

Report to the Meeting of the Members' Council

10 May 2011

External Audit Contract extension

For Approval

Executive Summary

Part of the role of the Member's Council is the appointment of the Foundation Trust's external auditors. The role of external audit is to undertake the following mandatory audit and assurance requirements:

- To provide an audit opinion on the Foundation Trust's financial statements in line with Monitor's Audit Code for NHS Foundation Trusts and International Auditing Standards;
- To provide an assurance report on the Quality Report in accordance with Monitor requirements ;
- To complete an examination of the Charitable Funds financial statements in line with Charity Commission requirements.

The Audit Commission was appointed as the external auditor to Oxford Health NHS Foundation Trust from its authorisation as a Foundation Trust on 1st April 2008 for three audit periods to 31st March 2011. Monitor's guideline recommends that the best practice for external audit appointments is three to five years.

The Audit Commission have submitted a proposal to the Trust management, for onward recommendation to the Member's Council, that the original contract be extended for a further two years to conclude with the audit and assurance work on the financial year 2012/13.

The two key issues to note in the proposal are:

- The increase in fee proposal reflecting the additional audit work required following acquisition of the PCT Provider arm. This peaks in 2011/12

reflecting the additional work in the year of the transaction before falling to a baseline level that reflects the increase in size of the Foundation Trust moving forward. The baseline audit fee for financial statements has been held at the same level.

- A perceived uncertainty regarding the future of the Audit Commission and its Audit Practice Division. Members may be aware that the Secretary of State for Communities and Local Government announced the proposed abolition of the Audit Commission from 2012/13 (at the earliest), subject to the passage of legislation. While, post 2012/13 the Audit Practice is intended to be transferred to the private sector, the office of Communities and Local Government has given assurance that all audit contracts up to and including 2012/13 will be honoured in full.

It is the view of management and the Audit Committee that the Audit Commission have provided a good service over the three years of the current contract and that a good working relationship has developed over this time. Therefore, management and the Audit Committee would like to recommend to the Council that the Audit Commission's contract is extended. However, we would like to further recommend that this is only for one further audit period covering 2011/12 and that prior to September 2012 the Trust and Member's Council undertake a re-procurement exercise for audit services from 2012/13. The rationale for this is that it allows us to test the contract for Value for Money, given the challenging financial context of the NHS, and it will also allow for any concerns over any changes to the audit provider landscape to be appropriately addressed. A bid by the Trust Practice function of the Audit Commission will be welcomed under these circumstances and considered on the strength of its merits.

Recommendation

That the Audit Commission (Trust Practice) are granted a one year extension to the existing three year contract to cover the financial year 2011/12.

Prior to September 2012 a full procurement exercise is undertaken to appoint the Foundation Trust's external auditors from 2012/13.

Author and Title: Gareth Kenworthy, Acting Director of Finance
Lead Executive Director: Gareth Kenworthy, Acting Director of Finance

30 November 2010

To whom it may concern,

THE AUDIT COMMISSION'S AUDIT PRACTICE

In proposing the abolition of the Audit Commission from 2012/13, the Government has made it clear that it wishes to see the Commission's audit practice transfer to the private sector, so that it is able to offer its expertise to a wide range of clients. The exact form of this transfer is currently being considered. In the meantime, the Government would like to reassure those foundation trusts that have or are considering contracts with the Audit Commission's audit practice that those contracts will be honoured in full

Yours sincerely,



Chris Megainey
Project Manager
Future of Local Audit

External Audit contract extension proposal

Oxford Health NHS Foundation Trust

Audit plan 2011-2013



The Audit Commission's

Trust Practice



**The Audit Commission is an independent watchdog,
driving economy, efficiency and effectiveness in local
public services to deliver better outcomes for everyone.**

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Our Partnership with you

Background

The Audit Commission was appointed as the external auditor to the Oxfordshire and Buckinghamshire Mental Health NHS Foundation Trust (Oxford Health NHS Foundation Trust from 1 April 2011) from its authorisation as a Foundation Trust on 1 April 2008 to 31 March 2011, covering three audit periods.

This document sets out our proposals for extending the contract for a further two years, which will cover the audit of your 2011/12 and 2012/13 financial statements. This is within Monitor's guidelines, which recommends best practice for audit appointments as three to five years.

Our unique credentials

The Audit Commission's Trust Practice specialises in Foundation Trusts (FTs) and aspiring FTs and is the only provider of external audit services with such a dedicated network. Our extensive skills, blending public and private sectors, and knowledge of FTs, will provide you with an excellent understanding and assurance.

The benefits of retaining us as your external auditors are:

- continuing high levels of client service, with a track record of adding value to the core audit service and to the Trust's service management;
- an audit team with local and extensive knowledge of NHS trusts;
- best practice, knowledge and information from across the NHS; and
- commercial skills and expertise.

The Trust Practice will continue to benefit you by:

- bringing its commitment to improving public sector financial and service management for the benefit of users;
- fielding local experts in the strategic and operational needs of your Trust;
- delivering a high-quality audit focused on the specific issues facing FTs; and
- providing up-to-date knowledge and expertise of service and business developments.

For more information on the benefits of continuing with the Trust Practice turn to appendix 1.

Our achievements

Since your formation as a Foundation Trust we have helped you meet your demanding annual reporting obligations by providing a professional audit service which has:

- consistently delivered audit opinions on your financial statements on time in accordance with Monitors requirements; in doing so we have worked effectively with your finance and governance managers to resolve emergent issues and report true and fair outcomes;
- delivered the dry run opinion on your quality report in 2009/10 and presented our findings to management on how to improve your reporting arrangements in this area;
- reviewed and agreed the restatement of your financial statements following introduction of International Financial Reporting Standards (IFRS); and
- completed audit examinations on your charitable fund financial statements on time and in accordance with Charity Commission requirements; in this respect we have enabled you to meet your reporting obligations as corporate trustee.

In addition to these external reporting duties we also understand the importance you attach to continuous improvement and the securing of value for money in your service provision. In this respect we have:

- developed, with your help, a national mental health service benchmarking club which is highly regarded amongst practitioners and now has nationwide participation; and
- developed a framework for the provision of reasonable assurance on your arrangements to secure value for money.

As a matter of professional routine we attend all Audit Committees and provide members with progress on your audit and wider updates on emerging issues for FTs and the NHS in general. Every year we have attended the Members Council in person to present the summarised results of our work in the form of an Annual Audit Letter.

Effective communication with management and those charged with governance is vital for an effective and efficient external audit. In this respect we hold regular liaison meetings with Trust Executives and management to ensure that we are up-to-date with your issues and your staff are kept informed of progress on the audit. We also maintain good working relationships with internal audit and counter fraud to coordinate our workplans and ensure optimum efficiency for the Trust.

In the run up to our opinion audit we are holding update meetings with members of the finance team who produce the Financial Statements and with those who prepare the Annual Report and Quality Report. We have found that this is the best way to deal with emerging issues and to get the audit work and opinions completed on time.

What we can do for you

In this plan we are proposing:

- to provide an audit opinion on the financial statements for 2011/12 and 2012/13 in line with Monitor's updated Audit Code for NHS Foundation Trusts (additional requirements set out in appendix 2) and International Auditing Standards;
- to provide an assurance report on the Quality Report in accordance with Monitor requirements;
- review the impact of the integration of Community Health Oxfordshire (CHO) on the financial statements; and
- to complete an examination of the Charitable Funds financial statements for 2011/12 and 2012/13 in line with Charity Commission requirements.

We have limited our proposal to the mandatory audit and assurance requirements. Accordingly we have not included any additional work to provide a 'reasonable assurance' opinion on your arrangements to secure value for money. Should you require this optional assurance then we would be pleased to update the scope and contract specification based upon the framework previously developed for this purpose and already shared with you.

In each year of audit we will present a plan detailing our proposed work in these areas for attention of the Audit Committee in accordance with professional auditing standards.

We will of course continue to discuss progress on the audit and any wider developments within FTs and the NHS with the Audit Committee, the Executive Team and other key staff.

What we will charge you

	2010/11 Current fee £000s	2011/12 Planned fee £000s	2012/13 Planned fee £000s
Audit of Financial Statements	60.1	60.1	60.1
Add - New Code requirements	--	2.5	2.5
Add - Community Health Oxfordshire (CHO)	--	17.1	10.6
Sub-total audit	60.1	79.7	73.2
Assurance on Quality Accounts	12.5	10.5	10.5
Assurance on Value for Money	--	TBC	TBC
Sub-total audit and assurance	72.6	90.2	83.7
Examination of Charitable Funds	2.7	2.7	2.7
Total audit services	75.3	92.9	86.4

More details on how we have set the fee and the assumptions it is based on can be found in appendix 3. Should the assumptions set out in this appendix not be valid additional fees may become payable. Any proposed additional fees will be discussed with you first.

Working with you

We understand what you expect from us: an approachable, proactive, locally based and highly skilled team with access to a national network of specialists when required. The existing team will continue to:

- understand you, your priorities and provide innovative and constructive advice;
- be readily accessible and responsive to your needs but independent and challenging to deliver a rigorous audit;
- be connected into national developments for FTs and have a good knowledge of the local health economy; and
- communicate relevant information to you in a prompt, clear and concise manner.

Your work will only be carried out by experienced Audit Commission staff. We will not supplement the audit team with external contractors.

We propose to maintain continuity in your audit team as follows:

- Phil Sharman, Engagement Lead;
- Alan Witty, Engagement Manager;
- Alison Kennett, Team Leader; and
- other members of our local audit team as required.

More information on your audit team can be found in appendix 4.

Audit quality

We are committed to providing you with a high quality service that is good value for money. In October 2010 the Audit Commission published the Annual Quality Report for its own Audit Practice (available on our website). In its summary it states that *'Audited bodies' satisfaction with their auditors remains high.*

The report summarises the results of the quality review of the work of the Commission's own staff as auditors to NHS and local government bodies. It also includes the views of the Audit Inspection Unit that carried out an independent review of our work.

The publication of this report is one of a range of measures aimed at demonstrating our commitment to delivering high quality audit work. It assures audited bodies and stakeholders about the arrangements in place and the underlying strength of our Audit Practice. The report also compares our Audit Practice with the major accountancy firms and the other audit agencies.

Other work we can help you with

We have the skills and experience to help you also meet your current and evolving needs through a range of additional services at rates which ensure you receive value for money. These include the following.

Efficiency guide

In February 2011 we published, with others, the key report *Efficiency In Mental Health Services* to help you find solutions that provide better value for money in these austere times. You can find a copy on our website in the Health section.

Governance

We can assist with establishing structures, board reporting and risk management. We have supported trust boards in assuring themselves of the quality of information underpinning their self certification of compliance with services standards, financial standing and governance.

We have also held facilitated sessions for Foundation Trusts on the role of the Board of Directors and Council of Governors.

Business planning and service improvement

We offer extensive experience in financial planning and management, turnaround assignments and treasury operations.

In addition, we have a range of diagnostic tools to identify opportunities for service improvement or cost efficiency.

Our Trust Practice has also developed an approach for FTs which provide an independent and robust assessment of the key areas that provide the framework on which to build good governance and continuous improvement.

Assurance on arrangements to secure value for money

We understand the importance of effective corporate arrangements to secure value for money in the use of resources. We also recognise that that scope of the auditors work in this area is limited under the Monitor code. Accordingly we have developed a criterion based framework for the provision of 'reasonable assurance' on your arrangements to secure value for money as a discretionary supplement to your core audit programme.

Financial resilience in cost improvement plans

Recognising the importance of cost improvement programmes in securing long term financial resilience we have developed a methodology focussed on the design and delivery of these programmes. This review can be undertaken in two phases as follows.

- Phase 1: reviewing how well the Trusts is managing, monitoring and delivering the current year CIP.

- Phase 2: reviewing how the Trust has put together the CIP for the next financial year and how robust and realistic are the projects within the CIP.

Service line management, benchmarking and data assurance

Our specialists offer expert advice on service line management and the analysis and interpretation of comparative data, such as reference costs. We have extensive experience of data quality projects, ICT assurance and the payment by results regime.

We are running the seventh 'Mental Health Benchmarking Club' on 17 May 2011 in central London. The workshop will build on the issues covered in the past and focus even more on how the club can support the QIPP agenda in mental health.

Facilitating improvement

Our Trust Practice has developed a workshop based approach which brings key colleagues and others together to pinpoint priorities, understand and analyse issues, identify effective action, gain commitment to change and translate talk into delivery.

Examples of where this approach has been used effectively include helping trusts to adopt a more commercial outlook on issues such as payment by results; making a reality of strategies to improve performance; and securing improvements in partnerships between local trusts, hospitals, local authorities or other bodies.

Workforce planning and workforce issues

We can help to improve workforce planning and service delivery to support the achievement of targets.

We have undertaken reviews of managing sickness absence. In February 2011 we produced a key report *Managing Sickness Absence in the NHS*, revealing the variability across the NHS and pointing you to the best advice on improving staff absence rates.

The future of the Audit Commission and Trust Practice

On 13 August 2010 the Secretary of State for Communities and Local Government (CLG) announced the proposed abolition of our parent organisation, the Audit Commission. Ministers have said that the Commission's Audit Practice, which includes the Trust Practice, is to be transferred to the private sector. Moreover Ministers have given assurance that contracts made for the provision of audit services will be honoured by the Commission or otherwise covered under transitional arrangements.

In choosing to extend our contract Members Council can therefore be reassured of continuity of service in fulfilling your 2011/12 and 2012/13 audit requirements. More information on this issue is available in appendix 5.

Next steps

This document invites you to extend our contract for a further two years which will secure the audit of your 2011/12 and 2012/13 financial statements. In preparing this document we have taken account of the proposed integration of services from Community Health Oxfordshire.

Our proposal is compliant with Monitor's guidelines and covers the audit of your financial statements, assurance on your quality account and charitable fund examination.

We recognise that the audit appointment is a matter for decision by Members Council upon advice from the Audit Committee. In this respect we would be delighted to present our proposal in person and answer any particular questions you may have.

Phil Sharman
Engagement Lead

April 2011

Appendix 1 Experience counts

Audit provider to the public sector

The Audit Commission is the largest provider of audit services to the public sector in Europe. Our Audit Practice specialises in the audit of foundation trusts and aspiring foundation trusts and is the only provider of external audit services with such a dedicated network. Our extensive skills, blending public and private sectors, and knowledge of foundation trusts provide us with an excellent understanding of your environment and the assurance that you need. We audited 49 NHS Foundation Trusts in 2009/10.

Research and policy analysis

The Audit Commission provides research and policy analysis in the NHS. We have produced guides to help FT governors and non-executive directors understand FT accounts. We have also published an introductory guide to FTs with national studies around governance, funding flows, use of resources and information management and technology. Our electronic library of information for FTs and our website have proved useful in helping non-executive directors keep up-to-date with issues and changes in FT governance and accounting requirements.



Audit Commission Technical Service

The Audit Commission Technical Service (ACTS) contributes to national accountancy professional committees, through developments in accounting and auditing practice. ACTS also has a representative on Monitor's Technical Issues Forum. We have members of ACTS based locally. This means we provide you with up-to-date information on emerging accounting issues.

Appendix 2 Additional work for auditors arising from new Monitor code requirements

Monitor have produced new guidance for the 2010/11 audits onwards, requiring additional audit work to provide an assurance report on the Quality Report and check for inconsistencies between various Trust outputs. The specific requirements are as follows.

- Check for inconsistencies between:
 - Quarterly self-certificates;
 - Quality Accounts; and
 - Annual Report.
- Check for inconsistencies between:
 - action plans derived internally from assessing quality governance arrangements; and
 - action plans derived from independent visits from Care Quality Commission and others.
- Check for inconsistencies between:
 - The auditors' knowledge of the Trust; and
 - Annual Report.
- Check for inconsistencies between:
 - Annual Report;
 - Quarterly self-certificates;
 - Annual Governance Statement; and
 - Forthcoming year's annual plan.
- Provide an assurance report on the annual Quality Report to those charged with governance, in accordance with Monitor guidelines.

In carrying out my review, I will have regard to the knowledge of the Trust that I have obtained from my audit work. I am not performing a management task in undertaking this assessment. Consequently my assessment will be considerably narrower in scope than the work undertaken by the Trust to prepare the SIC/AGS.

Appendix 3 Audit fee proposals and assumptions

Fee proposal for 2011/12 and 2012/13

	2010/11 Current fee £000s	2011/12 Planned fee £000s	2012/13 Planned fee £000s
Audit of Financial Statements	60.1	60.1	60.1
Add - New Code requirements	--	2.5	2.5
Add - Community Health Oxfordshire (CHO)	--	17.1	10.6
Sub-total audit	60.1	79.7	73.2
Assurance on Quality Accounts	12.5	10.5	10.5
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Sub-total audit and assurance	72.6	90.2	83.7
Examination of Charitable Funds	2.7	2.7	2.7
Total audit services	75.3	92.9	86.4

Key changes

The above table outlines the key changes in your audit fees in comparison to the current terms. We have made provision for the following key changes.

- Internal efficiencies have enabled us to maintain baseline fees without inflationary impact and we have absorbed cost pressures from implementing international standards on auditing in 2010/11.
- Modest additional provision has been made for proposed enhancements in auditors responsibilities under the Monitor Code of Audit which take effect from 2011/12.
- Provision has been included for the impact of significant expansion in your operations as a result of the integration of services from Community Health Oxfordshire with effect from April 2011; we anticipate additional pressure in year one reflecting the systems integration and financial reporting requirements; the continuing impact of this change is therefore scaled back in year two onwards.
- Monitor has now published the specification for the provision of audit assurance on quality accounts; we estimate a substantial reduction on the fee for the dry-run assurance based on the assumption that you have addressed the issues raised in 2009/10 and our understanding of your management arrangements holds good for subsequent periods. Accordingly your fee will reduce by £6,000 for 2010/11 and a further £2,000 for 2011/12 onwards.

We have included work required under the Monitor Code but not any extended coverage to provide a 'reasonable assurance' opinion on your arrangements to secure value for money. Should you require this additional assurance then we would be pleased to update the scope and contract specification based upon the framework previously developed for this purpose and already shared with you. The fee is likely to be in the range £18,000 to £24,000.

Assumptions

In completing this fee proposal, we have made the following assumptions.

- You maintain a good control environment and an assurance framework that demonstrates how you are managing the risks associated with meeting your principal objectives.
- You report in accordance with the requirements of international financial reporting standards (IFRS) as amended by the Foundation Trust Annual Reporting Manual (FT ARM).
- The work of Internal Audit is timely and in accordance with NHS standards.
- No events have taken place that compromise the reliance placed on financial systems.
- We know of any major developments that may influence the financial statements.
- You provide clear supporting documentation and timely replies to requests for information.

We would cost any additional work based on our daily grade related rates. The price would depend on the issue requiring the additional work.

The proposed fee excludes any work that the Care Quality Commission may specify. Should the Care Quality Commission mandate any work we will agree an appropriate fee with you before we begin.

Under the Audit Code, Monitor may require auditors to undertake work on its behalf at FTs. If this happens, we will agree separately the scope of the work.

Our fees provide for the examination of the Oxfordshire Mental Health Charitable Fund on continuing terms. The charitable fund associated with the Community Health Oxfordshire is subject to separate audit arrangements associated with the Primary Care Trust. Any future merger of these charitable fund holdings would require reassessment of audit requirements and attendant fees.

We will agree the terms of our engagement in writing through a formal letter of engagement. We will prepare a fees schedule and timing of billings once terms of engagement are agreed.

Appendix 4 Your audit team

Phil Sharman CPFA CANZ – Engagement Lead

I am a qualified chartered accountant with over 25 years experience auditing in the public sector around the globe. I have been a statutory auditor with the Audit Commission for over ten years and have previously worked in the NHS and with an international accounting firm. I am currently the engagement lead for your Trust alongside several other NHS trusts and local authorities.

I have delivered workshops with Boards of Directors and Audit Committees including risk assessment and action planning. I have also worked with governors to help them understand the role of the external auditor and the financial statements the FT prepares.

My key responsibility is to ensure delivery of your audit to the highest professional standards and compliance with ethical and quality standards.

I will attend key meetings (for example, Audit Committees, Board of Directors and Members Council) to provide support, guidance and experience as required. I will also act as a 'sounding board' to the Trust on key decisions and be a conduit of good practice identified at other FTs.

I work from our office in Oxford.

Alan Witty CPFA – Engagement Manager

I am your current Engagement Manager. I have effective professional relationships with your Audit Committee and Executive, Finance and Internal Audit teams.

I have day-to-day responsibility for tailoring the audit around your business risks, coordinating the audit work and ensuring delivery against the plan. I attend key meetings to present and discuss the outcomes of our work.

I have worked for the Audit Commission for over 20 years with a focus on NHS trusts and FTs. I regularly facilitate client improvement workshops to improve risk, financial and governance arrangements with a focus on improving outcomes.

I work from our office in Oxford.

Alison Kennett FCCA – Audit Team Leader

I am your team leader on the audit with 18 years audit experience. Since completing my ACCA qualification I have been team leader at several audits across health and local government sectors.

As your team leader, I will be responsible for leading the team in the interim and final accounts audits. I am also the main day-to-day contact for finance officers and the key contact for Internal Audit.

I work from our office in Oxford.

Staff continuity

We recognise the importance of staff continuity to build expertise and avoid repetitive enquiries. We can provide continuity of service, which allows us to focus on your key issues, rather than having to go back to basics at each audit visit.

To ensure minimum disruption to you and to comply with the Auditing Practice Board's Ethical Standards, we aim to keep your Engagement Lead and Engagement Manager appointments for the full period allowed by our ethical standards. We will not rotate the Engagement Lead and Engagement Manager at the same time and will introduce you to prospective leads before rotation.

If we need to substitute members of the audit team we have, as the largest FT audit provider, strength in depth to provide you with FT experienced staff at all grades. Our personal development framework enables us to grow our own talent and progress team members upwards in the organisation. We anticipate that our auditors will develop into engagement managers of the future, ensuring continuity in your team.

Conflicts of interest

We can confirm that we have no conflicts of interest regarding this appointment. Each member of the audit team will confirm there are no threats to independence before the start of your audit. We will provide an annual confirmation to you of our continuing independence as part of the audit plan.

Appendix 5 Transfer of Audit Practice to the private sector

Background

On 13 August 2010 the Secretary of State for Communities and Local Government (CLG) announced the proposed abolition of our parent organisation, the Audit Commission, from 2012/13 at the earliest, subject to the passage of legislation. Ministers have said that the Commission's Audit Practice, which includes the Trust Practice, is to transfer to the private sector. Therefore the Audit Commission will be in existence to fulfil your 2011/12 and 2012/13 audit requirements.

Our Commitment to You

The transfer to the private sector represents an exciting opportunity for the Audit Practice. We are already exploring a number of potential options, including mutualisation as an employee owned partnership. It will provide us with a groundbreaking opportunity to thrive and develop our practice, independent of Government.

The CLG has assured FTs that any contracts awarded to the Trust Practice will be honoured in full. In an open letter CLG states: *'the Government would like to reassure those foundation trusts that have or are considering contracts with the Audit Commission's audit practice that those contracts will be honoured in full.'* A copy of the letter is attached.

We expect Ministers to decide over the exact form of the transfer of the Audit Practice to the private sector during 2011.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

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- any member, governor, non executive director, director or officer in their individual capacity; or
- any third party.



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