

**Council of Governors Meeting: Thursday 5<sup>th</sup> October 2017**  
**CoG2017.27**

<b>Title</b>	<b>Update on Appointment of the External Auditor: Market testing the External Audit services</b>
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<b>Status</b>	For information
<b>History</b>	This paper provides the Council of Governors with a progress report on the market testing of the External Audit service. It follows on from previous papers CoG 2016.20 and CoG2017.04

<b>Board Lead(s)</b>	Mrs Anne Tutt Chairman of External Audit Working Group			
<b>Key purpose</b>	Strategy	<b>Assurance</b>	Policy	Performance

## Executive Summary

<p>1. Foundation Trusts are expected to periodically market test the external audit service. Ernst &amp; Young have been the External Auditor since 2012 and their current appointment ends in September 2018.</p>
<p>2. The Council of Governors appoints the external auditors and the Audit Committee supports the Council of Governors in this process. The process was described in CoG2017.04.</p>
<p>3. An External Audit Working Group has been established and the Council of Governors is asked to formally agree the amended Terms of Reference of this group set out in <b>Appendix 1</b></p>
<p>4. The market testing of external audit services is underway and subject to the successful conclusion of this process, a recommendation on the appointment of an external auditor will be submitted to the Council of Governors meeting in January 2018</p>
<p>5. Foundation Trusts are also expected to put in place a policy about the Engagement of External Auditors for Providing Non-Audit Services so that any threats to auditor independence arising from the performance of such additional work are carefully considered and deemed to be clearly insignificant.</p>
<p>6. Non-audit services are defined as any work other than the statutory audit of the financial accounts.</p>
<p>7. In drawing up the policy on the Engagement of External Auditors for Providing Non-Audit Services, the requirements of the National Audit Office – Code of Audit Practice and the Financial Reporting Council document - Revised Ethical Standard 2016 have been taken into account.</p>
<p>8. Except for instances which fall within the definition of pre-approved services, before engaging the auditor for non-audit services this will be reported to the Audit Committee for approval, unless timing precludes this and then it will be agreed jointly by the Chairman of the Audit Committee and the Chief Finance Officer and reported to the next Audit Committee meeting. Approval will also be reported to the next meeting of the Council of Governors.</p>
<p>9. The policy for the Engagement of External Auditors for Providing Non-Audit Services was approved by the Audit Committee at its meeting on 20 September 2017.</p>
<p>10. <b>Recommendation</b></p> <p>The Council of Governors is asked to <b>agree</b> the terms of reference of the External Audit Working Group and note the progress made and to <b>note</b> that a policy regarding the Engagement of External Auditors for Providing Non-Audit Services is in place.</p>

## Market testing External Audit services

### 1. Introduction

- 1.1. Ernst & Young have been the Trust's External Auditors since 2012.
- 1.2. The Council of Governors agreed to extend their appointment till September 2018 at their meeting in January 2017 (CoG2017.04)
- 1.3. Current guidance is that the external audit service should be periodically subjected to a "market testing exercise".
- 1.4. It is a legal requirement under the 2006 NHS Act that Foundation Trusts must have an external auditor in place at all times.
- 1.5. The external auditors are appointed by the Council of Governors and the Audit Committee supports the Council of Governors in the appointment process.
- 1.6. The process for the appointment of the external auditors was set out in the paper considered by the Council of Governors in January 2017. (Appendix 1 of CoG2017.04).

### 2. External Audit Working Group

- 2.1. An External Audit Working Group (EAWG) comprising three Governors, two members of the Audit Committee and the Director of Assurance, has been established to oversee the "market testing exercise" and formulate the recommendation to the Council of Governors.
- 2.2. A draft set of Terms of Reference, derived from the process outlined in CoG2017.04 were considered by EAWG at its first meeting and with slight amendment are recommended to the Council of Governors.
- 2.3. The Council of Governors is requested to formally agree the terms of reference attached at **appendix 1**
- 2.4. The group selected Mrs Anne Tutt as its Chairman.
- 2.5. The three governors are Dr Cecilia Gould, Mr Martin Havelock and Mr Richard Soper.

### 3. Current Position

- 3.1. The External Audit Working Group has met twice and has:-
  - 3.1.1. Agreed that the market testing will be undertaken by utilising the Standard Business System framework agreement for external audit services and running as mini competition between all the suppliers on the framework. This framework includes all the major suppliers and its use speeds up the process as certain preliminary work has been undertaken when the framework was established.
  - 3.1.2. Agreed the timetable for the exercise which envisages that a recommendation will be made to the Council of Governors meeting in January 2018.
  - 3.1.3. Agreed the Invitation to Tender (ITT) and Service Specification documentation which are being used for the mini competition.
- 3.2. The mini competition between all eight firms on the framework is currently underway.

#### **4. Next Steps**

- 4.1. The mini completion is due to conclude in mid-October and a further meeting of the External Audit Working Group will then be held to consider the submissions received and draw up a shortlist.
- 4.2. Shortlisted firms will be asked to present to the External Audit Working Group in November.
- 4.3. Following the presentations, the group will formulate a recommendation for the Council of Governors to consider at their meeting in January 2018.

#### **5. Engagement of External Auditors for Providing Non-Audit Services**

- 5.1. Foundation Trusts are expected to put in place a policy about the Engagement of External Auditors for Providing Non-Audit Services so that any threats to auditor independence arising from the performance of such additional work are carefully considered and deemed to be clearly insignificant.
- 5.2. Non-audit services are defined as any work other than the statutory audit of the financial accounts.
- 5.3. In drawing up the policy, the requirements of the National Audit Office – Code of Audit Practice and the Financial Reporting Council document - Revised Ethical Standard 2016 have been taken into account.
- 5.4. Except for instances which fall within the definition of pre-approved services, before engaging the auditor for non-audit services this will be reported to the Audit Committee for approval, unless timing precludes this and then it will be agreed jointly by the Chairman of the Audit Committee and the Chief Finance Officer and reported to the next Audit Committee meeting. Approval will also be reported to the next meeting of the Council of Governors.
- 5.5. The policy was approved by the Audit Committee at its meeting on 20 September.

#### **6. Recommendation**

- 6.1. The Council of Governors is asked to:-
  - 6.1.1. Agree the term of Reference of the External Audit Working Group.
  - 6.1.2. Note the progress that has been made towards appointment of External Auditors.
  - 6.1.3. Note that a policy regarding the Engagement of External Auditors for Providing Non-Audit Services is in place.

**Mrs Anne Tutt**  
**Chairman of External Audit Working Group**  
**October 2017**

Report Author:Richard Gardner

## Appendix 1



### External Audit Working Group

#### Terms of Reference

##### 1. Authority

- 1.1. The External Audit Working group (the Committee) is constituted as a sub-committee of the Council of Governors for the sole purpose of undertaking a “market testing” exercise in respect of the provision of External Audit services.
- 1.2. The Committee has no executive powers, other than those specifically delegated in these Terms of Reference.
- 1.3. The Terms of Reference can only be amended with the approval of the Council of Governors.

##### 2. Purpose of the Committee

- 2.1. The Committee is responsible for making recommendations to the Council of Governors in respect of the outcome from the “market testing” of External Audit services.

##### 3. Membership

- 3.1. The membership of the committee shall be composed of the following:-
  - Three Governors
  - Two Non –Executive Directors, one of whom shall be the chair of the Audit Committee.
  - Director of Assurance.
- 3.2. The Committee will seek advice, as required, from other officers of the Trust.
- 3.3. The Committee will elect its Chairman from amongst its members.

##### 4. Attendance and Quorum

- 4.1. The quorum for any meeting of the Committee shall be attendance of a minimum of three members of which two will be Governors and one a Non-executive Director.

- 4.2. If Governors, Executive or Non-executive Directors are unable to attend a meeting they should nominate a deputy, subject to consultation with the Committee Chairman. Deputies will be counted for the purpose of the quorum.
- 4.3. The Chair may request attendance by relevant staff at any meeting.

## 5. Frequency of meetings

- 5.1. The Committee will meet, as required by the timetable for the tender process and initially it is envisaged that four meetings will be required as set out in the table below:-

Proposed Date	Objective of meeting
10 August 2017	To consider draft specification of service and contract award criteria.
September 2017	To agree final specifications of service and other documentation
October 2017	To discuss and confirm shortlisted suppliers
November 2017	Presentations by Shortlisted Suppliers and recommendation to the Council of Governors.

- 5.2. The Chairman may at any time convene additional meetings of the Committee to consider business that requires urgent attention.

## 6. Specific Duties

- 6.1. The specific responsibilities of the Committee are to:

- To agree the service specification for the proposed External Audit services
- To agree the contract award criteria
- To agree any other supporting documentation
- To agree the shortlist of firms asked to present to the Committee
- To receive the presentations from the short listed firms and to make a recommendation to the Audit Committee and Council of Governors concerning the outcome of the “market testing” exercise.

## 7. Administrative Support

- 7.1. The Committee will be supported by the Chief Finance Officer, as the nominated lead Executive Director. The Committee will be supported administratively by the Finance Directorate, whose duties in this respect will include:

- Agreement of the agenda with the Committee Chairman, collation and distribution of papers at least five working days before each meeting.
- Keeping a record of matters arising and issues to be carried forward.

- Providing support to the Chair and members as required.

## 8. Accountability and Reporting arrangements

8.1. The Committee shall be directly accountable to the Council of Governors

8.2. The Chair of the Committee shall prepare a summary report to the Audit Committee and Council of Governors detailing actions agreed and issues to be referred to the Audit Committee / Council of Governors.

**Date approved:** [5<sup>th</sup> October 2017]

**Approved by: Council of Governors**