \_\_\_\_\_

Comments \_\_\_\_\_

### Recommendation 2

Prepare a draft of the Quality Report before the year end to allow sufficient time for review and consideration both internally and by Stakeholders.

Responsibility \_\_\_\_\_

Priority \_\_\_\_\_

Date \_\_\_\_\_

Comments \_\_\_\_\_

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