



12th December 2019

Item No 12

Council of Governors

Title of Paper: Tender Update - Appointment of the Trust's External Auditors

Presented By: Ann Stanley, Chair of Audit & Risk Committee

Action Required:	For Information	<input type="checkbox"/>	For Ratification	<input type="checkbox"/>	For a decision	<input checked="" type="checkbox"/>
	For Feedback	<input type="checkbox"/>	Vote required	<input type="checkbox"/>	For Receipt	<input type="checkbox"/>

To which duty does this refer:

Holding non-executive directors individually and collectively to account for the performance of the Board	
Appointment, removal and deciding the terms of office of the Chair and non-executive directors	
Determining the remuneration of the Chair and non-executive directors	
Appointing or removing the Trust's auditor	X
Approving or not the appointment of the Trust's chief executive	
Receiving the annual report and accounts and Auditor's report	
Representing the interests of members and the public	
Approving or not increases to non-NHS income of more than 5% of total income	
Approving or not significant transactions including acquisitions, mergers, separations and dissolutions	
Jointly approving changes to the Trust's constitution with the Board	
Expressing a view on the Trust's operational (forward) plans	
Consideration on the use of income from the provision of goods and services from sources other than the NHS in England	
Monitoring the activities of the Trust to ensure that they are being conducted in a manner consistent with its terms of authorisation and the constitution	
Monitoring the Trust's performance against its targets and strategic aims	

How does this item support the functioning of the Council of Governors?

Governors will fulfil their duty under paragraph 39.2 of the Trust's Constitution

Author of Report:

James Sabin

Designation:

Deputy Director of Finance

Date:

December 2019



Council of Governors Summary Report

Date: 12th December 2019

Subject: Tender Update - Appointment of External Audit Services 2020/2021 onwards

From: Ann Stanley, Non-Executive Director/Chair – Audit & Risk Committee
Phillip Easthope, Executive Director of Finance

Author: James Sabin, Deputy Director of Finance

1. Purpose

<i>For approval</i>	<i>For a collective decision</i>	<i>To report progress</i>	<i>To seek input from</i>	<i>For information/assurance</i>	<i>Other (Please state below)</i>
X					
<ul style="list-style-type: none"> To note the progress made to date with regards to the appointment of the External Auditor. To note the outcome of the tender submission process and the subsequent presentation and dialog stage. Formally approve the recommendation of the delegated working group. To note the proposed next steps subject to ratification of the above recommended outcome. Following the stand still period, to progress the agreed actions with plans to award the contract prior to the 2020/21 audit requirement. (Note the 2019/20 year-end audit and AMM comes under the existing contract requirement.) 					

2. Summary

The Trust’s current contract in respect of its External Audit Service expires on the 31st March 2020 and, as previously agreed, a tender exercise has been enacted to secure the service going forward with effect from 1 April 2020 for a period of at least 3 years.

The appointed working group met to agree to process and this process is nearing conclusion. As a reminder, the Working Group included

- 1 x Non-Executive Director
- 3 x Council of Governor (CoG) Representatives
- Executive Director of Finance
- Deputy Director of Finance
- Designated Procurement lead

The process was conducted under the NOE CPC External Audit Framework which included the incumbent provider plus four other potential bidders.

a. Tender Outcome

Unfortunately, we received only one submission. This was from the incumbent provider KPMG.

This was considered a good bid based on the quality and content of the submission. This highlighted a service we recognised and valued with some further added value. Only following agreement of the content and quality of the bid, was the price formally shared. This ensured a fair and impartial process.

Those that were notified (to ensure awareness of opportunity to bid) but have chosen not to bid have been contacted to help us understand further why they didn't bid. This intel has also been shared with the framework providers for future sector learning.

- One confirmed no resources available to work on the bid submission.
- One confirmed no resources to deliver the audit in 2020/21.
- Two are yet to respond as to why.

b. Presentations

As only one submission was received, the process was amended slightly.

The bidder KPMG (incumbent provider) were then invited to deliver a short presentation on the following topic.

“How can you demonstrate value for money within your bid, including a breakdown of how the number of days per grade have been calculated.”

Although, we could have progressed to a direct award due to only one bidder, the presentation was considered a worthwhile process to understand the detail and seek further clarity.

The bid submitted came in within the framework prices and is actually cheaper on a day rate basis than the previous tender over 5 years ago. However, the number of days proposed has increased substantially from 135 days to 186 days.

- Financial statements 163 days
- Quality Accounts 23 days

Consequently, this increase in the number of days represents an increase in annual cost from the current level of £72,000 to £94,770 (The price is inflation linked only, with no further increases permitted.)

The question above was structured to help us debate this point and understand the drivers further.

The further detailed breakdown below was provided and discussed as part of the presentation.

Phase	Director	Manager	Assistant Manager	Assistant & Trainees	Specialist	Total
Planning	3	6	10	12	1	32
Control Evaluation	3	8	10	25	1	47
Substantive procedures & completion	6	14	23	35	6	84
Quality Accounts	2	7	6	8	0	23
Total	14	35	49	80	8	186

The increase in days over and above the current contracted amount was portrayed as a market driven shift over the last 5 years and further linked to recent changes in the Audit Code of Practice. The increased requirement of audit firms is perhaps not a surprise, given some high-profile cases of late with companies going under following perhaps few signals and previous clean audits.

The census and general view is that the sector will see a shift and future increases in audit fees going forward. Other changes have occurred which restrict Audit firms doing other consultancy work above the audit fee value, also means the driver for audit to be a loss leader is reducing and perhaps also reducing the likelihood of firms bidding for the less lucrative audit work.

Although a lot of what was offered was recognised as current service provision, further value added was included in the bid. Included in the bid were some specifics inclusive of the days. These included for particular interest:

- Specific training for Audit & Risk Committee Members, Governors and NED's. This can be tailored to our needs and request.
- They are also promoting a formal Audit Committee institute which is open to Audit & Risk Committee members and NEDs.

The case for negotiating down the input days was made with a strong challenge, yet difficult as the bulk was not being relayed as new or additional requirements and is in fact aligned to current duties.

c. Alternative Options

Alternative options were discussed around re-tendering. We have no intelligence to suggest a better outcome would materialise if the exercise was re-run. Furthermore, the current provider could withdraw or increase the price further.

d. Recommendation of the sub group

As a result, the final outcome is that the working group is recommending the reappointment of KPMG with the following two agreed actions.

Subject to CoG approval and the required stand still period.

In advance of signing a contract, the Group agreed to develop the KPIs in conjunction with KPMG to ensure these are smart objectives, answer the “so what” question and have appropriate actions and penalties for non-compliance. Both parties recognised the draft KPIs detailed in the bid needed further work to ensure they serve a purpose and add value and purpose.

A transparent process to be formalised where the price is capped in line with the bid but will be flexed down if the need and work reduces over the contract length. Formal monitoring alongside the KPIs will be done via ARC and at least annually from a number of days perspective.

e. Full timetable

Stage	Target Date (indicative)
Decision approved by Council of Governors	12 th December 2019
Organisations notified of outcome and Voluntary Standstill Period commences	13 th December 2019
Voluntary Standstill Period ends	23 rd December 2019
Develop and agree KPIs in conjunction with KPMG	January and February 2020
Contract Award	March 2020
Contract Start Date	1 st April 2020

3. Next Steps

Continue the process in line with the above timetable, including:-

Develop the KPIs in conjunction with KPMG to ensure these are smart objectives, have appropriate actions and penalties for non-compliance.

Develop an overarching agreement and transparent process which is to be formalised where the price is capped in line with the bid but will be flexed down if the need and work reduces over the contract length.

Formal monitoring alongside the KPIs will be done via ARC and reviewed at least annually from a days perspective.

4. Required Actions

To agree to the working groups recommendation and plan to reappoint KPMG as the Trust’s external auditors subject to the above.

5. Monitoring Arrangements

Through the Audit & Risk Committee and subsequent updates to future CoG meetings.

6. Contact Details

For further information, please contact:

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Phillip Easthope, Executive Director of Finance, phillip.easthope@shsc.nhs.uk