

Council of Governors Meeting: Thursday 20 October 2016
CoG2016.20

Title	External Audit Report
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Purpose	To receive the Annual Audit Letter and provide supporting information on External Audit.
History	<p>The reappointment of the external auditor was approved by the Council of Governors on 21 October 2015 (CoG2015.08).</p> <p>A briefing paper on External Audit and the relationship with the Council of Governors was provided at a governors' seminar on 20 September.</p>

Executive Summary

1. The report describes the work of the external auditors and the governance framework in which they operate. It explains the relationship between the Audit Committee and the Council of Governors.
2. It brings to the attention of the Council of Governors, the Annual Report of the Audit Committee to the Board of Directors.
3. It summarises the findings from the “Annual Letter to the Governors” from Ernst & Young
4. It identifies that a process is being put in place to ensure the appointment of external auditors for the 2017/18 financial year.

Recommendations

The Council of Governors is asked to:-

5. **Note** this report and use this opportunity to seek any further assurances from the Chief Finance Officer on the Letter to Governors for the year ended 31 March 2016.
6. **Note** the Annual Report of the Audit Committee Chairman to the Board of Directors.
7. **Receive** a further report at the next meeting on the proposed process for appointing the external auditor for the financial year 2017/18.

External Audit Report

1. Introduction

- 1.1. An external audit is an examination of the annual financial statements of a foundation Trust in accordance with specific rules by someone who is independent of the foundation trust.
- 1.2. The external auditor performs the audit by examining and testing the information prepared by the foundation trust to support the figures and information it includes in its financial statements.
- 1.3. NHS foundation trusts are independent from central government and have greater control over decisions on the services they deliver. However they remain part of the NHS and are accountable to their members and the public through the council of governors. The external auditor plays an important role in this accountability structure, reporting to governors their independent opinion on the foundation trust's accounts and quality report.
- 1.4. Foundation trusts must have an external auditor in place at all times. This is a legal requirement under the 2006 NHS Act. The auditor must be a member of a licensed firm authorised to carry out audits of local public bodies.
- 1.5. NHS Improvement (Monitor) have issued the "Audit Code for NHS Foundation Trusts", last updated in December 2014, and this prescribes the way in which external auditors of NHS foundation trusts are to carry out their duties and are appointed.
- 1.6. The current external auditors to the Trust are Ernst & Young.

2. Governance Framework

- 2.1. As a foundation trust, the external auditors are appointed by the Council of Governors and they also receive and review the annual audit letter.
- 2.2. The Audit Committee is responsible for monitoring the external auditor's independence and objectivity, including the effectiveness of the audit process.
- 2.3. The Audit Committee also receives reviews and agrees the audit plan, progress reports and audit results report.
- 2.4. The Audit Committee uses the work of auditors to provide the Board of Directors with an independent and objective review of how the Foundation Trust manages its finances (financial governance), how it is structured to deliver its strategy (corporate governance) and how it manages its risks.
- 2.5. In line with best practice, each year the Audit Committee produces an Annual Report summarising their activities for the previous financial year.
- 2.6. The Annual Report for 2015/16 along with the report from the Audit Committee Chairman to the Board of Directors is attached at **Appendix A**. This report indicated that:
 - 2.6.1. The risk maturity of the Trust was reviewed in line with the annual review of the Risk Management Strategy and this demonstrated that the maturity had been consolidated and maintained during the financial year.
 - 2.6.2. Whilst there were areas of limited assurance following an internal audit, there were no significant breaches in relation to internal control systems during the year.
 - 2.6.3. Updates from the Counter Fraud Service showed controls were in place and that minor recommendations needed to be actioned in the upcoming year.

2.6.4. The Head of Internal Audit's opinion provided significant assurance with minor improvements on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

3. External Audit Letter to Governors

- 3.1. As identified above, in paragraph 1.3, one of the key deliverables from the external audit process is the Annual Audit Letter to the Council of Governors
- 3.2. This is a public document and it sets out the key messages from the work the auditors have undertaken when reviewing the Annual Report of the Foundation Trust (which includes the Annual Accounts, key aspects of the Annual Report and the Quality Report.)
- 3.3. The letter also sets out the conclusion the auditors have reached in respect of the value for money conclusion they have to consider for all foundation trusts.
- 3.4. The Annual Letter to the Governors for the year ending 31 March 2016 is attached at **Appendix B**.
- 3.5. The key points which arise from this are:
 - 3.5.1. The auditors reviewed the financial statements and concluded that they gave a true and fair view of the financial position of the Trust. Consequently they issued an "unqualified opinion."
 - 3.5.2. In respect of those parts of the Annual Report which were subject to audit, they were satisfied and had no matters which they wished to bring to the attention of the Council of Governors. They were also satisfied that the Annual Report was consistent with the financial statements .
 - 3.5.3. The Governance Statement produced in the Annual Report was consistent with their understanding of the Trust.
 - 3.5.4. There were no matters which needed to be highlighted in a public interest report or referred to NHS Improvement.
 - 3.5.5. The Trust had put in place proper arrangements to secure economy, efficiency and effectiveness on its use of resources.
 - 3.5.6. In respect of the work on the Quality Report and the testing of three indicators (as mandated centrally) the Trust had met the requirements and the auditors had issued an "unqualified opinion."

4. Planning Process for 2016/17

- 4.1. The external audit process works on an annual cycle which starts in the autumn with a planning and risk identification process, which in turn leads to an audit plan for the forthcoming year.
- 4.2. The auditors will look at both national and local issues and from this identify the major risks facing the Trust in the coming year. This will drive their plan of work for 2016/17 and will be presented to the Audit Committee in November.
- 4.3. External audit will then undertake an interim audit during the winter before the final accounts audit is undertaken in early May. The results of the final accounts audit are presented to the Audit Committee / Board of Directors in advance of the Annual Report being agreed by the Board of Directors and sent to NHS Improvement at the end of May.

- 4.4. For 2016/17 a number of national issues have already been identified, including the EU referendum result, the development of Sustainability and Transformation Plans and the financial pressures facing the NHS in general and NHS providers in particular.
- 4.5. To this will be added any local issues which the auditors feel pose a risk to the Trust delivering its objectives.

5. Appointment Process for External Auditors

- 5.1. External auditors for NHS Foundation Trusts are appointed by the Council of Governors.
- 5.2. When Oxford University Hospitals NHS Trust became a Foundation Trust in October 2015, the Council of Governors appointed the incumbent auditors Ernst & Young to continue in the role until the end of the 2016/17 financial year.
- 5.3. The Audit Committee supports the Council of Governors in determining and delivering the process for appointing the external auditor every three to five years (depending on the length of contract used by the Foundation Trust).
- 5.4. It is the Council of Governors who must meet and make the final decision on the appointment of the external auditor.
- 5.5. Since November 2015, the Institute of Chartered Accountants of England and Wales (ICAEW) have been the recognised supervisory body responsible for the licensing, registering and monitoring of auditors who carry out audits of local public bodies.
- 5.6. This means that there are currently eight organisations (plus one in Scotland) approved to undertake external audit in the NHS.
- 5.7. The Trust is currently liaising with colleagues in other large foundation trusts to learn from their experiences in the appointment process for external auditors. It intends to use this as the basis to come forward with proposals to the next Council of Governors meeting.

6. Recommendations

- 6.1. The Council of Governors is asked to:-
 - 6.1.1. **Note** this report and use this opportunity to seek any further assurances from the Chief Finance Officer on the Letter to Governors for the year ended 31 March 2016.
 - 6.1.2. **Note** the Annual Report of the Audit Committee Chairman to the Board of Directors.
 - 6.1.3. **Receive** a further report at the next meeting on the proposed process for appointing the external auditor for the financial year 2017/18.