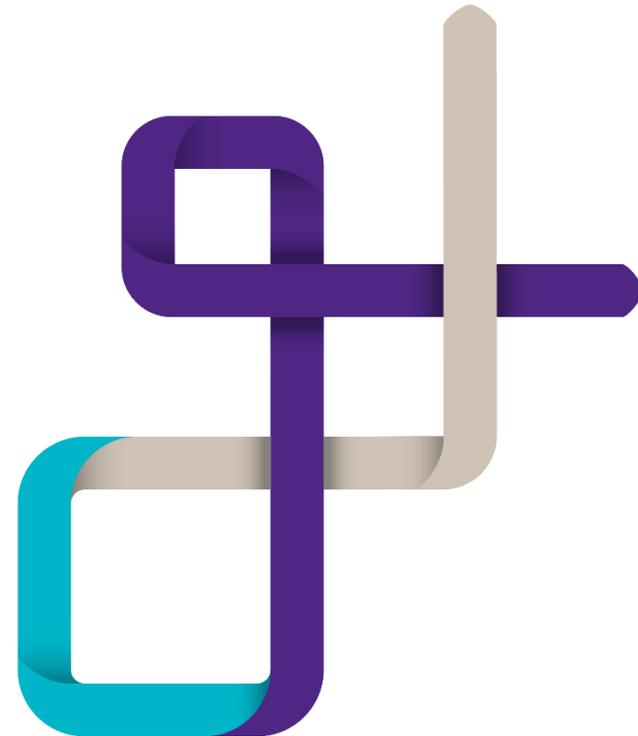


# Audit Findings

*Year ending 31 March 2018*

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Oxford Health NHS Foundation Trust  
May 2018



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Headlines

## Introduction

This table summarises the key issues arising from the statutory audit of Oxford Health NHS Foundation Trust ('the Trust') and the preparation of the Trust's financial statements for the year ended 31 March 2018 for those charged with governance.

### Financial Statements

Under International Standards of Audit (ISAs (UK)) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Trust's financial statements give a true and fair view of the financial position of the Trust and its expenditure and income for the year; and
- The Trust's financial statements, including the audited parts of the Remuneration Report and the Staff Report have been properly prepared in accordance with International Financial Reporting Standards, the NHS foundation trust annual reporting manual 2017/18, and the requirements of the National Health Service Act 2006.

We are also required to report whether other information published together with the audited financial statements (including the Annual Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed on site during April and May. Our findings are summarised on pages 4 to 11. We identified no adjustments to the financial statements that have resulted in an adjustment to the Trust's deficit position. Audit adjustments are detailed in Appendix A.

We issued an unqualified audit opinion following the Trust Board meeting on 24 May 2018. The Audit Report is included as Appendix C.

We concluded that the other information published with the financial statements, which includes the Annual Report, is consistent with our knowledge of your organisation and the financial statements we have audited.

### Value for Money arrangements

Under the Code we are required to report by exception whether, in our opinion:

- the Trust has not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

We completed our risk based review of the Trust's value for money arrangements. We satisfied ourselves that Oxford Health NHS Foundation Trust has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We have nothing to report by exception. Our findings are summarised on pages 12 to 14.

### Statutory duties

The National Health Service Act 2006 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- certify the closure of the audit.

We did not exercise any of our additional statutory powers or duties.

We were able to certify the completion of the audit when we gave our audit opinion.

## Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

# Summary

## Overview of the scope of our audit

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

## Audit approach

Our audit approach was based on a thorough understanding of the Trust's business and is risk based, and in particular included:

- An evaluation of the Trust's internal controls environment including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

## Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remained the same as reported in our audit plan. We detail our assessment of materiality in the table to the right.

## Conclusion

We completed our audit of your financial statements and issued an unqualified audit opinion following the Audit Committee and Trust Board meetings on 22 and 24 May 2018.

	Amount
<b>Materiality for the financial statements</b>	£5,484k
<b>Performance materiality</b>	£3,839k
<b>Trivial matters</b>	£274k
Materiality for specific transactions, balances or disclosures:	
<ul style="list-style-type: none"> <li>• <b>Senior Officers' Remuneration</b> (an error is considered material if it equates to two pay bands in the disclosure note)</li> </ul>	£10k

# Going concern

## Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

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## Going concern commentary

### Management's assessment process

A formal consideration and assessment of the relevance of the going concern basis of accounting was prepared by management, and approved by the Audit Committee on 23 April 2018. This assessment:

- was based on cash flow forecasts for the 2018/19 financial year;
- was consistent with the Trust's 2018/19 financial plan; and
- incorporated other information relating to the next three financial years where available.

## Auditor commentary

Management's formal assessment of the use of the going concern basis of accounting was supported by its financial plan for the 2018/19 year, and forecasting into the 2019/20 year.

We consider Management's process for reaching its judgements to be adequate, and we are satisfied that the assessment is made by members of the Trust who are sufficiently qualified to make those judgements.

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## Work performed

We have:

- held regular discussions with officers about the financial standing of the Trust;
- reviewed management's assessment of going concern assumptions and supporting information, including any 2018/19 and 2019/20 budgets and cash flow forecasts and associated sensitivity analysis; and
- considered the need for disclosures relating to material uncertainties with regard to going concern in the financial statements.

Our work did not identify any material uncertainties in the Trust's going concern assumption.

The Trust's forecasts show that they have sufficient cash available to meet their liabilities for at least the next two financial years, with no requirement for cash support.

We consider that the Trust's financial statements included sufficient narrative regarding the Trust's ability to continue as a going concern.

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## Concluding comments

We issued an opinion that was not modified in respect of going concern.

No events or conditions were identified in the course of the audit that may cast significant doubt on the entity's ability to continue as a going concern.

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# Significant audit risks

## Risks identified in our Audit Plan

## Auditor commentary

1

### Improper revenue recognition

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

Approximately 83% of the Trust's income is from patient care activities and contracts with NHS commissioners. These contracts include the rates for and level of patient care activity to be undertaken by the Trust. The Trust recognises patient care activity income during the year based on the completion of these activities. Patient care activities provided that are additional to those incorporated in these contracts (contract variations) are subject to verification and agreement by the commissioners. As such, there is the risk that income is recognised in the accounts for these additional services that is not subsequently agreed to by the commissioners.

We have identified the occurrence and accuracy of income from contract variations as a risk requiring special audit consideration and a key audit matter for the audit.

### Work performed

We have:

- evaluated the Trust's accounting policy for recognition income from patient care activities for appropriateness;
- gained an understanding of the Trust's system for accounting for income from patient care activities and evaluated the design of the associated controls;
- for significant contracts, obtained a copy of the signed contract with the commissioner, and confirmed the amounts received agree to the contract and a schedule of variations to that contract; and
- agreed a sample of the income from additional non-contract activity in the financial statements to any signed contract variations, invoices, and other supporting documentation, such as correspondence from the Trust's commissioners which confirms their agreement to pay for the additional activity and the value of the income.

### Findings

Our audit work did not identify any issues in respect of revenue recognition.

2

### Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Trust faces pressure to meet external targets, and this could potentially place management under undue pressure in terms of how they report performance.

We identified management override of controls as a risk requiring special audit consideration.

### Work performed

We have:

- gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness;
- obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness; and
- evaluated the rationale for any changes in accounting policies or significant unusual transactions.

### Findings

Our audit work did not identify any issues in respect of management override of controls.

# Significant audit risks

## Risks identified in our Audit Plan

## Auditor commentary

3

### Valuation of property, plant and equipment

The Trust is revaluing key properties in 2017/18 to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the accounts.

We identified land and buildings revaluations and impairments as a risk requiring special audit consideration and a key audit matter for the audit.

### Work performed

We have:

- reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- considered the competence, expertise and objectivity of any management experts used;
- reviewed the basis on which the valuation is carried out and challenged any key assumptions;
- reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding of the Trust and the Trust's assets;
- tested revaluations made during the year to ensure they are input correctly into the Trust's asset register; and
- evaluated the assumptions made by management for any assets not revalued during the year and how they have satisfied themselves that these are not materially different to current value.

### Findings

Work performed has identified a technical adjustment to both the gross book values of, and the accumulated depreciation recognised against, the Trust's land. This has been corrected, and has no impact on the Trust's financial performance or position. Further information on this adjustment can be found on page 16.

Our audit work did not identify any other issues in respect of the valuation of property, plant and equipment.

# Reasonably possible audit risks

## Risks identified in our Audit Plan

## Auditor commentary

1

### Employee remuneration

Payroll expenditure represents a significant percentage (70%) of the Trust's operating expenses. It is made up of staff costs, which are paid weekly or monthly and agency costs which are invoiced to the Trust.

As the payroll expenditure comes from a number of individual transactions and two different sub-systems there is a risk that payroll expenditure in the accounts could be understated.

We therefore identified completeness of payroll expenses as a risk requiring particular audit attention.

### Work performed

We have:

- evaluated the Trust's accounting policy for recognition of payroll expenditure for appropriateness;
- gained an understanding of the Trust's system for accounting for payroll expenditure, including both payroll and agency costs, and evaluated the design of the associated controls;
- reviewed the year-end payroll reconciliation to ensure that the amount in the financial statements can be reconciled to the general ledger and through to payroll reports; and
- undertaken a trend analysis and detailed analytics to ensure pay is materially complete.

### Findings

Our audit work did not identify any issues in respect of the completeness of payroll expenditure.

2

### Operating expenses

Non-pay expenses on other goods and services also represents a significant percentage (28%) of the Trust's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.

We therefore identified completeness of non-pay expenses as a risk requiring particular audit attention.

### Work performed

We have:

- evaluated the Trust's accounting policy for recognition of non-pay expenditure for appropriateness;
- gained an understanding of the Trust's system for accounting for non-pay expenditure and evaluated the design of the associated controls;
- performed detailed substantive testing on operating expenditure recorded for the financial year; and
- tested operating expenditure to ensure cut-off has been correctly applied.

### Findings

Our audit work did not identify any issues in respect of the completeness of operating expenditure.

# Accounting policies

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	Revenue in respect of services provided is recognised when, and to the extent that, performance occurs, and is measured at the fair value of the consideration receivable.	<ul style="list-style-type: none"> <li>The revenue recognition policy is in line with the model policies stated within the Department of Health Group Accounting Manual 2017/18.</li> <li>As a large proportion of the Trust's income is contract based, little estimation is required. We have confirmed significant income back to contracts with commissioning bodies.</li> <li>For other income, audit testing has confirmed that, for the sample selected, the Trust has accounted for income in line with the policy.</li> </ul>	 <b>(green)</b>
<b>Judgements and estimates</b>	Key estimates and judgements include: <ul style="list-style-type: none"> <li>Useful life and valuations of PPE</li> <li>Accruals</li> </ul>	<b>Useful lives and Valuations</b> <ul style="list-style-type: none"> <li>The Trust's accounting policies are appropriate under the requirements of the Department of Health Group Accounting Manual 2017/18.</li> <li>The valuation of property, plant and equipment has been considered in detail as a significant risk on page 7 of this report.</li> </ul> <b>Accruals</b> <ul style="list-style-type: none"> <li>The Trust continues to apply estimates and judgements over accruals.</li> <li>The policies for these items are appropriate under accounting standards.</li> <li>As part of our testing, we have reviewed the judgements applied by the Trust relating to these balances, and have significant items within these balances have been discussed with the Trust in detail.</li> <li>Subject to the results of outstanding work, we have found no material misstatements in the financial statements relating to these balances.</li> </ul>	 <b>(green)</b>
<b>Other critical policies</b>	The Trust has adopted the standard accounting policies as set out in the GAM.	Review of the accounting policies selected by the Trust has not identified any areas where expected policies were inappropriate, omitted or in need revision.	 <b>(green)</b>

## Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

# Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
1 <b>Matters in relation to fraud</b>	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no issues were identified during the course of our audit procedures.
2 <b>Matters in relation to related parties</b>	We are not aware of any related parties or related party transactions which have not been disclosed.
3 <b>Matters in relation to laws and regulations</b>	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we did not identify any incidences from our audit work.
4 <b>Written representations</b>	A standard letter of representation was obtained from the Trust.
5 <b>Confirmation requests from third parties</b>	We requested from management permission to send confirmation requests to the Trust's banks. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
6 <b>Disclosures</b>	Our review found no material omissions in the financial statements.
7 <b>Audit evidence and explanations</b>	All information and explanations requested from management was provided.

# Other responsibilities under the Code

Issue	Commentary
<p>1 <b>Other information</b></p>	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies were identified. We issued an unqualified opinion in this respect.</p>
<p>2 <b>Auditable elements of Remuneration and Staff Report</b></p>	<p>We are required to give an opinion on whether the parts of the Remuneration Report and the Staff Report subject to audit have been prepared properly in accordance with the requirements of the National Health Service Act 2006.</p> <p>Our work auditing the elements of the Remuneration and Staff report, as required by the Code, did not identify any issues.</p>
<p>3 <b>Matters on which we report by exception</b></p>	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> <li>• If the Annual Governance Statement does not meet the disclosure requirements set out in the NHS foundation trust annual reporting manual 2017/18 or is misleading or inconsistent with the other information of which we are aware from our audit.</li> <li>• We have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider that the annual report is fair, balanced and understandable.</li> <li>• The annual report does not appropriately disclose matters that were communicated to the Audit Committee which we consider should have been disclosed.</li> <li>• If we have applied any of our statutory powers or duties.</li> </ul> <p>We have nothing to report on these matters.</p>
<p>4 <b>Review of accounts consolidation schedules and specified procedures on behalf of the DHSC group auditor</b></p>	<p>We are required to give a separate audit opinion on the Trust accounts consolidation schedules and to carry out specified procedures (on behalf of the NAO) on these schedules under the NAO Group audit instructions. In the Group audit instructions the Trust was selected as a non-sampled component.</p> <p>Our procedures on the Trust's accounts consolidation schedules did not identify any issues.</p>
<p>5 <b>Certification of the closure of the audit</b></p>	<p>We certified the closure of the 2017/18 audit of Oxford Health NHS Foundation Trust in our auditor's report.</p>

# Value for Money

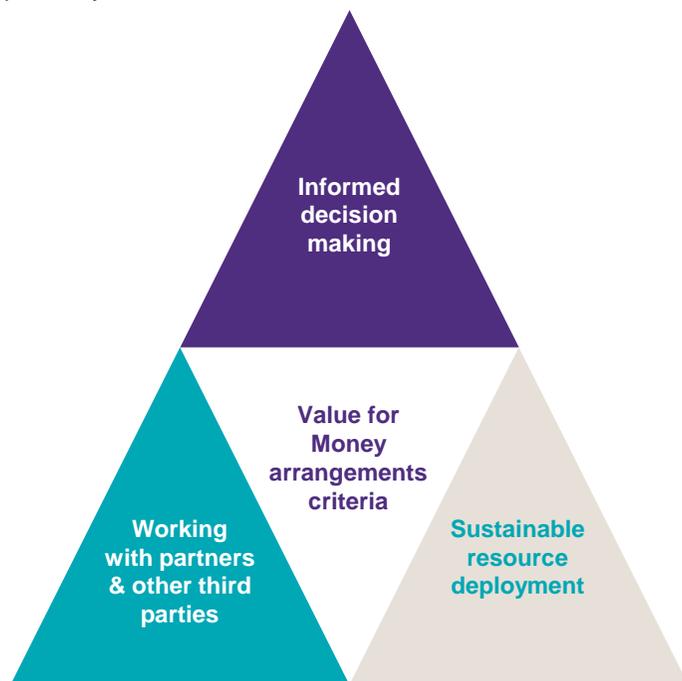
## Background to our VFM approach

We are required to satisfy ourselves that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and report by exception where we are not satisfied. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Trust. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

*"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."*

This is supported by three sub-criteria, as set out below:



## Risk assessment

We carried out an initial risk assessment in January 2018 and identified significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan in April 2018.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risk we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks might determine that arrangements were not operating effectively, we would use the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we would report in our VFM conclusion.

## Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Trust's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Trust's arrangements. Our main considerations are summarised on the next page.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on the following page.

## Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

## Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

## Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Trust had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work Performed	Findings
<p><b>1 Cost Improvement Plans</b></p> <p>At the time of our risk assessment the Trust were forecasting the delivery of £3.0m of cost improvements against initial plans of £7.4m, and within this forecast position were a number of schemes which were not in their initial plans.</p> <p>The Trust were forecasting a year end surplus in line with their control total, but this relied on non-recurrent factors and STF monies. The forecast excluding these factors was an underlying deficit of £0.6m.</p>	<p>We have reviewed the Trust's in year CIPs performance and considered the impact of this on their financial performance and sustainability.</p> <p>We have reviewed the Trust's plans and assumptions for the 2018/19 financial year.</p>	<p>During the year the Trust has experienced a number of significant operational pressures, including significant cost and activity pressures in community services, particularly GP Out of Hours and Community Hospitals, and high demand and acuity in adult mental health services.</p> <p>The Trust achieved £3.8m CIPs against its target of £7.4m for the 2017/18 year and is forecasting a £4.4m shortfall against its CIP target, and a recurrent CIP shortfall of £5.2m going into 2018/19. The Trust's underlying arrangements for delivering CIPs are sound and the reporting and monitoring of schemes is transparent; of particular note it the rigid definition that the Trust applies to its CIPs which mean that other one off benefits are excluded from the target.</p> <p>Despite these arrangements the Trust is not able to identify sufficient schemes to meet its target. This performance against its CIP target is a cause for concern but needs to be set within context. The Trust is actively benchmarking its services and against available measures, such as reference costs, it performs well in comparison to its peers (the organisation wide RCI is 92). The Trust is in discussions with its commissioners to explore the impact that historically low levels of investment, particularly in mental health, have had on services. The Trust is also developing tools which will allow better understanding of productivity within its services which should provide an evidence base from which it can identify future opportunities for efficiencies.</p> <p>The Trust has submitted a 2018/19 financial plan with a forecast surplus of £1.9m, which represents c.0.6% of the forecast turnover. This includes an efficiency savings target of £6.0m (none of which are rated as high risk or are yet to be identified) and STF funding of £2.7m. If the target deficit is not achieved then STF funding is not expected to be received and the Trust may be liable to CCG fines if performance targets are not met.</p> <p>The Trust's forecast cash position remains strong over the 2018/19 financial year, with the financial plan including cash balances well in excess of £10m for the duration of the 2018/19 financial year, with no revenue support.</p>
<p><b>2 Agency staff expenditure</b></p> <p>Like many NHS providers the Trust are in breach of their cap on agency staff expenditure. This puts at risk both clinical outcomes and financial sustainability. It is also one of the performance indicators which forms part of the Finance and use of resources theme of the Single Oversight Framework.</p>	<p>We have maintained a watching brief on the level of expenditure on agency staff.</p> <p>We have considered the actions that the Trust is taking to reduce costs and recruit and retain permanently to vacant roles.</p>	<p>Recruitment and retention of staff at the Trust remains challenging, due in large part to its location. The Trust's agency ceiling for the 2017/18 financial year was £9.1m, but was significantly exceeded. Agency spend for 2017/18 was £21.6m, which equated to 9.5% of total staff costs and 235% of the agency ceiling set by NHSI. It is also an increase on previous years (£17.6m in 2016/17 and £14.1m in 2015/16).</p> <p>The agency ceiling for the Trust for the 2018/19 year has been set at £8.5m. The Trust is taking a number of actions to reduce agency spend and is forecasting that spend in 2018/19 will be significantly lower than 2017/18 at £14.0m. This will still be in excess of the ceiling.</p> <p>The £6m reduction in agency spend constitutes £1.2m (20%) of the 2018/19 CIP.</p>

	Significant risk	Work Performed	Findings
3	<b>Partnership working</b>		
	<p>Delivery of the five year forward view is dependent on closer partnership working. As well as regional working via the STP you play an important role in the development of Integrated Care Systems (ICS) in both Buckinghamshire and Oxfordshire. The future development of the STP and ICS are important to the future delivery of sustainable health outcomes for local people.</p>	<p>We have reviewed the Trust's arrangements for partnership working, and how these align with the arrangements in place at both STP and ICS level.</p>	<p>The Trust plays an active role in partnership working across both Oxfordshire and Buckinghamshire health and care systems and in the STP. This is encouraging as without this involvement there is a risk that the challenges faced in the acute provider sectors of both systems mean that the important role of mental health and community services in the future shape of services may be lost.</p> <p><b>Oxfordshire</b></p> <p>CQC completed a local system review of Oxfordshire in November 2017. It found that there was a lack of system-wide planning and collaboration, and limited formal arrangements in place in the form of collaboration or intra-system accountability frameworks. The CQC determined that the BOB STP had little impact in delivering pan-Oxfordshire transformation, and that the Oxfordshire Health and Wellbeing Board did not have a clear role in influencing a strategic approach to support the joined up delivery of services.</p> <p>Work is underway to develop this overarching vision and this should help to better align much of the transformation work which to date has happened somewhat in isolation. Establishing a consensus around a coherent vision will also provide a framework against which partners and stakeholders can better hold each other to account. To successfully deliver change within the system it is acknowledged that the traditional transactional relationships between partners need to change. The risk share arrangement included in the 2017/18 contract with Oxfordshire CCG is a good example of how attitudes are starting to change. The consistency of leadership across commissioners in both Oxfordshire and Buckinghamshire and the ability to share learning and solutions across the two systems should also help to advance progress.</p> <p><b>Buckinghamshire</b></p> <p>Buckinghamshire is regarded as one of the more advanced health and care system and has a longer standing record of effective partnership working, this is reflected in its inclusion in the first wave of integrated care systems (ICS). The ICS will operate in shadow form until a single system operating plan can be produced. The current financial challenges within the Bucks system and uncertainty over exactly how sustainability funding will operate make delivering against this requirement increasingly complex. However the formal merger of the CCGs and appointment of a managing director for the ICS are important steps in building on the foundations which are already in place.</p> <p><b>STP</b></p> <p>The BOB STP has established a number of working groups looking at areas such as workforce, estates, finance and digital. Work in all these areas is still in its infancy and the appointment of an executive lead for the STP in March should enable faster progress.</p>

# Independence and ethics

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. The firm, its partners, senior managers, and managers have complied with the Financial Reporting Council's Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B.

## Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Trust. The following non-audit services were identified.

Service	£	Threats	Safeguards
<b>Audit related</b>			
Review of the Trust's Quality Report	7,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,000 in comparison to the total fee for the audit of £40,000 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
<b>Non-audit related</b>			
No non-audit related services were identified.			

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Trust's policy on the allotment of non-audit work to your auditors. All services have been approved by the Trust Board. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit. None of the services provided are subject to contingent fees.

# Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

Detail	Statement of Comprehensive Income £'000	Statement of Financial Position £' 000
1 Our work on the revaluations of land and buildings has identified an historic error where depreciation was not appropriately reversed upon revaluation. This has been corrected within the 2016/17 Property, Plant and Equipment disclosure note, but impacts on the 2017/18 year as follows:		
Dr Accumulated Depreciation (Land)		£8,709
Cr Gross Book Value (Land)		(£8,709)
This adjustment has no impact on the Trust's Statement of Financial Position.		
<b>Overall impact</b>	<b>£nil</b>	<b>£nil</b>

## Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure Reference	Detail	Adjusted
Note 9 Operating Leases	Work performed on the future minimum lease payments due identified that the obligations as at 31 March 2017 had been overstated. The prior year comparator has been reduced from £19,374k to £10,285k to correct this.	✓
Note 15 Receivables	Due to a discrepancy noted in the Trust's working papers, a balance of £664k has been reclassified from 'other receivables' to 'trade receivables' at 31 March 2018. This correction is purely presentational in nature.	✓
Various	A number of other minor changes have been made to disclosure notes and accounting policies throughout the financial statements to improve accuracy, clarity and understandability.	✓

# Audit Adjustments

## Impact of unadjusted misstatements and uncertainties

The table below provides details of adjustments and uncertainties identified during the 2017/18 audit which have not been made within the final set of financial statements.

### Detail

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As part of our work on the Trust's PFI liability we compared the accounting model used by the Trust as the basis of the disclosures in the financial statements to information available on the original operator's model from the time that the agreement was signed.

We noted some discrepancies between the lifecycle costs contained within the two models. The Trust believe that the operator's model was updated prior to the commencement of the PFI scheme. Management have been unable to locate further information or later models due to the significant time that has elapsed since the agreement date.

We recalculated the Trust's liability based on the information in the operator's model that is available. Our calculations give a liability at 31 March 2018 of £3,280k, compared to the £4,040k that is given by the Trust's accounting model.

This difference of £760k is considered to be the maximum potential impact. Differing inflation assumptions would lead to a smaller difference. In addition, this difference will reduce over the remaining years of the PFI scheme, which ends in the year 2025.

As the Trust do not believe that the version of the operator's model was the final one, and as this potential difference is not material, the financial statements were not amended.

We are satisfied that this did not give rise to a material misstatement in the Trust's financial statements.

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# Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

## Audit Fees

	Proposed fee	Final fee
Trust Audit	£40,000	£40,000
Charitable Fund Independent Examination	£2,500	TBC
<b>Total audit fees (excluding VAT)</b>	<b>£42,500</b>	<b>TBC</b>

## Non Audit Fees

	Fees
<b>Audit related services:</b>	
Review of the Trust's Quality Account	£7,000
	<b>£7,000</b>

## **Independent auditor's report to the Council of Governors of Oxford Health NHS Foundation Trust**

### **Report on the Audit of the Financial Statements**

#### **Opinion**

##### **Our opinion on the financial statements is unmodified**

We have audited the financial statements of Oxford Health NHS Foundation Trust (the 'Trust') for the year ended 31 March 2018 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the NHS foundation trust annual reporting manual 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Trust as at 31 March 2018 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, as interpreted and adapted by the NHS foundation trust annual reporting manual 2017/2018; and
- have been prepared in accordance with the requirements of the National Health Service Act 2006.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Trust in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Who we are reporting to**

This report is made solely to the Council of Governors of the Trust, as a body, in accordance with Schedule 10 of the National Health Service Act 2006. Our audit work has been undertaken so that we might state to the Trust's Council of Governors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trust and the Trust's Council of Governors, as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Accounting Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Accounting Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Trust's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

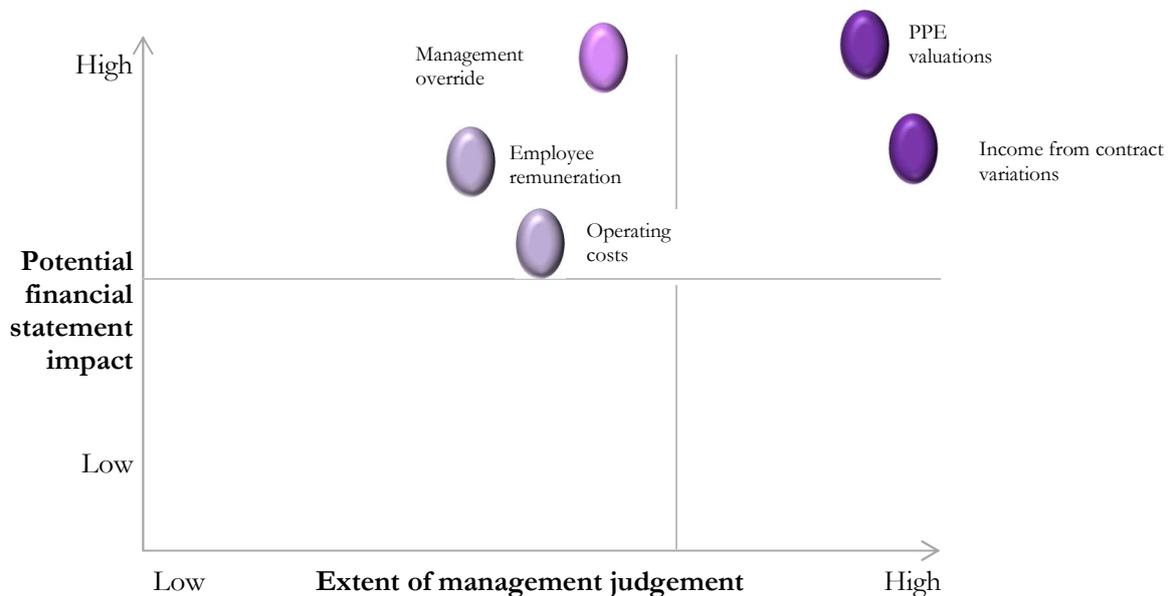


### Overview of our audit approach

- Overall materiality: £5,484,000 which represents 1.8% of the Trust's total expenditure;
- Key audit matters identified:
  - Income from contract variations; and
  - Revaluation and impairment of land and buildings
- This was our first year as auditor of the Trust.
- We have tested all of the Trust's material income streams covering over 99% of the Trust's income, 99% of the Trust's expenditure and 99% of the Trust's net assets

### Key audit matters

The graph below depicts the audit risks identified and their relative significance based on the extent of the financial statement impact and the extent of management judgement.



Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the matter was addressed in the audit
<p><b>Income from contract variations</b></p> <p>73.6% of the Trust's income from patient care activities is derived from contracts with NHS commissioners.</p> <p>These contracts include the rates for, and level of, patient care activity to be undertaken by the Trust. Any patient care</p>	<p>Our audit work included, but was not restricted to:</p> <ul style="list-style-type: none"> <li>• evaluating the accounting policy for recognition of income from patient care activities for appropriateness and consistency with the prior year;</li> <li>• gaining an understanding of the Trust's system for accounting for income from patient care activities and evaluating the design of the associated controls; and</li> </ul>

<b>Key Audit Matter</b>	<b>How the matter was addressed in the audit</b>
<p>activities provided that are additional to those incorporated in these contracts (contract variations) are subject to verification and agreement by the Trust's commissioners.</p> <p>We therefore identified the occurrence and accuracy of income from contract variations as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<ul style="list-style-type: none"> <li>• agreeing, on a sample basis, income from additional activity to any signed contract variations, invoices, and other supporting evidence such as correspondence from the Trust's commissioners which confirms their agreement to pay for the additional activity and the value of the income.</li> </ul> <p>The Trust's accounting policy on recognising income from patient care activities is shown in note 1.4 to the financial statements and related disclosures are included in note 3.</p> <p><b>Key observations</b></p> <p>We obtained sufficient audit evidence to conclude that:</p> <ul style="list-style-type: none"> <li>• the Trust's accounting policy for recognition of income from patient care activities complies with the DHSC Group Accounting Manual 2017/18 and has been properly applied; and</li> <li>• income from contract variations is not materially misstated.</li> </ul>
<p><b>Revaluation and impairment of land and buildings</b></p> <p>The Trust is revaluing key properties in 2017/18 to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We therefore identified revaluation and impairment of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Our audit work included, but was not restricted to:</p> <ul style="list-style-type: none"> <li>• evaluating management's processes and assumptions for calculation of the estimate, including the instructions issued to valuation expert and the scope of their work;</li> <li>• assessing the competence, capabilities and objectivity of the valuation experts used by the Trust;</li> <li>• enquiring with the valuer about the basis on which the valuations were carried out, and challenging key assumptions used by the valuer;</li> <li>• testing the information used by the valuer to ensure it was complete, robust and consistent with our understanding;</li> <li>• testing, on a sample basis, revaluations made during the year to ensure they were input correctly to the Trust's asset register;</li> <li>• assessing the overall reasonableness of the valuation movement; and</li> <li>• evaluating the assumptions made by management for those assets not revalued during the year, and assessing how management has satisfied themselves that the values of those assets are not materially different to current value.</li> </ul> <p>The Trust's accounting policy on plant, property and equipment is shown in note 1.7 to the financial statements and related disclosures are included in note 14.</p> <p><b>Key observations</b></p> <p>We obtained sufficient audit evidence to conclude that:</p> <ul style="list-style-type: none"> <li>• the Trust's accounting policy for valuation of land and buildings complies with the DHSC Group Accounting Manual 2017/18 and has been properly applied; and</li> <li>• the valuation of land and buildings is not materially misstated.</li> </ul>

## Our application of materiality

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 in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

Materiality Measure	Trust
Financial statements as a whole	£5,484,000 which is 1.8% of the Trust's total expenditure. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how it has expended its revenue and other funding.
Performance materiality used to drive the extent of our testing	75% of financial statement materiality.
Specific materiality	The senior officer remuneration disclosure in the Remuneration Report has been identified as an area requiring specific materiality of £10,000 based on the disclosure bandings, due to its sensitive nature.
Communication of misstatements to the Audit Committee	£274,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall materiality - Trust



## An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the Trust's business, its environment and risk profile and in particular included:

- Gaining an understanding of and evaluating the Trust's internal control environment including its IT systems and controls over key financial systems; and
- Testing, on a sample basis of:
  - all of the Trust's material income streams, covering over 99% of the Trust's income;
  - operating expenses, covering over 99% of the Trust's expenditure; and
  - plant, property and equipment and the Trust's other assets and liabilities, covering over 99% of the Trust's net assets.

## Other information

The Accounting Officer is responsible for the other information. The other information comprises the information included in the Annual Report set out on pages 1 to 125, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Trust obtained in the course of our work including that gained through work in relation to the Trust's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable (set out on page 19) in accordance with provision C.1.1 of the NHS Foundation Trust Code of Governance – the statement given by the directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for patients, regulators and other stakeholders to assess the group and Trust's performance, business model and strategy, is materially inconsistent with our knowledge of the Trust obtained in the audit; or
- Audit Committee reporting (set out on pages 79 to 84) in accordance with provision C.3.9 of the NHS Foundation Trust Code of Governance – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

### **Other information we are required to report on by exception under the Code of Audit Practice**

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not meet the disclosure requirements set out in the NHS foundation trust annual reporting manual 2017/18. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

### **Our opinion on other matters required by the Code of Audit Practice is unmodified**

In our opinion:

- the parts of the Remuneration Report and the Staff Report to be audited have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the NHS foundation trust annual reporting manual 2017/18 and the requirements of the National Health Service Act 2006; and
- based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Trust gained through our work in relation to the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under Schedule 10 (3) of the National Health Service Act 2006 in the course of, or at the conclusion of the audit; or
- we have referred a matter to the regulator under Schedule 10 (6) of the National Health Service Act 2006 because we had reason to believe that the Trust, or a director or officer of the Trust, was about to make, or had made, a decision which involved or would involve the incurring of expenditure that was unlawful, or was about to take, or had taken a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency.

We have nothing to report in respect of the above matters.

### **Responsibilities of the Accounting Officer and Those Charged with Governance for the financial statements**

As explained more fully in the Statement of Accounting Officer's responsibilities set out on pages 107 to 108, the Chief Executive, as Accounting Officer, is responsible for the preparation of the financial statements in the form and on the basis set out in the Accounts Directions included in the NHS foundation trust annual reporting manual 2017/18, for being satisfied that they give a true and fair view, and for such internal control as the Accounting Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Accounting Officer is responsible for assessing the Trust's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trust lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Trust.

The Audit Committee is Those Charged with Governance.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Report on other legal and regulatory requirements – Conclusion on the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources**

#### **Matter on which we are required to report by exception - Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources**

Under the Code of Audit Practice we are required to report to you if, in our opinion we have not been able to satisfy ourselves that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We have nothing to report in respect of the above matter.

### **Responsibilities of the Accounting Officer**

The Accounting Officer is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in the use of the Trust's resources.

### **Auditor's responsibilities for the review of the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources**

We are required under paragraph 1 of Schedule 10 of the National Health Service Act 2006 to be satisfied that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and to report where we have not been able to satisfy ourselves that it has done so. We are not required to consider, nor have we considered, whether all aspects of the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects, the Trust had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Trust put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018, and to report by exception where we are not satisfied.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Trust has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

### **Report on other legal and regulatory requirements - Certificate**

We certify that we have completed the audit of the financial statements of Oxford Health NHS Foundation Trust in accordance with the requirements of Chapter 5 of Part 2 of the National Health Service Act 2006 and the Code of Audit Practice.

*Iain Murray*

Iain Murray  
Director  
for and on behalf of Grant Thornton UK LLP

Grant Thornton UK LLP  
30 Finsbury Square  
London  
EC2A 1AG

24 May 2018



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