Buckinghamshire Healthcare NHS Trust

Annual Audit Letter for the year ended 31 March 2016

July 2016

Ernst & Young LLP
In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16”. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Directors/Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.
Executive Summary
Executive Summary

We are required to issue an annual audit letter to Buckinghamshire Healthcare NHS Trust (the Trust) following completion of our audit procedures for the year ended 31 March 2016.

Below are the results and conclusions on the significant areas of the audit process.

<table>
<thead>
<tr>
<th>Area of Work</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opinion on the Trust's:</td>
<td></td>
</tr>
<tr>
<td>► Financial statements</td>
<td>Unqualified - the financial statements give a true and fair view of the financial position of the Trust as at 31 March 2016 and of its expenditure and income for the year then ended</td>
</tr>
<tr>
<td>► Parts of the remuneration and staff report to be audited</td>
<td>We had no matters to report.</td>
</tr>
<tr>
<td>► Consistency of the Annual Report and other information published with the financial statements</td>
<td>Financial information in the Annual report and published with the financial statements was consistent with the Annual Accounts</td>
</tr>
</tbody>
</table>
### Area of Work | Conclusion
--- | ---
**Reports by exception:**
- **Consistency of Governance Statement**
  The Governance Statement was consistent with our understanding of the Trust.
- **Referrals to the Secretary of State [and NHS England]**
  We exercised our statutory audit powers under Section 30 of the Local Audit and Accountability Act 2014 to refer the Trust to the Secretary of State where we have sufficient concern or reason to believe that the Trust would be in breach of its “breakeven duty” over a three year period. For further details see page 17.
- **Public interest report**
  We had no matters to report in the public interest.
- **Value for money conclusion**
  We reported by exception in respect of; weaknesses in proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

### Area of Work | Conclusion
--- | ---
**Reporting to the Trust on its consolidation schedules**
We concluded that the Trust’s consolidation schedules agreed, within a £250,000 tolerance, to your audited financial statements.

**Reporting to the National Audit Office (NAO) in line with group instructions**
We had no matters to report.
As a result of the above we have also:

<table>
<thead>
<tr>
<th>Area of Work</th>
<th>Conclusion</th>
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<tr>
<td>Issued a report to those charged with governance of the Trust communicating significant findings resulting from our audit.</td>
<td>Our Audit results report was issued on 31 May 2016.</td>
</tr>
<tr>
<td>Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office’s 2015 Code of Audit Practice.</td>
<td>Our certificate was issued on 31 May 2016.</td>
</tr>
</tbody>
</table>

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

Neil Harris

Executive Director
For and on behalf of Ernst & Young LLP
Purpose
Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Trust.

We have already reported the detailed findings from our audit work in our 2015/16 annual results report to the 26 May 2016 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Trust.
Responsibilities
Responsibilities

Responsibilities of the Appointed Auditor

Our 2015/16 audit work has been undertaken in accordance with the Audit Plan that we issued on 1 March 2016 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

Expressing an opinion:

► On the 2015/16 financial statements;
► On the parts of the remuneration and staff report to be audited;
► On the consistency of other information published with the financial statements, including the annual report; and
► On whether the consolidation schedules are consistent with the Trust's financial statements for the relevant reporting period.

Reporting by exception:

► If the annual governance statement does not comply with relevant guidance or is not consistent with our understanding of the Trust;
► To the Secretary of State for Health if we have concerns about the legality of transactions of decisions taken by the Trust; and
► Any significant matters that are in the public interest.
► Forming a conclusion on the arrangements the Trust has in place to secure economy, efficiency and effectiveness in its use of resources.

Reporting to the National Audit Office (NAO) on an exception basis any significant issues or outstanding matters arising from our work which are relevant to the NAO as group auditor.

Undertaking any other work specified by the Code of Audit Practice or the Public Sector Audit Appointments Limited (PSAA).

Responsibilities of the Trust

The Trust is responsible for preparing and publishing its statement of accounts, annual report and annual governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
**Financial Statement Audit**

**Key Issues**

The Annual Report and Accounts is an important tool for the Trust to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Trust's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 31 May 2016.

Our detailed findings were reported to the 26 May 2016 Audit Committee.

The key issues identified as part of our audit were as follows:

<table>
<thead>
<tr>
<th>Significant Risk</th>
<th>Conclusion</th>
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<tbody>
<tr>
<td>PFI Liability valuation</td>
<td>No significant issues were identified from the testing undertaken and assurance has been gained to address this risk</td>
</tr>
<tr>
<td>The PFI liability represents a large element of the balance sheet. As at 31 March 2015, the total PFI liability was £63 million, which represents 54% of the Trust’s total liabilities.</td>
<td></td>
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<tr>
<td>The accounting entries are based on a complex range of assumptions via PFI accounting models. As these models have not been reviewed in detail for a number of years, we consider it timely to review this model in 2015/16.</td>
<td></td>
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<tr>
<td>Risk of fraud in revenue recognition.</td>
<td>No significant issues were identified from the testing undertaken and assurance has been gained to address this risk.</td>
</tr>
<tr>
<td>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit.</td>
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</table>
**Property valuation.**
As at 31 March 2015, the total value of land and buildings was £228 million which represents 74 per cent of the Trust's total assets.
In 2015/16, the Trust commissioned external valuation consultants to carry out a desk top valuation of its land and buildings (following a full valuation in 2014/15). Annually assets are assessed to identify whether there is any indication of impairment.
The valuation is based on a number of complex assumptions. Given the high value of these assets, a small change in these assumptions can lead to a material change in value.

No significant issues were identified from the testing undertaken and assurance has been gained to address this risk.

**Management override of controls**
Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

No issues were identified from the testing undertaken and assurance has been gained to address this risk.

**Going concern**
The Trust's financial plan assumes a deficit position for 2016/17. We have raised a significant VFM risk on the Trust's future financial sustainability and financial resilience. In preparing the 2015/16 financial statements, the Trust also needs to formally consider whether it

Assurance has been gained to address this risk. The Trust has enhanced its disclosure in accounts to support assertion that it can operate as a going concern in next 12 months. This is supported by NHSI/TDA letter and the adequacy of their cash forecasts and financing for the next 12 months to fund the projected 16-17 deficit budget of £8.884 million.
is a going concern and if it is appropriate for the Trust to continue to prepare its accounts on that basis. One important consideration is whether the Trust’s cash position is sufficient to be able to pay next year’s deficit and to continue to operate.
### Other Key Findings

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<tr>
<th>Conclusion</th>
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<tr>
<td><strong>We identified a number of disclosure errors during the course of the audit that have been adjusted. There were 32 in total; 24 were audit identified errors, 8 were presentational issues.</strong></td>
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<td><strong>We recommend that management complete a quality review of the draft financial statements prior to presenting them for audit. This including ensuring that all working papers support figures in the accounts.</strong></td>
</tr>
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<td><strong>There remained a high number of agreement of balances mismatches in mid-late May 2016 which the Trust addressed before we concluded our audit. The agreement of balances exercise is an iterative process throughout the financial year and the Trust is exposed to financial and contractual risks if it does not pursue and resolve mismatches and differences on a timely basis.</strong></td>
</tr>
<tr>
<td><strong>We recommend that the Trust proactively engages in the agreement of balances exercise at all key intervals throughout the financial year, and be able to document and justify its judgement on any differences and/or disputed items with counter-parties, supported by third party evidence and confirmations.</strong></td>
</tr>
<tr>
<td><strong>We have identified some weaknesses in fixed asset records. The Trust does not hold records that link the entries in the revaluation reserve to individual assets. Secondly we found that the opening balances for cost and valuation of assets did not reconcile to the fixed asset register because when assets were disposed of the related cost and depreciation of these assets had not been removed from Note 14.1.</strong></td>
</tr>
<tr>
<td><strong>We recommend that management ensure fixed asset records are complete, accurate, and up to date.</strong></td>
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Value for Money
Value for Money

We are required to consider whether the Trust has put in place ‘proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.
We noted the following issues as part of our audit in relation to the Trust’s arrangements. The Trust planned a surplus of £3.6 million for the year ended 31 March 2016 but reported a deficit of £10.9 million in its financial statements for the year then ended. The Trust has not yet succeeded in addressing the underlying deficit in its budget and is forecasting a further deficit of £8.8 million for 2016/17 which is dependent upon achieving a £14.6 million cost improvement plan. This issue is evidence of weaknesses in proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. We therefore issued a qualified value for money conclusion in relation to arrangement’s to secure the Trust’s financial recovery and resilience on 31 May 2016.

Key Findings

Circumstances giving rise to the proposed ‘except for’ qualification

Buckinghamshire Healthcare NHS Trust is reporting a £10.9 million deficit for the 2015/16 financial year, £14.5 million in excess of its planned position of a £3.6 million surplus. The Trust’s cumulative deficit as at 31 March 2016 is £17.6 million which is currently not a significant proportion (4.8%) of the Trust’s annual turnover which is currently £370 million for the 2015/16 financial year. Since forecasting a £3.6 million surplus for the 2015/16 financial year, the Trust’s financial position has deteriorated for the following reasons:

- Shortfall in activity income of £4.5 million.
- £4 million cost pressure associated with its planned elective activity, and use of agency and locum staff.
- Adverse variance on non-pay of close to £5 million with main pressures being on drugs and clinical consumables.
- £1.2 million shortfall in delivery of Cost Improvement measures.

In response to the Trust’s financial position, the Trust Board and Executive have issued a financial narrative on its website before 31 March 2016 setting out for the public and stakeholders what led to the deficit and what actions were being taken to secure sustainable financial balance and deliver a financial recovery plan. The Trust is also actively working with the NHS Trust Development Authority and partners in the Buckinghamshire and Thames Valley Healthcare System to explore all options to secure a sustainable financial plan in the medium to long term. The Trust have acknowledged in Board papers and in its financial narrative that there were weaknesses in arrangements for ownership of budget setting, management, monitoring and how effective financial, contract and performance data was used to forecast and manage the Trust’s financial position.

This has triggered the following response for our 2015/16 audit:

- Forecasting a deficit budget for the 2016/17 financial year and for the second year in succession. A section 30 referral was issued to the Secretary of State, Department of Health on the 4 April 2016 on the grounds that we currently do not have sufficient evidence to conclude that the Trust would not be in breach of its “breakeven duty”.
- Weaknesses in arrangements for budget ownership, setting and monitoring. An except for qualification of the Value for Money Conclusion on the grounds that we have evidence that Trust has during the course of the 2015/16 financial year had weaknesses in proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.
Other Reporting Issues
Other Reporting Issues

Department of Health/NHS England Group Instructions
We are only required to report to the NAO on an exception basis if there were significant issues or outstanding matters arising from our work. There were no such issues.

Annual Governance Statement
We are required to consider the completeness of disclosures in the Trust’s annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with relevant guidance.

We completed this work and identified a small number of areas where further disclosure was required to reflect the position at the Trust and ensure compliance with guidance. The Trust amended the annual governance statement to include these areas.

Referral to Secretary of State
We must report to the Secretary of State any matter where we believe a decision has led to, or would lead to, unlawful expenditure, or some action has been, or would be, unlawful and likely to cause a loss or deficiency. We had to report the following issue:

The Trust is forecasting a deficit budget for the 2016/17 financial year and for the second year in succession. A section 30 referral was issued to the Secretary of State, Department of Health on the 4 April 2016 on the grounds that we currently do not have sufficient evidence to conclude that the Trust would not be in breach of its “breakeven duty”.

Report in the Public Interest
We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Trust or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Control Themes and Observations
As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.
The matters reported are shown below and are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported.

We have no such matters to report.
Focused on your future
Focused on your future

<table>
<thead>
<tr>
<th>Area</th>
<th>Issue</th>
<th>Impact</th>
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</table>
| NHS provider financial pressures  | Draft 2015/16 financial statements show NHS providers overspent by a record £2.45 billion for the year. The scale of this overspending is unprecedented. Despite additional funding and significant efforts to reduce deficits, record numbers of trusts overspent and the overall deficit is likely to be three times higher than in 2014/15. Some 48 trusts reported a deficit of more than £20 million, including 11 trusts reporting an individual deficit of more than £50 million.  
At the same time, performance against key targets is continuing to deteriorate and there are increasing concerns over the quality of services. Providers as a whole missed the Accident and Emergency waiting target of seeing 95 percent of patients within four hours for the final quarter of the year, and waiting lists for routine operations reached 3.34 million.  
It is not yet clear whether trusts’ financial performance for the year will cause the Department of Health to exceed its spending limit for 2015/16, a serious breach of parliamentary protocol. Whether or not there is a breach, NHS trusts will start 2016/17 with a collective deficit of around £1 billion more than planned. Without change there is the potential for the increasing financial pressure to impact further on levels of patient care. | The scale of the financial challenges faced by NHS providers impacts all aspects of their operations. It is therefore a key driver of audit risk and impacts our approach.                                                                                                                                                                                               |
| Sustainability and Transformation Plans | NHS England’s document, Delivering the Forward View: NHS planning guidance 2016/17-2020/21, published in December 2015, asks local health systems, including local government, voluntary and community partners, to work together to secure transformation change in healthcare planning and delivery.  
For this purpose England has been divided into 44 local health systems, made up of local councils, CCGs and NHS and other providers. Each health system needs to produce, by the end of June 2016, a Sustainability and Transformation Plan covering the next five years.  
The initial requirement is for CCGs and providers to control Bodies will need to work together to a far greater extent than ever before to ensure that sustainability and financial plans are viable, and successfully delivered. Failure to do this could have wider adverse financial and service delivery consequences across the whole local area.  
As your external auditor we need to gain an understanding of your wider approach and plans, and the impact of greater partnership working on your governance, internal control and financial reporting. |                                                                                                                                                                                                                                                                                                                                                           |
expenditure and stay within budget in 2016-17. Subsequently, spending and performance will need to be managed sustainably over the following four years in order to access the available transformation funding. This is intended to fund changes to service delivery while maintaining and improving patient safety and quality over the years 2017-21. Failure to deliver on targets agreed will result in bodies being unable to access transformation funding, which will from now on be the only additional funds available.
Appendix A

Audit Fees
Appendix A  Audit Fees

Our fee for 2015/16 is in line with the scale fee set by the PSAA and reported in our 1 March 2016 Audit Plan.

<table>
<thead>
<tr>
<th>Description</th>
<th>Final Fee 2015/16 GBP</th>
<th>Planned Fee 2015/16 GBP</th>
<th>Scale Fee 2015/16 GBP</th>
<th>Final Fee 2014/15 GBP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Audit Fee - Code work</td>
<td>TBC</td>
<td>£83,790</td>
<td>£83,790</td>
<td>£111,720</td>
</tr>
<tr>
<td>Non-audit work [Quality Accounts]</td>
<td>£10,000</td>
<td>£10,000</td>
<td>£10,000</td>
<td>£10,000</td>
</tr>
</tbody>
</table>

We will be charging an additional fee of £2,933 for extra audit procedures we undertook to verify the Trust’s year-end financial position, to prepare, consult and issue our section 30 referral issued on 4th April 2016. This has been discussed with management and agreed with PSAA.

We will be charging an additional fee, to be confirmed, for additional audit procedures that we undertook outside the planned scope of our 2015/16 audit:

- Review and consultation over the £857k reduction to expenditure for a business rates rebate
- Amendments to fixed asset figures
- Investigation of agreement of balances mis-matches
- Work on the recoverability of debtors
- Checking of 2 iterations of the final version of the statements due to the level of amendments required

This has been discussed with management and is subject to agreement with PSAA.

We confirm that we have undertaken non-audit work outside of the Public Sector Audit Appointment Ltd Code requirements in relation to our work on the Quality Report. We have adopted the necessary safeguards in our completion of this work.