

Sheffield Teaching Hospitals NHS Foundation Trust

Executive Summary

Report to the Council of Governors

Being Held on 26 July 2021

Subject	Appointment of External Auditors
Supporting TEG Member	Neil Priestley, Director of Finance
Author	Neil Priestley, Director of Finance
Status¹	A

PURPOSE OF THE REPORT

To seek the Council of Governors' approval to appoint KPMG as the Trust's External Auditor with effect from the 2021/22 audit.

KEY POINTS

1. Given the end of the contract with the Trust's current External Auditor Mazars, the Trust undertook a tender process to enable a new appointment.
2. No bids were received.
3. A direct approach was therefore made to the Trust's previous External Auditor KPMG and, following discussion, a proposal has been received from KPMG.
4. Following consideration at its meeting on 13 July 2021, the Audit Committee has recommended acceptance of the proposal and the appointment of KPMG.
5. The fee is considerably higher than that paid previously but this reflects the changing public sector audit market and the fact that Mazars generally has lower fees.

IMPLICATIONS

AIM OF THE STHFT CORPORATE STRATEGY 2017-2020		TICK AS APPROPRIATE
1	Deliver the Best Clinical Outcomes	
2	Provide Patient Centred Services	
3	Employ Caring and Cared for Staff	
4	Spend Public Money Wisely	✓
5	Deliver Excellent Research, Education & Innovation	

RECOMMENDATIONS

1. It is recommended that KPMG is appointed as the Trust's External Auditor from the 2021/22 audit.
2. It is recommended that the contract is a 3+2 year contract as per the original tender process.

APPROVAL PROCESS

Meeting	Date	Approved Y/N
Audit Committee	13/7/21	Y
Council of Governors	26/7/21	

SHEFFIELD TEACHING HOSPITALS NHS FOUNDATION TRUST

REPORT TO THE COUNCIL OF GOVERNORS 26 JULY 2021

APPOINTMENT OF EXTERNAL AUDITORS

1. Introduction

- 1.1 As the Council of Governors will be aware, the Trust's contract with Mazars ends (having been extended as much as allowed) at the conclusion of the 2020/21 audit process.
- 1.2 A tender process was therefore commenced in March with the expectation that an appointment would be made and approved via the Audit Committee and Council of Governors by September 2021 such that work on the 2021/22 audit could begin.
- 1.3 Unfortunately, despite some expressions of interest and previous suggestions that Mazars would bid again, the Trust received no bids. It was recognised that the NHS (and wider public sector) external audit market has become very challenging but this was still a surprise.
- 1.4 From consultation with other Trusts which had faced similar challenges it was clear that it was necessary to directly approach potential providers. The Procurement team initially approached the providers on the framework to query why they had not bid but received little response.

2. KPMG Proposal

- 2.1 Given that KPMG was the Trust's External Auditor prior to Mazars' appointment, it was decided to approach it first. The Director of Finance therefore contacted Tim Cutler (the Partner who had previously overseen our audit) and a discussion was held on 21 June 2021.
- 2.2 It was confirmed that KPMG would be interested if the conditions were right. There was then a discussion about key issues that might influence the audit and an indication of the potential fee. It was agreed that KPMG would provide a written proposal and this was received on 6 July 2021.
- 2.3 The proposal can be summarised as follows:
- A fee of £183,000 with an inflationary uplift of 3% pa.
 - This includes the new Value for Money Opinion work but not the audit of the Quality Account (which is no longer mandatory).
 - Additional charges (potentially around £5,000) if the Trust is a sampled component of the NAO's Group Audit Instructions
 - A request for possible flexibility around the audit deadlines in year one given the need for recruitment.
 - A number of other caveats which appear generally reasonable.

Fee Benchmarks

2.4 It has been possible to secure some benchmarking information from another Trust which had been through this process recently. It is important to note that these are 2019/20 figures and may include more than the base audit fee in some cases. It is likely that the market has got more challenging since then and the new VfM arrangements have commenced from 2020/21.

Trust	Turnover £m	Audit fee £000	Audit Firm
Trust A	1.265	314	Deloitte
Trust B	1.758	305	Deloitte
Trust C	1.301	182	Deloitte
Trust D	1.704	155	Grant Thornton
Trust E	1.218	115	Deloitte
Trust F	1.825	104	Mazars
Trust G	1.414	99	Mazars
Trust H	1.140	90	Mazars
Trust I	0.912	72	KPMG
Trust J	1.179	69	Mazars
Trust K	1.004	68	Mazars
Sheffield Teaching Hospitals	1.197	54	Mazars

2.5 Further information has been obtained from Trust A and Trust B as they have recently retendered/renegotiated. Their baseline charges are lower than the above but they have additional charges for subsidiaries, etc.

3. Conclusions

3.1 The Trust has had a very low charge for its external audit services over the last five years.

3.2 The market has changed considerably and a doubling of the previous Mazars charge to around £100,000 was expected.

3.3 KPMG are known to the Trust and can be confidently expected to provide a good service.

3.4 It is hard to compare fees with other Trusts given the changing market but it would appear that, if Mazars are excluded, the proposed KPMG fee is reasonable.

3.5 It is unclear if any other potential provider would respond to a direct approach but it does seem unlikely that it would result in a significantly lower fee. There is clearly a risk that KPMG disengage if we appear to be approaching other providers.

3.6 The Audit Committee considered the KPMG proposal at its meeting on 13th July 2021 and agreed to recommend to the Council of Governors that KPMG be appointed as the Trust's External Auditor for a 3 year initial period with an option to extend by a further 2 years.

4. **Recommendation**

4.1 It is recommended that KPMG is appointed as the Trust's External Auditor from the 2021/22 audit.

4.2 It is recommended that the contract is a 3+2 year contract as per the original tender process.

Neil Priestley
Director of Finance
July 2021