

Executive Summary
Report to the Council of Governors' Meeting
Held on 19th September 2023

Subject	External Audit Services
Lead	Neil Priestley
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Status¹	A

PURPOSE OF THE REPORT

To consider the provision of the External Audit service for 2023/24 and the following 2 years.

KEY POINTS

KPMG commenced as the Trust's External Auditor in September 2021 with a 3 year contract ending with the 2023/24 financial year, but with an option to extend for a further 2 years.

The Audit Committee has undertaken its routine assessment of the KPMG service following the 2022/23 external audit and is satisfied with performance and value for money.

Given this, the Audit Committee has also considered the position following the 2023/24 financial year, specifically the option to extend the contract for the further 2 years allowed. KPMG has confirmed that it is content to agree the extension subject to one change to the terms and conditions, i.e. linking the annual inflation uplift to CPI rather than a fixed value.

IMPLICATIONS²

Aim of the STHFT Corporate Strategy		✓ 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	
6	Create a Sustainable Organisation	

RECOMMENDATIONS

The Audit Committee recommends to the Council of Governors that:-

1. KPMG continues to be the Trust's External Auditor for the 2023/24 financial year as per the current contract.
2. The Trust extends the contract with KPMG for the further 2 years allowed, on the same terms as the initial 3 years except that the annual inflation uplift will now be tied to the September CPI figure.

APPROVAL PROCESS

Meeting	Date	Approved Y/N

¹ Status: A = Approval
A* = Approval & Requiring Board Approval
D = Debate
N = Note

² Against the six aims of the STHFT Corporate Strategy 2022-2027

SHEFFIELD TEACHING HOSPITALS NHS FOUNDATION TRUST

REPORT TO COUNCIL OF GOVERNORS – 19th SEPTEMBER 2023

EXTERNAL AUDIT SERVICES

1. INTRODUCTION

- 1.1 The Trust's current contract for External Audit services commenced with the 2021/22 financial year and runs until the 2023/24 financial year, with an option to extend by a further 2 years. The External Audit service covers the financial statements audit, a review of the annual report and an assessment of the Trust's arrangements for securing economy, efficiency and effectiveness in the use of its resources (VFM assessment).
- 1.2 Due to the ongoing difficult public sector audit market, the Trust did not receive any response to its standard tender process during 2021 and needed to make a direct approach to appropriate professional firms. This approach led to the appointment of KPMG.
- 1.3 The Council of Governors is responsible for appointing the Trust's External Auditor. The Audit Committee takes responsibility for recommending an audit appointment to the Governors.

2. REVIEW OF EXTERNAL AUDIT PERFORMANCE

- 2.1 Following the completion of the 2022/23 Annual Accounts process, the Audit Committee undertook its normal process to review the performance of KPMG at its private meeting on 11th July 2023. The Audit Committee was satisfied with the performance and value for money of KPMG and agreed to recommend to the Council of Governors that KPMG continue to be the Trust's External Auditors for 2023/24 (as per the contract).
- 2.2 However, the Audit Committee also noted that the 2023/24 financial year audit will be the last of the KPMG 3 year contract and, given the on-going difficulties with the public sector audit market, there was a need to consider the position thereafter (starting from September 2024) fairly urgently. The Audit Committee noted that the existing contract with KPMG had the potential to be extended by a further 2 years, albeit with the right for KPMG to renegotiate the charges. Given the satisfactory service provided by KPMG and the difficulties in the public sector external audit sector, it was agreed that an approach be made to KPMG to discuss the potential contract extension.
- 2.3 These discussions have taken place and KPMG has confirmed that it is content to extend the contract for the further 2 years on virtually the same terms. The original contract had a fixed 3% annual inflation uplift for each of the initial 3 years. Given the high level of inflation in recent years, KPMG has requested that for the 2 year extension the annual inflation uplift be linked to the published CPI measure (subsequently clarified as that for the September in which the new audit year's work commences). It is felt that linking the annual inflation uplift to an objective national measure is reasonable and it is noted that the Government's target for inflation is 2% pa and that by September 2024 it is intended that inflation will be much reduced from current levels.
- 2.4 The latest cost comparisons for the statutory external audit service are shown below:

Trust	Auditor	21/22 Turnover (£m)	21/22 Audit Fee (£000)*	Audit Fee % of Turnover
Kings College Hospitals	Grant Thornton	1,591	312	0.0196%
University Hospitals Birmingham	Deloitte	2,066	246	0.0119%
Guys & St Thomas's	Grant Thornton	2,639	278	0.0105%
Nottingham University Hospitals	KPMG	1,471	149	0.0096%
Manchester University Hospitals	Mazars	2,473	102	0.0101%
Leeds Teaching Hospitals	Mazars	1,728	102	0.0059%
Sheffield Teaching Hospitals	KPMG	1,359	228	0.0168%

* Includes VAT

Given the difficult public sector external audit market, it is highly likely that costs are continuing to increase as new contracts are let.

3. RECOMMENDATIONS

The Audit Committee recommends to the Council of Governors that:-

- 3.1 KPMG continues to be the Trust's External Auditor for the 2023/24 financial year as per the current contract.
- 3.2 The Trust extends the contract with KPMG for the further 2 years allowed, on the same terms as the initial 3 years except that the annual inflation uplift will now be tied to the September CPI figure.

Neil Priestley
Chief Finance Officer
August 2023