

SHEFFIELD TEACHING HOSPITALS NHS FOUNDATION TRUST

GOVERNORS' COUNCIL – 13 SEPTEMBER 2011

APPOINTMENT OF EXTERNAL AUDITOR

1. INTRODUCTION

- 1.1 The Trust's existing 5 Year External Auditor appointment ends with the 2010/11 financial year.
- 1.2 A formal tender process was therefore agreed with the Audit Committee and Governors' Council. This process commenced when the Trust invited expressions of interest to be submitted in April 2011. Of the 6 organisations which expressed an interest, 5 passed the pre-qualification test and were invited to tender. Of these, only the following 3 organisations chose to submit a tender:
- Audit Commission
 - KPMG
 - PricewaterhouseCoopers (PWC)
- 1.3 All 3 of the above organisations were shortlisted and, as per the agreed process, a panel was established to consider the tenders and receive presentations from each of the shortlisted organisations. The panel met on 7 June 2011 and had the following membership:-
- | | |
|-----------------|--------------------------------------|
| John Donnelly | Chair of Audit Committee |
| Vic Powell | Vice Chairman/Audit Committee member |
| Graham Thompson | Governor |
| Neil Priestley | Director of Finance |
| Neil Riley | Trust Secretary |
| Julie Wright | Deputy Director of Finance |
- The panel was supported by Keith Eyre from the Supplies Department.
- 1.4 The panel had an agreed scoring matrix for assessing the 3 tenders and was not aware of the financial aspects of the tenders until the presentations and scoring processes were completed. The elements covered by the scoring matrix were as follows:
- Appropriately qualified
 - Statutory entitlement
 - Compliant with Audit Code for NHS Foundation Trusts
 - Audit Plan
 - External Audit expertise
 - Key personnel
 - Quality Control Procedures
- 1.5 The panel reached a firm conclusion on the proposed appointment and this is detailed in section 2 below.
- 1.6 The Audit Committee formally consider the panel's proposal on 5 July 2011 and agreed the recommendations in Section 3 below.

2. THE PANEL'S CONCLUSIONS

- 2.1 The panel had concerns about the ongoing uncertainty over the future of the Audit Commission given the Government's announcement that it will be abolished. The panel was informed that the Audit Commission would be able to undertake the 2011/12 external audit but that current arrangements would cease for 2012/13 onwards. The Audit Commission is seeking to set-up a "mutual" or "social enterprise" organisation to continue public sector audit services but this has yet to be confirmed. It was also suggested that the country would be split into geographical areas and that each "bundle" would then be competed for with private sector audit firms. It therefore seemed likely that for 2012/13 onwards the Trust's External Audit would be potentially transferred to another, as yet unknown, organisation or that the Trust would take the option to re-tender. Given this position and the uncertainty, the panel concluded that the Audit Commission was not certain to be able to provide the service for the 3 year tender period. On these grounds, the panel concluded that the Audit Commission did not satisfy the basic criteria around being appropriately qualified and therefore excluded it from further consideration.
- 2.2 The panel concluded that both KPMG and PWC were capable of providing a high quality external audit service and that both of them fully met the requirements. Neither organisation was deemed to offer significant added value benefits and therefore each scored 160 out of 200.
- 2.3 The tender values were as follows:-

	<u>Statutory Audit</u>	<u>Quality Report</u>	<u>Total</u>
	£	£	£
Audit Commission	45,240	5,270	50,510
KPMG	45,320	8,840	54,160
PWC	65,000	10,500	75,500

The PWC price was fixed for the 3 years but inflation uplifts would apply in years 2 and 3 for the Audit Commission and KPMG quotes.

- 2.4 Given that the Audit Commission was excluded and that there was no difference between KPMG and PWC on the benefits scoring, KPMG were selected as the preferred bidder on the basis of value for money. The value for money assessment reflects the discounted net present value of the tender proposals over the 3 year period and then considers the Cost per Benefit Point. The position for KPMG and PWC were as follows:-

	<u>Cost/Benefit Point</u>
	£
KPMG	1,003.70
PWC	1,335.95

3. RECOMMENDATIONS

The Governors' Council is asked to:-

- 3.1 Agree that KPMG should be selected as the Trust's External Auditor for the 3 years from 2011/12.
- 3.2 Note that there is an option for the 3 Year contract to be extended by a further 2 years.
- 3.3 Pass on its thanks to the Audit Commission for its work as the Trust's External Auditor over many years.

Neil Priestley
Director of Finance
July 2011