

Council of Governors Meeting: Thursday 19 January 2017
CoG2017.04

Title	Tender Process for External Audit services
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Status	A paper setting out the process for the re-tendering of External Audit services when the existing contracts expire in 2017 along with a recommendation from the Chair of the Audit Committee on the proposed way forward.
History	This report follows on from paper CoG2016.20 considered at the last Council meeting.

Summary

This report sets out the potential process to appoint an External Auditor for the financial year 2017/18 and a number of other considerations to consider when determining the most appropriate way forward.

1	The paper identifies a potential procurement process to procure an external audit service which is set out in appendix 1
2	The paper also sets out a number of other considerations which should be considered when deciding on the best course of action. These include:- The impact of the current internal audit tender process The lessons learnt from other newly authorised foundation trusts
3	As a consequence, having carefully considered all the issues, as Chairman of the Audit Committee, my recommendation to the Council of Governors is that for 2017/18 they should extend the existing contract with Ernst & Young and that a tender exercise should be undertaken during 2017/18 to put in place an external auditor for the financial year 2018/19.
4	The Council of Governors is asked to determine how it wishes the Trust to proceed in the appointment of an external auditor for 2017/18.

Appointment of External Auditor

Introduction

1. The existing appointment of Ernst & Young as external auditors is due to conclude in September 2017.
2. The Trust therefore needs to put in place a process for ensuring that an External Auditor is in place for the 2017/18 financial year. A potential process is set out in **Appendix 1**.
3. 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.
4. External auditors for NHS Foundation Trusts are appointed by the Council of Governors.
5. The Audit Committee supports the Council of Governors to determine and deliver the process for appointing the external auditor.

Background

6. NHS Improvement (Monitor) have issued the “Audit code for NHS Foundation Trusts” last updated in December 2014 and this prescribes the way which external auditors of NHS Foundation Trusts are to carry out their duties and are appointed. **Appendix 2** is an extract from the Monitor document setting out guidance on their appointment.
7. 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.
8. This means that there are currently eight organisations (plus one in Scotland) approved to undertake external audit in the NHS.
9. The “Governwell” guide, produced by the Foundation Trust Network, as a guide for governors in appointing the external auditor describes several key stages of the appointment process and is included at **Appendix 3**.

Other Considerations

10. As indicated in paper CoG2016.20, the Trust has made contact with colleagues in a number of other large foundation trusts in order to learn from their experiences in the appointment process for external auditors.
11. This indicated that a number of foundation trusts only went to tender after a period of 18 months to 2 years from authorization. This provided a degree of stability whilst the new organizations were established.
12. It should also be noted that the Trust is already engaged in a procurement exercise for the internal audit and counter fraud services.
13. The intention is to let a contract for “internal audit services” from 1st April 2017 for the financial year 2017/18 and beyond.
14. Whilst “internal audit” is a fundamentally different service from the external audit service, there is a linkage between the two in that the organisation appointed as the internal auditor cannot also be the external auditor.

15. Consequently, it may be more appropriate to consider deferring the external audit procurement process for a year, in order to ensure a degree of stability whilst the future internal audit arrangements are resolved.
16. This approach would be consistent with that adopted by other newly authorised foundation trusts.

Recommendation

17. As Chairman of the Audit Committee, I am aware that I will need to make the final recommendation to the Council of Governors on the appointment of the external auditors for the financial year 2017/18.
18. I have therefore carefully considered the proposed process set out in **appendix 1** and the lessons gathered from other large foundation trusts.
19. Whilst the proposed procurement process is robust and will deliver an external auditor for 2017/18, I think the Trust needs to learn from the experiences of other new foundation trusts.
20. The issue of stability during a period of change is important and the financial pressures facing the NHS in general and NHS providers in particular add emphasis to this.
21. As a consequence, having carefully considered all the issues, my recommendation to the Council of Governors is that for 2017/18 they should extend the existing contract with Ernst & Young and that a tender exercise should be undertaken during 2017/18 to put in place an external auditor for the financial year 2018/19.
22. The Council of Governors is therefore asked to consider the issues set out above and determine how it wishes the Trust to proceed in appointing an external auditor for 2017/18.

Mrs Anne Tutt

Chairman Audit Committee

23 November 2016

Potential Appointment Process for External Audit

1. Procurement could be undertaken either by competitive tender or by utilizing an existing framework arrangement set up for the purpose of procuring audit services.
2. Using an existing framework simplifies the procurement process as part of the initial selection process has already been undertaken on behalf of the Trust.
3. NHS Shared Business Services have set up a framework agreement for external audit services which includes all eight firms authorised to conduct this work.
4. The framework allows organisations to either make a direct award to one of the suppliers on the framework or run a selection process between all the providers included on the framework for the provision of external audit.

Governance Arrangements

5. To oversee the procurement process, subject to approval by the Council of Governors, it is proposed that an External Audit working group should be established with the following membership:
 - 5.1. 3 Governors
 - 5.2. 2 Non-executive directors, 1 of which would be the chair of the Audit Committee
 - 5.3. Director of Assurance
6. The working group would make the recommendation to the Audit Committee and the Council of Governors for final approval. The final recommendation to the Council of Governors would be presented by the Chair of the Audit Committee.
7. The Chief Finance officer would be available to support the working group and provide advice as requested but would not be a “voting member” of the working group as it is important that external audit are independent of the finance function.
8. The working group would review the “tender submissions”, prepare a shortlist and interview shortlisted firms and make a recommendation to the April Audit Committee and the Council of Governors meeting in July.
9. The working group would be supported by specialists from finance and procurement as necessary.
10. The draft timetable envisaged is set out in **Appendix 4**.