Buckinghamshire Healthcare NHS Trust
Annual Audit Letter for the year ended 31 March 2014
July 2014

Ernst & Young LLP
Trust Board  
Buckinghamshire Healthcare NHS Trust  
Whielden Street  
Amersham  
HP7 0JD

17 July 2014

Dear Board Members

Annual Audit Letter 2013/14

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

We have already reported the detailed findings from our audit work in our 2013/14 Annual Results Report to the 30 May 2014 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter.

We also make reference to our Limited Assurance work on the Trust's Quality Report, on which we issued our report on 27 June 2014.

The matters reported here are the most significant for the Trust.

Also, the Audit Commission recently published on its website the reports that set out performance against their requirements for compliance and quality for each of the firms. We are pleased that our report 'Ernst & Young 2013/14 Annual Regulatory Compliance and Quality Report' evidences that we have achieved the top rating available. This is an excellent result which reflects our drive to deliver first-rate external audit service to our clients and it provides assurance to you on the quality of our audit work.

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

Yours faithfully

Maria Grindley  
Director  
For and on behalf of Ernst & Young LLP  
Enc.
In April 2014 the Audit Commission issued a revised version of the ‘Statement of responsibilities of auditors and audited bodies’ (Statement of responsibilities). It is available from the accountable officer of each audited body and via the Audit Commission’s website.

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission’s 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 Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (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 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.
1. **Executive summary**

1.1 **Respective responsibilities**

Our 2013/14 audit work has been undertaken in accordance with the Audit Plan that we issued in March 2014 and updated in May 2014 and is conducted in accordance with the Audit Commission’s Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Trust is responsible for preparing and publishing its statement of accounts, annual report and annual governance statement.

As auditors we are responsible for:

- expressing an opinion:
  - on the 2013/14 financial statements;
  - on the parts of the remuneration report to be audited; and
  - on the consistency of the information given in the annual report with the financial statements;

- reporting by exception:
  - if the annual governance statement does not comply with NHSE guidance or is not consistent with our understanding of the Trust;
  - to the Secretary of State for Health and NHS England 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) any differences over £250,000 between the accounts template used for the production of the whole of government accounts (WGA) and the audited financial statements; and,

- undertaking any other work specified by the Code of Audit Practice.
## 1.2 Audit findings

Summarised below are the results of our work across all of our areas of audit responsibility:

<table>
<thead>
<tr>
<th>Area of work</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opinion on the:</td>
<td></td>
</tr>
<tr>
<td>► Financial statements</td>
<td>Unqualified opinion – the accounts reported a true and fair view on the Trust's finances.</td>
</tr>
<tr>
<td>► Parts of remuneration report to be audited</td>
<td>No matters to report – the remuneration report was prepared properly within the rules set.</td>
</tr>
<tr>
<td>► Consistency of the Annual Report with the Financial Statements</td>
<td>Information in the Annual Report was consistent with the Financial Statements.</td>
</tr>
<tr>
<td>Reports by exception:</td>
<td></td>
</tr>
<tr>
<td>► Consistency of Governance Statement</td>
<td>The Governance Statement was consistent with our understanding of the Trust.</td>
</tr>
<tr>
<td>► Referrals to the Secretary of State and NHS England</td>
<td>No matters to report or refer.</td>
</tr>
<tr>
<td>► Public interest report</td>
<td>No matters to report in the public interest.</td>
</tr>
<tr>
<td>Value for money conclusion</td>
<td>Qualified conclusion. See section 2.2 for more details.</td>
</tr>
<tr>
<td>Reporting to the National Audit Office (NAO) in line with group instructions</td>
<td>No matters to report.</td>
</tr>
<tr>
<td>Review of the Trust’s Quality Account</td>
<td>Qualified opinion on the limited assurance report. See section 4 for more details.</td>
</tr>
<tr>
<td>Control themes and observations</td>
<td>No matters to report.</td>
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</table>

**As a result of the above we have also:**

Issued a report to those charged with governance of the Trust communicating significant findings resulting from our audit.

Issued a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.
2. Key findings

2.1 Financial statement audit

We audited the Trust’s Statement of Accounts in line with the Audit Commission’s Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and issued an unqualified audit report on 5 June 2014.

Our detailed findings were reported to the 30 May 2014 Audit Committee. The key findings are summarised as follows:

**Significant risk: Consolidation of NHS Trust Charities:**

**Description and conclusion**

From 2013/14, NHS bodies are required to consolidate NHS Charitable Funds and any other Funds that are considered to be under common control under the terms of IAS 27 Consolidated and Separate Financial Statements. As this is a change accounting policy, IAS 8 requires the restatement of comparators for 2012/13, with accounts presenting the Statement of Financial Position as at 1 April 2012, 31 March 2013 and 31 March 2014 as if the a charitable fund had always been consolidated.

The consolidation presents two key challenges:

- charitable fund accounts themselves are prepared under the Charities Statement of Recommended Practice (SORP) which is UK GAAP based; and
- the timetable for the submission of the Charitable Fund accounts to the Charity Commission does not align with that of the main NHS Trust accounts.

Following completion of our work we have no issues to raise with you with regards to the consolidation of NHS Trust charities.

**Risk of management override**

**Description and conclusion**

As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records 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 engagement.

We have no matters to raise as a result of our work with regards to the management override risk.

We identified three misstatements in the draft financial statements that were not amended. These relate to the percentage rate used for the calculation of injury cost recovery provision and two errors in the break-even performance calculation. The combined impact is to reduce the break-even position to £7k. The Trust explained their rationale for not adjusting for these misstatements in the letter of representation.
2.2 **Value for money conclusion**

We carry out sufficient and relevant work to conclude whether the Trust has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This is known as our value for money conclusion.

We identified one significant risk in relation to these criteria. We carried out the work required as follows:

- We reviewed the Governance Statement;
- We reviewed the results of the work of other regulatory bodies or inspectorates and considered the impact on our responsibilities; and
- We undertook risk-based work considering guidance from the Audit Commission. Our work focused on the specific areas of:
  - Achievement of the 2013-14 Cost Improvement Programmes (CIPs) and arrangements for setting the 2014-15 CIPs;
  - 2014-15 budget setting considerations; and
  - The Trust’s medium term financial planning.

### Significant risk

#### Financial resilience

The continuing financial pressure on the Trust and the resulting need to focus on financial resilience and efficient use of resources are significant short and medium term challenges.

Our key findings were:

- The Trust delivered just above its revised predicted surplus of £287k in the year. Key to the achievement of this was the benefit of £604k from a review of their estimate of asset lives. This has been reviewed as part of audit and we have no audit concerns arising from the change to asset lives.
- The Trust had a CIP target of £24.4m and delivered £18.3m of which circa £7m was non-recurrent. The original CIP did not include any non-recurrent savings. It achieved a further £3.2m through its recovery plan.
- The Trust has had to manage its cash position through the use of temporary loans and the receipt of permanent PDC.
- Following this challenging year, the Trust has taken steps to ensure its plans for the next two years are more robust.
- A Transformation Director (TD) was appointed in December 2013 for a period of 6 months with a view to developing a robust and sustainable operating plan for 2014/15 and 2015/16. The TD has made changes to the way the Trust builds up its CIP, removing any brought forward and slipped schemes and effectively starting from a blank page.
- The Trust has submitted its 2014/15 plan predicting a £250k surplus and a similar level for 2015/16 and this has been submitted to the TDA. The Trust has set an operating plan which it believes will mitigate the pressures and under delivery faced in 2013/14.
- The 2014/15 operating plan includes an efficiency target of £22.9m. As at May 2014, £22.6m of schemes have been identified. Work streams and schemes are at varying stages of the assurance process which all require a PID, detailed plans and a quality impact assessment (QIA). As at May 2014, 81% of work streams by value have agreed PIDs, and associated QIA statements.
- The 2014/15 plan represents a significant challenge to the Trust in terms of CIP delivery, cash management, QIPP pressures and operational delivery.
We qualified the value for money conclusion as:

► The Trust did not deliver its operating plan for 2013/14 and was reliant on one-off non-recurring items to achieve a small surplus;

► The Trust required temporary financial support from the Department of Health to manage its cash position; and

► The process for ensuring the schemes underpinning the 2013/14 cost improvement programme were insufficiently robust to ensure the individual schemes and therefore the overall required cost reduction was deliverable. As a result, the Trust did not deliver its required cost improvements and consequently relied on a significant proportion of non-recurrent savings not included in the original programme.

We recognised that the Trust has implemented a new process for developing its future cost improvement programme. It has also reviewed its governance arrangements and implemented a revised governance structure to support robust financial challenge and transparency around the financial position.

With the exception of the matter described above, we were satisfied that, in all significant respects, the Trust had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

2.3 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 Department of Health guidance.

We completed this work and did not identify any areas of concern.

2.4 Department of Health group instructions

We reported to the National Audit office (NAO) on 5 June 2014 the outcomes of our review of your accounts template conducted under the departmental account group instructions issued by the NAO. We have no matters to report.
3. **Control themes and observations**

As part of our audit of the financial statements, 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 communicated to those charged with governance at the Trust, as required, significant deficiencies in internal control.

We have no matters to report.
4. Independent Assurance Report on the Quality Account

We are required by the Audit Commission to perform an independent assurance engagement in respect of Buckinghamshire Healthcare NHS Trust's Quality Account for the year ended 31 March 2014.

As auditors we are required to:

► Review the content of the Quality Account for its compliance with relevant Regulations;
► Review the content of the Quality Account to ensure that it is consistent with other specified information sources specified in the NHS Quality Accounts Auditor Guidance 2013/14 issued by the Audit Commission on 17 February 2014;
► Undertake substantive sample testing on two indicators; and
► Provide the Trust with a Limited Assurance Report.

We reviewed the Trust’s Quality Account and found that its content was compliant with the Regulations and the Audit Commission’s Auditor Guidance and was consistent with other information published by the Trust.

We undertook testing on two indicators:

► Percentage of patient safety incidents that resulted in severe harm or death; and
► Rate of clostridium difficile infections.

We found the clostridium difficile indicator to be fairly stated.

We have been unable to conclude that the percentage of patient safety incidents that resulted in severe harm or death is fairly stated as the Trust was unable to reconcile the data from the National Reporting and Learning Service to that on the patient safety software, DATIX. We did not identify any incidents that had been incorrectly categorised.

As a result of the work that we have performed, we have issued a qualified Limited Assurance Report to the Trust.
5. Fees

We confirm that the final fee for 2013/14 was in line with the scale fee set by the Audit Commission and as reported to you in our Annual Results Report of £121,720.