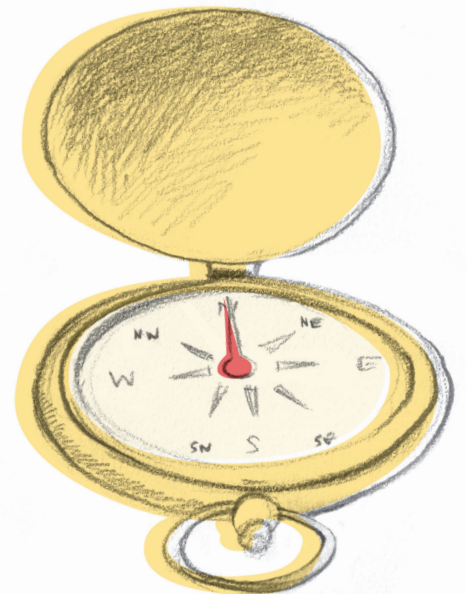


Finding your bearings: A governor's guide to Monitor's audit code for NHS foundation trusts



Introduction

Monitor's 'Audit Code for NHS Foundation Trusts' (the Code) prescribes the way external auditors must conduct their audit under the National Health Service Act 2006.

It sets out the arrangements for:

- the appointment of auditors
- the scope of the audit
- audit reporting
- the external auditor's responsibilities on quality reports
- quality assurance.

External auditors are required to:

- apply the Code in the conduct of all work
- comply with professional and ethical standards.

This guide has been put together to help governors understand how the Code helps them to perform their role.

Questions governors may wish to ask:

- Do the auditors help us understand and fulfil our statutory roles?
- Have we received any training on the role of external audit?

Why do governors need to know about the Code?

“Governors need to better understand the function of their role, including helping to develop effective mechanisms for local accountability to members. This is particularly relevant with the move to even greater self-governance for the majority of NHS foundation trusts from April 2012 following the passage of the Health and Social Care Bill.”

Monitor Business Plan 2011-12

A governor's statutory role includes receiving the annual report and accounts and in doing so, holding the board of directors to account for the performance and management of the foundation trust.

While the external auditor predominantly reports to an audit committee, their primary responsibility is to the council of governors. It is therefore important that governors understand the work the external auditor has carried out on the annual report and accounts to help hold the board to account.

Governors' other statutory powers and duties are to:

- appoint/remove the external auditor
- appoint/remove the chair and other non-executive directors and agree their remuneration
- approve the appointment of the chief executive.

In addition, the board of directors must take into account the governors' views in preparing the forward plan.

Monitor's 'Survey of NHS Foundation Trust Governors 2010/11' shows that governors spend more time on membership development than on the committees that are most closely aligned to their statutory role:

Areas of governor focus	
Membership development	29%
Patient experience	28%
Nominations / appointments	22%
Strategy	21%
Communications	19%
Remuneration	17%
Audit	10%
Social inclusion	8%

There is also an expectations gap between what governors see as their role compared to the view of chairs and chief executives. For example:

- 75% of governors think they represent the needs of trust members, but only 48% of chairs and chief executives are confident of this
- 89% of governors think they understand what it means to hold the board to account, but only 64% of chairs and chief executives think governors know what this means.

Questions governors may wish to ask:

- Are we satisfied that as a collective council of governors we have adequate representation on key committees?
- Are we given sufficient opportunities, training and support to perform our role?

Appointing the external auditor

Monitor's requirements

- 1 The auditor must be a member of a recognised accounting body.
- 2 The auditor must have an established and demonstrable understanding within the healthcare sector and be able to show a high level of experience and expertise.
- 3 The auditor must comply with Monitor's Audit Code.
- 4 The auditor must subject the audit to internal quality control procedures which are sufficiently robust to monitor the compliance of the audit work with the Audit Code.

Once authorised as a foundation trust, the incumbent auditors continue to be appointed until the council of governors is able to meet. The council of governors may reappoint the auditor for the following year, taking into account the advice of the audit committee and its own observations.

Monitor recommends NHS foundation trusts undertake a market-testing exercise at least once every five years.

Throughout the course of an audit, the external auditor deals primarily with the audit committee, but must report their conclusions to the governors.

The audit committee must assess the auditor's work and fees on an annual basis to ensure the work is of a sufficiently high standard and the fees are reasonable.

Questions you governors may wish to ask:

- Should we extend the appointment or undertake a competitive tender exercise?
- How does the audit committee assess the external auditor's performance?
- Has the auditor met with the council of governors at least once per year?

Audit scope

For governors to ensure the audit committee has properly assessed the performance of the external auditor, it is important that governors understand the scope of the audit.

The Code does not prescribe the method by which the external auditor carries out their work, but does expect recognised professional standards, including International Standards on Auditing to be followed.

Audit scope		
<p>Financial statements</p> <ul style="list-style-type: none"> the accounts are properly prepared in accordance with legal and accounting standards proper practices have been observed in the compilation of the accounts 	<p>Value for money</p> <ul style="list-style-type: none"> that the NHS foundation trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources 	<p>The quality report</p> <ul style="list-style-type: none"> that it is has been properly prepared in accordance with Monitor's guidance that it is not inconsistent with other information that certain performance indicators are fairly stated

Financial statements

The scope is very similar to an NHS trust or a corporate entity. The auditor carries out work that they consider necessary to conclude that the accounts present a 'true and fair' view of the financial position of the NHS foundation trust for the financial year.

The auditor also considers whether there are material uncertainties on the future financial position of the trust, a matter under increasing pressure in the current economic climate. We prepared a 'Briefing note on the going concern assumption for NHS foundation trust accounts' to help governors understand the implications for foundation trusts.

Value for money

The external auditor must consider the underlying arrangements the NHS foundation trust has in place to secure value for money.

This work includes an evaluation of key themes such as the overall governance framework and the trust's arrangements for financial, risk and performance management. It does not cover standards of quality and patient safety which are overseen by the Care Quality Commission.

The quality report

The external auditor must ensure the quality report meets specific reporting requirements and carry out testing of specific quality performance indicators. We believe the quality report merits special attention as a pivotal document in assessing the quality of care provided by your NHS foundation trust. We recommend our 'Governor's guide to the audit of quality reports' for further information on this.

Questions governors may wish to ask:

- Is the audit committee satisfied the scope of the audit addresses our risks?
- How did the directors satisfy themselves the NHS foundation trust continues to be a going concern?
- Have we given our input into the audit approach to the quality report?

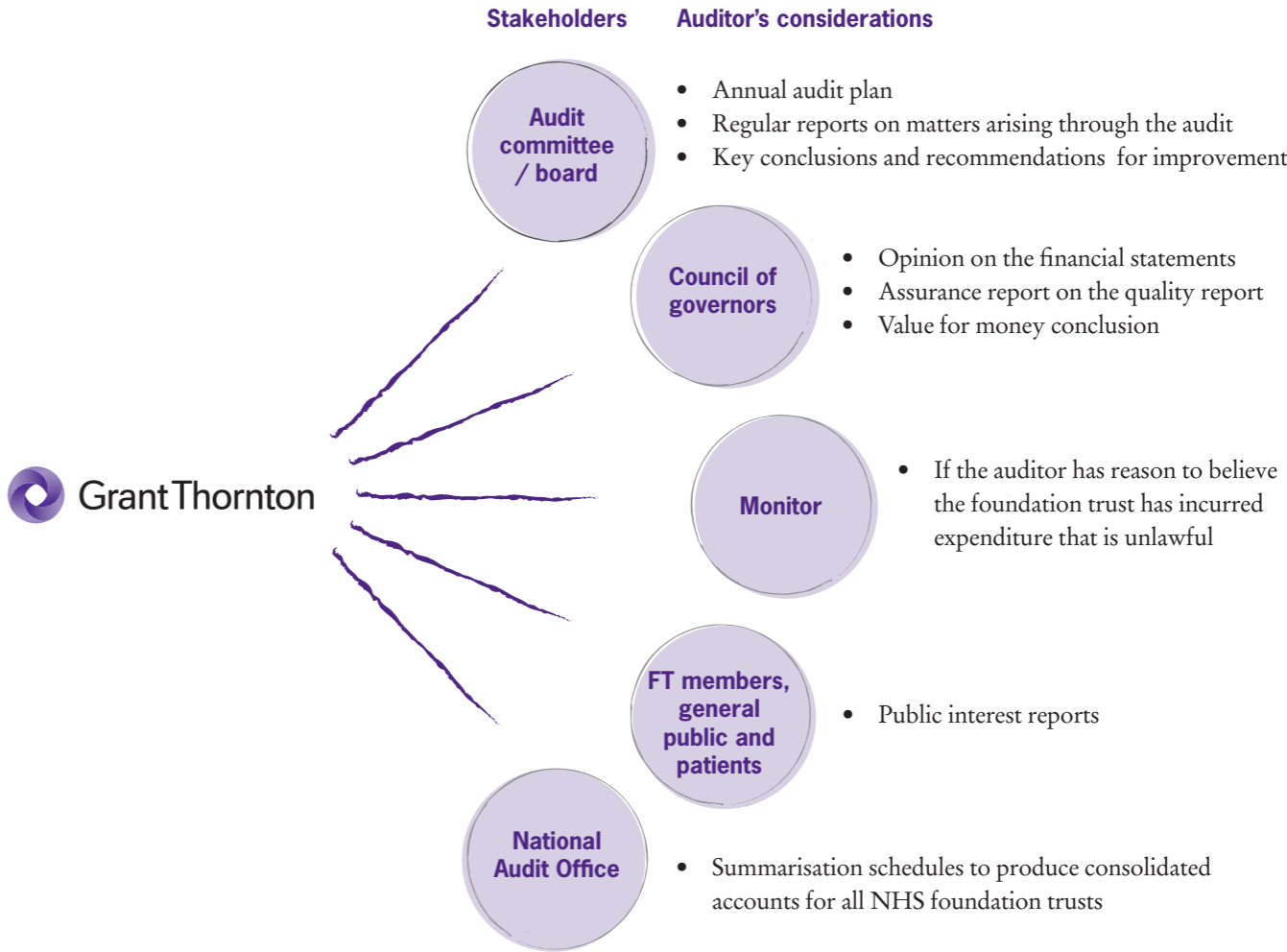
Reporting the audit

The external auditor's main responsibility is to the council of governors, but they must also consider a wide range of stakeholders when carrying out their work. These are outlined in the diagram on page 9.

Governors should, as a minimum, expect an annual report that sets out the key issues and findings from the audit. Grant Thornton has written 'A guide on the external auditor's annual report to those charged with governance' to assist in understanding the importance, purpose and content of this key document.

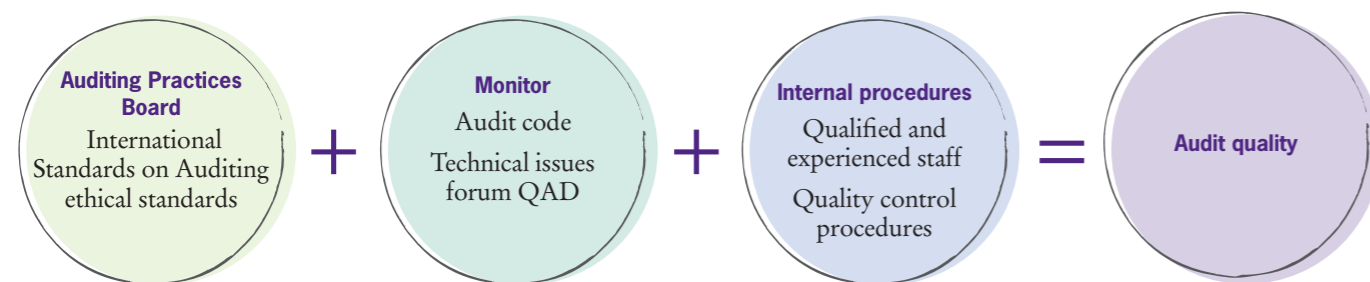
Questions governors may wish to ask:

- What reports does the auditor provide to the audit committee?
- Have we seen the annual audit letter?



Audit quality

The Code is part of the equation that ensures audit quality and, in turn, helps governors to fulfil their governance duties.



The Auditing Practices Board (APB)

The APB is the governing body that sets out the professional and ethical standards that all auditors must follow in conducting their work.

Monitor

Each year, Monitor instructs the Quality Assurance Directorate (QAD) of the Institute of Chartered Accountants in England and Wales to review the audit work of a selection of NHS foundation trusts. At the conclusion of the quality review process Monitor informs the selected NHS foundation trusts of the review findings to help inform the trust's assessment of audit quality.

Internal procedures

Our internal quality control procedures include the use of dedicated healthcare experts, at all levels in the team, to maintain quality. Our other procedures include the use of bespoke audit software, sector and technical training, as well as independent file reviews to provide a high quality of service.

Questions governors may wish to ask:

- What quality assurance processes does the auditor have in place?
- How far through the audit team does healthcare expertise run?
- Is this healthcare expertise supported by commercial experience when needed?

Further information

For further information or copies of our other healthcare publications, please contact your local centre of excellence for healthcare audit or visit our website at www.grant-thornton.co.uk.

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About us

We are a market leader in public sector audit and advisory work, providing assurance services to a large number of public sector clients across healthcare, social housing, education and both local and central government.

Our prominent market position gives us extensive insight into the public sector agenda to inform our work and enable us to share market insight and best practice to benefit our clients.

Our award winning public sector practice is recognised for the quality of service we provide to over 150 local authorities, social housing and healthcare organisations.

We play an active role in Monitor's technical issues forum, a group that discusses key audit and financial reporting issues that affect all NHS foundation trusts. We use our influence and expertise to positively benefit the sector and our clients.



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