Oxford Health NHS Foundation Trust

External audit report to the Governing Body on the audit of the Trust's financial statements for the year ended 31 March 2017

Issued on 5 September for the meeting 13 September

Contents

Executive summary

We have completed the external audit of the Trust for the year ended 31 March 2017. This report includes information on our approach and opinion.

This is a report to you summarising the findings of our external audit of the Trust's financial statements for the year ended 31 March 2017. We also performed testing on the Trust's Quality Report. Our findings from that work are set out in a separate report to you.

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 on 19 May 2017. On 24 May 2017, we signed our audit opinion on the Trust's financial statements.

We have issued an unmodified audit opinion, with no reference to any matters in respect of the Trust's arrangements to secure economy, efficiency and effectiveness in the use of resources. The full opinion on the financial statements can be found in the Annual Report.

We have issued an unmodified quality report opinion as a result of our work undertaken on enhanced Care Programme Approach patients receiving follow-up contact within seven days of discharge from hospital and admissions to inpatient services having access to crisis resolution home treatment teams. This report was also unmodified.

	Current year (£m)	Prior year (£m)	Increase/ (Decrease) (£m)	% Increase/ (Decrease)
Income	309	293	16	5.5%
Surplus / (deficit) for the year	5	(2)	7	350%
Land & buildings	143	143	-	-
Net assets	136	129	7	5.4%

Our approach

We tailor our audit to your business and your strategy

Scoping
Our audit was scoped by developing our understanding of the Trust and the environment it operates in, including internal control, and assessing the risks of material misstatement to the financial statements.

Audit work to respond to the risks of material misstatement was performed 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 property valuations and Information Technology systems.

Data analytic techniques were used as part of audit testing, in particular to support journals testing.

The focus of our audit work is primarily upon the financial statements, and our limited assurance work on the Quality Report (discussed in the accompanying report). The assurance that our work provides to the Council of Governors and Board of Directors, as a body, is not intended to be the only sources of assurance for the Council of Governors and Board of Directors. The diagram on the next page illustrates the areas where our work provides assurance.

Our audit report
We issued an unmodified audit report, with no reference to any matters in respect of the Trust's arrangements to secure economy, efficiency and effectiveness in the use of resources.

Determine 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.

The materiality that we used in the current year was £4.7m which was determined on the basis of 1.5% of revenue. We reported to those charged with governance all misstatements above £233k as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also reported to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Significant risk assessment
We perform an assessment of risk which includes covering 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 account balance.

Our approach (cont.)

Assurance sources for the Trust

The diagram below illustrates the assurances provided by external audit around finance, quality, controls and systems and the future of the Trust (in green rows) and how this fits with some of the other assurances available over the Trust's position and performance.

	Financial How is the Trust performing financially?	**Quality** How are the Trust's outcomes and quality measured?	**Controls and systems** Does the Trust have adequate processes?	**Future of the Trust** Is the Trust's strategy appropriate and sustainable?
External audit assurance on reported performance	Do the financial statements give a true and fair view?	Are the 2 tested indicators reasonable stated?	Is the Annual Governance statement misleading or inconsistent with information we are aware of from our audit? *	Is there significant uncertainty over the going concern assumption?
	Have the financial statements and remuneration report been properly prepared?	Does the Quality Report include the required contents?		
	Is the Annual Report consistent with the financial statements? *	Is the Quality Report consistent with other external and internal reports?	Has the Trust made proper arrangements for securing economy, efficiency and effectiveness in the use of resources? *	

* Note – the scope of external audit in this area is "negative assurance" of reporting by exception issues identified, rather than positive testing.

Our approach (cont.)

Assurance sources for the Trust (cont.)

<table>
<tr><th></th><th>Financial
How is the Trust performing financially?</th><th>Quality
How are the Trust’s outcomes and quality measured?</th><th>Controls and systems
Does the Trust have adequate processes?</th><th>Future of the Trust
Is the Trust’s strategy appropriate and sustainable?</th></tr>
<tr><td rowspan="5">Business processes and Board oversight</td><td colspan="4">Is reliable reporting and data being produced through the year, at each level within the Trust, and appropriately reviewed and followed up?</td></tr>
<tr><td colspan="2">Is the Annual Report and Accounts taken as whole, fair, balances and understandable?</td><td>Are the Trust’s processes operating effectively?</td><td>Are the Trust’s plans realistic and achievable?</td></tr>
<tr><td colspan="4">Is the Trust meeting its legal and regulatory obligations, and are appropriate plans in pace to maintain compliance?</td></tr>
<tr><td>Has the Trust delivered on its financial plans?</td><td>Are Quality Priorities selected appropriate for the Trust?</td><td>Does the Trust have efficient systems and processes?</td><td>Are appropriate actions in place to deliver the Trust’s plans?</td></tr>
<tr><td>Is the Trust generating sufficient surplus for reinvestment?</td><td>Are quality report metrics accurate and complete (other than 3 tested metrics)?</td><td>Are risks around legacy systems etc. appropriately mitigated?</td><td>What are the risks to achievement of the Trust’s plans and are appropriate mitigations in place?</td></tr>
<tr><td>Internal audit assurance</td><td colspan="4">Is there a generally sound system of internal controls on key financial and management processes?</td></tr>
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Significant audit risks
Recognition of NHS revenue

Risk identified	The risk of fraud in revenue recognition is a presumed risk under International Standards on Auditing. For our NHS Foundation Trust clients, we typically specify this significant risk as the risk that a Trust has recorded revenue that is not valid, accurate or valued appropriately. For the Trust, we consider this risk to be greater (and therefore identified as a significant risk) for the variation to contracts for NHS revenue that has been recognised in the year, but that is yet to be settled by Commissioners. This typically includes any additional revenue recognised above the contracted amount, Commissioning for Quality and Innovation ("CQUIN") income, Sustainability and Transformational Funding ("STF") income in Q4 and over-performance in Q4. These elements of unsettled revenue can involve management judgement and estimation, including management consideration of any unresolved commissioner challenges.
Key judgements	NHS debtors are significantly higher than in prior year or in plan, reflecting the value of sustainability and transformation funding outstanding at year end. The level of provisioning against these debtors is a key judgement in approval of the financial statements. The key judgement in relation to NHS clinical revenue is how much should be recorded as income and the likelihood of receipt of outstanding income from Commissioners. No material bad debt write offs took place in the year.
Deloitte response	We tested the design and implementation of key controls in relation to revenue recognition. We tested the receivables balance on a sample basis and found that cash was being received on a timely basis for debts owing at year end. Where cash had not been received, we tested the validity of the receivable recognised and found no issues. We did not identify any issues with regards to recovery of CQUIN, STF or over performance income. We have discussed the issue of disputes with commissioners and conclude that there are no material balances in dispute at year end. The Trust has £0.7m of un-agreed balances with commissioners in the AoB. Of this, only one difference is in excess of £50k. In addition to reviewing the outcome of the Agreement of Balances process, we have tested a sample of unsettled balances through to cash received or to alternative evidence of validity of debtors and accrued amounts. Management provided us with a paper setting out the key partnership arrangements operated by the Trust. Our challenge of these did not identify any which were not accounted for appropriately.
Conclusion	Revenue does not appear materially misstated.

Significant audit risks
Property valuations

Risk identified	The Trust is required to hold property assets within Property, Plant and Equipment at valuation, which will usually be on a modern equivalent use basis. As detailed in our Audit Plan, valuations are by nature significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value. The Trust has had an independent valuation carried out for the purposes of the 31 March 2017 financial statements. The Trust has made changes to its valuation assumptions this year, including revisiting the floor areas assumed as required to reprovide an asset with equivalent service potential as a Modern Equivalent Asset.
Key judgements	The Trust's revaluation has decreased land values by £2.8 m (9%), and increased buildings by £3.9m (4%). The impact of this will be to increase PDC dividends payable in the coming year by £38,500.
Deloitte response	We engaged our property specialists Deloitte Real Estate to review the assumptions and methodology used to value the estate. We have used their findings to challenge management's assumptions. We note that: • the costs assumed for valuing buildings are within the range we see elsewhere; • The Littlemore site has been split into two distinct assets for valuation purposes. The Depreciated Replacement Cost method, used for valuing the Trust's properties in line with other NHS bodies, is particularly judgemental. We have assessed key assumptions including the floor plans, the cost assumptions and the location of land. We have substantively tested the input values on which the valuer relies in completing their valuation, including movements on previous floor space assumptions. No discrepancies were identified from this work. We have tested the classification of valuation movements and have raised a recommendation with management to manage this going forwards.
Conclusion	The Trust's valuation assumptions are in line with other Trusts and fall within the expected range highlighted by Deloitte Real Estate.

Significant audit risks
Management override of controls

Risk identified	In accordance with ISA 240 (UK and Ireland) management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Trust's controls for specific transactions. We consider that in the current year there is a heightened risk across the NHS that management may override controls to fraudulently manipulate the financial statements or accounting judgements or estimates. This is due to the increasingly tight financial circumstances of the NHS and the incentives to meet or exceed control totals to receive STF funding.
Key judgements	Our audit work is designed to test for instances of management override of controls. We have summarised above our work on key estimates around revenue recognition and property valuations.
Deloitte response	We have considered the overall sensitivity of judgements made, and note that: the Trust's reported results were ahead of plan by £5.1m leading to a total of £6.3m STF income including bonus and incentive; and senior management's remuneration is not tied to particular financial results. We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements. Specific areas of work are: • We considered the overall control environment and 'tone at the top'. **Journals** • We tested the design and implementation of controls in relation to journals and accounting estimates. • We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • We have used Spotlight data analytics tools to test a sample of journals, based upon identification of items of potential audit interest. Our analysis covered the 139,817, journals posted in the year. Investigation of items sampled using Spotlight did not identify indicators of management override. **Accounting estimates** • We reviewed accounting estimates for biases that could result in material misstatements due to fraud. • We performed testing on key accounting estimates as discussed above, and considered the appropriateness of the accounting treatments adopted. • In addition to our work on key accounting estimates discussed above, our work included considering each of the areas of judgement identified by NHS Improvement. **Significant transactions** • We did not identify any material unusual transactions outside the normal course of business.
Conclusion	We have not identified any significant bias in the key judgements made by management. The control environment is appropriate for the size and complexity of the Trust. In our view, the authorisation and review processes for journals is satisfactory.

Significant audit risks
Going concern and Financial Stability

Risk identified	Given the current economic environment and the £0.6m deficit planned for the year, going concern has been identified as a significant audit risk.
Key judgements	We recognise that at year end, the Trust's performance was ahead of plan and the Trust is in a strong cash position, however, the longer term financial stability of the Trust is reliant on meeting future control totals by delivering CIPs, strong financial management and service transformation. The Trust recognises that there are cost pressures that will need to be managed carefully, particularly around agency spend and delivering CIPs. The Trust has a CIP target of £7.4m for 2017/18 and recognises that it is increasingly challenging to deliver recurrent savings, especially in the context of a good reference cost base. Our work in this area informs our conclusions on both going concern and, more broadly, value for money.
Deloitte response	The Trust had a £1.5m deficit control total for 2016/17 including £2m from the Sustainability and Transformation Fund (STF) targeted allocations. At 31 March 2017 the Trust is reporting a surplus of £4.5, which includes £6.3m of STF. The Trust had a CIP target of £6.5m for the year to 31 March 2017 and has achieved savings of £4.7m. The Trust's cash position at 31 March 2017 is £14.0m, in comparison to £14.4m at 31 March 2016. The Trust currently has a Use of Resources Rating (UOR) of 3, which is in line with the expected position and limited by the level of agency spend. We have reviewed the high level forecasts and CIP plans for a period of no less than 12 months from the date of approval of the financial statements, including challenging any judgements and assumptions used. Other key considerations include the following: • testing the design and implementation of controls; • discussions with management and internal presentations. In particular, the board commentary supporting the annual plan which details where there are risks and opportunities; • the agreed mechanism of sharing overall system risk arising from contracting with Oxfordshire CCG; • the historic accuracy of forecasting which is considered adequate; and • details of the agency spend in the year and the forecasts going forward.
Conclusion	From the robustness of management's planning and the analysis performed, we have not identified any reasonably likely scenarios which would result in the Trust being unable to continue as a going concern. 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.

Value for money

We have concluded satisfactorily upon identified VfM risks

Value for Money

We are required to satisfy ourselves that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. VfM is assessed against the following criterion, and three sub-criteria (informed decision making, sustainable resource deployment, and working with partners and other third parties):

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people."

Our work takes account of the Annual Governance Statement and the findings of regulators. We are required to perform a risk assessment through the course of our audit to identify whether there are any significant risks to our VfM conclusion, and perform further testing where risks are identified.

Overall Financial & Quality Performance

As part of our risk assessment, we have considered how the Trust's performance compares to plan and prior year. We have considered information from a combination of:

- "high level" discussions with senior management;
- 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 and the 2017/18 Annual Plan;
- review of the Care Quality Commission's report on the Trust dated 24 August 2016;
- review of NHSI's risk ratings;
- benchmarking of the Trust's performance; and
- consideration of the Trust's Information Governance toolkit score of 75%.

Key areas of focus

- **The Single Oversight Framework** includes financial measures in a combined "Use of Resources" metric. We have considered the Trust's performance on these metrics in understanding the Trust's segmentation.
- **Agency spend** has been an on-going area of focus for the Department of Health and NHS Improvement, with a series of initiatives to reduce spending and increased regulatory focus in this area. As part of our value for money considerations, we have sought to understand management's process for monitoring and minimising the use of agency staff.
- We considered the Trust's **CIP delivery.**

Conclusion

We did not "report by exception" on any issues in our audit opinion.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to set out matters of interest which came to our attention during the audit. Our report includes:

- Information related to our audit approach.
- Discussion of the areas of focus for our work.

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 Council of Governors or the Board.
- 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 limited assurance procedures on the Quality Report and our related audit of the financial statements.

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

Deloitte LLP

Deloitte LLP
Reading
5 September 2017

This report is confidential and prepared solely for the purpose set out in our engagement letter and for the Council of Governors, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.