

COUNCIL OF GOVERNORS PUBLIC MEETING

14 DECEMBER 2017

Paper Title:	Re-Tendering of External Audit Services
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Executive Summary:

Current best practice recommends a three-to-five-year period of appointment for External Audit Services. Our regulator, NHS Improvement, recommends that Foundation Trusts undertake a market-testing exercise to appoint an auditor at least once every five years.

The Trust was authorised as an NHS Foundation Trust in May 2015; suggesting a formal review should be planned to conclude between May 2018 and May 2020. This paper outlines proposals to achieve this.

In May 2017 Non-Executive Director members of the Audit Committee supported an Executive recommendation to market test External Audit Services through a re-tender exercise and began to plan associated activities. For practical purposes re-tendering means that the existing contract between the Trust and KPMG for external audit services will come to an end on 31st March 2019, with a new contract (and potentially new provider) to commence from 1st April 2019. At this point the Trust will have been an NHS Foundation Trust for approaching four years.

KPMG will externally audit the annual accounts, quality accounts and charity accounts relating to the 2018/2019 financial year.

This paper proposes the outline process to re-tender and appoint, roles and responsibilities of those involved, and a timeframe to re-tender and award the contract.

Council of Governors must:

- have ultimate oversight of the External Auditor appointment process; and
- agree with the Audit Committee the selection criteria for appointing, re-appointing and removing external auditors.

Recommendations:

Council of Governors is asked to:

- Note the requirement to re-tender and outline process, roles and Governor responsibilities
- Note the process to agree External Auditor selection panel membership to achieve the required timeline

RE-TENDER OF EXTERNAL AUDIT SERVICES

1. BACKGROUND

NHS Foundation Trusts should appoint an external auditor for a period of time that allows the auditor to develop a strong understanding of the finances, operations and forward plans of the NHS foundation trust. Current best practice recommends a three-to-five-year period of appointment and our regulator, NHS Improvement, recommends that Foundation Trusts undertake a market-testing exercise for the appointment of an auditor at least once every five years.

The Trust was authorised as an NHS Foundation Trust in May 2015; suggesting a formal review should be planned to conclude between May 2018 and May 2020. This paper outlines proposals to achieve this.

In the interests of transparency, the current External Audit provider has been alerted that the Trust expects to conduct such market-testing within the recommended 5-year period.

2. CURRENT POSITION

The proposal is that the existing contract between the Trust and KPMG will come to an end on 31st March 2019, subject to the appointment of a new (or re-appointment of the same) external auditor.

KPMG will externally audit the annual accounts, quality accounts and charity accounts relating to the 2018/2019 financial year.

The Trust therefore now needs to plan to re-tender external audit services effective from 1 April 2019; for the full 2019/20 annual accounts. The tender will cover the provision of external audit services, covering the audit of the Trust's financial statements, quality accounts and the annual accounts for the charity.

3. ROLES AND RESPONSIBILITIES OF THE COUNCIL OF GOVERNORS

The National Health Service Act 2006 states that the Council of Governors must take the lead in agreeing with the Audit Committee the criteria for appointing, re-appointing and removing external auditors. The Governors chosen for the selection panel must have the relevant skills and knowledge to choose the right external auditor and monitor their performance.

If required, the relevant finance and procurement staff will also provide training to the members of the selection panel.

Governor Selection Panel Person Specification

To be considered for the selection panel (working group), the Governor person specification should reflect the following essential requirements:

- Accountant or have/had significant experience within the finance field

- Auditor or have/had significant experience within the auditing field
- Understanding of the role of the external auditor within the NHS
- Understanding of procurement and tendering processes
- Understanding of the evaluation and scoring procurement processes

The Audit Committee should make recommendations to the Council of Governors about the appointment, re-appointment and removal of the external auditor and approve the remuneration and terms of engagement of the external auditor.

While the Council of Governors is supported by the Audit Committee in running the process to appoint the external auditor, the Council of Governors has ultimate oversight of the appointment process.

In appointing and monitoring the External Auditor, the Council of Governors should ensure that the audit firm and audit engagement leader have an established and demonstrable standing within the healthcare sector and are able to show a high level of experience and expertise.

Selection Panel Membership

Selection Panel members will be agreed by the Audit Committee who will request that the Council of Governors appoint three governors to join the panel. It is important that those Governors can commit appropriate time including preparations and a full day to interview prospective auditors (bidder presentations). This will be in addition to any training hours that may also be required.

As a minimum, the selection panel must include the following members:

- Governors (mandatory minimum two, recommendation by Audit Committee is three)
- Supplies lead
- Finance lead
- Audit Committee Chair*
- Audit Committee member

* Due to the leadership role the Audit Committee Chair undertakes throughout the re-tender process, it is seen as best practice that the Audit Committee Chair also chairs the selection panel. However, a governor can also express an interest in the role of panel chair provided they have the relevant leadership qualities and fulfil all essential Selection panel person specification requirements.

'**GovernWell**' have also published a guide to governors in their role of appointing the External Audit provider. Please refer to **Appendix A**.

4. TENDER FRAMEWORK

NHS Shared Business Services (SBS) already have a full procured framework established, '**Audit Services, Counter Fraud and Well Led Review**', for the appointment

of external auditors. As a client of NHS Shared Business Services, the Trust will have access to this framework. This means that a national NHS framework procurement exercise has already taken place and that formal 'full' tendering is not required. 'Calling off' from these pre-procured frameworks will save time and cost.

The SBS framework can be accessed as long as the tendering process completes and the **contract has been awarded and commenced before 15th May 2019** (with an option to extend this by 12 months). All prices on the framework are also fixed for a minimum of two years. The external audit providers on this framework are as follows;

BDO Ltd	KPMG (Current Provider)
Deloitte LLP *	Mazars LLP
Ernst & Young	PriceWaterhouseCoopers LLP
Grant Thornton LLP	

* Deloitte LLP currently provide non-statutory audit services to the Trust e.g. VAT advice via a 3 year contract ending 2019/20, but with the option to give notice at the end of each financial year. In the event that Deloitte bid for and were awarded the contract for external audit, they would no longer be able to provide non-statutory audit services to the Trust. (From April 2017, external audit providers have been prevented from providing both statutory and non-statutory audit services to the same NHS organization).

5. PROCESS AND SPECIFICATION

The draft specification is currently being jointly developed by the Head of Financial Accounting and the Head of Supplies. To achieve the proposed timeline (section 6 below) a draft specification will be presented to Audit Committee members in April 2018 and to the Council of Governors in May 2018.

The lead time to re-tender is approximately six months; from issue of a capability assessment to award of contract. However the detailed pre-engagement process starts earlier to accommodate Audit Committee and Council of Governors engagement, to ensure their agreement with the proposed process and to establish the Selection Panel.

The contract cannot be awarded more than 3 months prior to its start date, i.e. 1 January 2019 for a start date of 1 April 2019.

Additional time has been incorporated to take account of Council of Governor elections next calendar year. The Audit Committee and Council of Governors will need to be mindful of this when appointing to the selection panel.

6. PROCESS AND DRAFT TIMETABLE

A detailed draft timetable has been developed working back from the contract award date of April 2019. This will ensure sufficient time for the pre-tender, tendering and selection processes and fitting within current dates for future Audit Committee and Council of Governor meetings. The detailed timetable will be presented to the Council of Governors at the meeting on the 18th May 2018.

Key dates for both the **Council of Governors** and the **Selection Panel** are set out below to support planning and discussion about key impacts for Governors.

Key Dates – Full Council of Governors

Period	Process Description / Action Required
Dec-17	COUNCIL OF GOVERNORS (COG) - Briefing on process, role of the Governor, person specification, draft timetable and presentation
Apr-18	Expression of interest from Governors (if required) - to be submitted to COG Chair and Audit Committee Chair
May-18	COUNCIL OF GOVERNORS (COG) - Update on progress, provide draft specification, confirmation of the selection panel members and agree final timetable
Jul-18	Audit Chair to meet with Governors, to review comments and amendments on the draft specification
	COUNCIL OF GOVERNORS (COG) - Verbal update on progress from Governors in the selection panel
TBC	AUDIT COMMITTEE/COG - Update to COG on final specification (there is currently no agreed date for the COG meeting between July 18 and December 18). This date needs to be agreed.
Dec-18	COUNCIL OF GOVERNORS - Final approval by COG - presentation by selection panel

Key Dates – For 3 Governors Appointed to the Selection Panel

Period	Process Description / Action Required
May-18	Appoint Selection Panel (working group)
	Training to be provided to Governors of the selection panel
	Selection panel commence work on reviewing draft specification (making any necessary amendments)
Jun-18	Selection panel must inform Head of Supplies and Finance Lead, if there are any amendments to the dates within the draft specification.
Jul-18	COUNCIL OF GOVERNORS (COG) - Verbal update on progress from Governors in the selection panel
Oct-18	Bidder Presentations - all selection panel members must be available to attend
Nov-18	Evaluation meeting with selection panel - panel to receive supplies analysis for all submissions from the bidders
	Complete evaluation by selection panel
Dec-18	COUNCIL OF GOVERNORS - Final approval by COG - presentation by selection panel

'GovernWell' – A Guide to Governors - Appointing the External Auditor



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