

**UNIVERSITY HOSPITALS BIRMINGHAM NHS FOUNDATION TRUST
COUNCIL OF GOVERNORS
THURSDAY 25 FEBRUARY 2021**

Title:	APPOINTMENT OF EXTERNAL AUDITORS
Responsible Director:	Karen Kneller, Audit Committee Chair
Contact:	Sarah Thomas, Director of Strategic Finance, ext. 17453
Purpose:	To present an update on the Trust's tender process for the provision of External Audit services beginning 1 April 2021 to the Council of Governor's.
Confidentiality Level & Reason:	None
Board Assurance Framework Ref: / Strategy Implementation Plan Ref:	BAF - SR2/18 - Cash flow affects day to day operations of Trust BAF - SR12/18 - Unable to maintain and improve quality and quantity of physical environment to support the level of service SIP - #8 Use our resources as efficiently as possible SIP - #9 Invest in our estates and capital infrastructure to provide high quality facilities for patients and minimise under-utilised clinical space
Key Issues Summary:	<ul style="list-style-type: none"> • The existing External Audit contract comes to an end on following the audit of the 2020/21 annual report and accounts. • A tender process has been underway to award a contract for 3 years with an option to extend for a further 1 + 1 years, a maximum 5 year contract in total. • Tender process has been progressed jointly with The Royal Orthopaedic Hospital NHS Foundation Trust. • Intention is to award a single contract for both University Hospitals Birmingham NHS Foundation Trust and The Royal Orthopaedic Hospital NHS Foundation Trust unless an exceptional circumstance arises. • Only 1 bidder expressed an interest in providing these services to the Trusts. • The Audit Committee are recommending to the Council of Governor's the award of the contract to Deloitte.
Recommendations:	The COUNCIL OF GOVERNORS is asked to: 1. Approve the award of the contract as recommended.
Signed: Karen Kneller	Date: 17 FEBRUARY 2021

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APPOINTMENT OF EXTERNAL AUDITORS

PRESENTED BY THE AUDIT COMMITTEE CHAIR

1. Introduction

The current contracts for both External and Internal Audit come to an end on 31 March 2021 – for External Audit this means on completion of the audit of the 2020/21 Annual Report and Accounts.

A procurement process has been undertaken for the provision of both External and Internal Audit services as separate lots under the:

- NHS Shared Business Services framework agreement “Internal and External Audit, Counter Fraud & Financial Assurance Services”
Reference: SBS/20/MA/ZA/10024

The procurement process has been completed jointly with The Royal Orthopaedic Hospital NHS Foundation Trust (ROH) with the intention of awarding a single contract across the two organisations unless an exceptional circumstance arises.

2. Procurement Process

The Invitation to Tender (ITT) was published in November 2020 with information included within the ITT associated with the evaluation criteria for External Audit as detailed in appendix A.

Bidders were required to respond by 17 December 2020.

Four bids were received for the Internal Audit tender from KPMG, Deloitte, RSM and PWC however only one bid was received for the External Audit tender from Deloitte

In order to not disadvantage Deloitte in their bid for Internal Audit services, the Internal Audit bids were evaluated first. Three bidders were invited to present to the evaluation panel, KPMG, Deloitte and RSM and KPMG were ranked the highest overall. The award of the Internal Audit contract to KPMG was proposed to the Audit Committee of both University Hospitals Birmingham NHS Foundation Trust (UHB) and ROH and was approved by both committees.

Subsequently, the External Audit bid from Deloitte has been evaluated and it has been found to adequately answer the technical specification detailed in appendix A.

The commercial evaluation in terms of value for money is more difficult to assess given no completing bids. However, the commercial proposal received from Deloitte for the initial 3 year contract has been assessed against NHS Shared Business Services ceiling price within the framework and the bid is 80% of this ceiling price as detailed in table 1 below.

Table 1: Deloitte Commercial Proposal vs SBS Ceiling Price

Grade	Number of Different Staff Involved per Grade	Commercial Proposal over Initial 3 Year Contract Term		SBS Ceiling Price over Initial 3 Year Contract Term	
		Aggregate man days	Grand Total Cost	Grade Cost (Ceiling Price)	Grand Total Cost
Partner/Director	2	87	£174,000	£2,500	£217,500
Audit Manager	2	153	£183,600	£1,500	£229,500
Senior Auditor	2	220	£158,400	£900	£198,000
Audit Assistant	2	207	£119,232	£720	£149,040
Trainee Junior Staff	3	160	£71,680	£560	£89,600
Other	2	24	£28,800	£1,500	£36,000
Other		0	£0		£0
Transition costs		0	£0		£0
Grand Totals		851	£735,712		£919,640

3. Conclusion

The Trust entered in to a procurement process for the provision of both External and Internal Audit services beginning on 1 April 2021 for an initial period of 3 years with an option to extend for a further two 12 month periods up to a maximum contract term of 5 years.

Four bids were received for the provision of Internal Audit services and one bid was received for the provision of External Audit services.

The Audit Committee have approved the contract award for Internal Audit to the highest ranked bidder, KPMG, following an evaluation process.

The Audit Committee are recommending the award of External Audit to Deloitte following an assessment of the technical evaluation criteria and the commercial proposal against the framework ceiling prices.

11. Recommendations

The COUNCIL OF GOVERNORS is asked to:

1. Approve the award of the contract as recommended.

Karen Kneller
 Audit Committee Chair
 17th February 2021

Appendix A: External Audit Technical Evaluation Criteria

Tender Response Required:	Weighting
<p>Demonstrate established experience of your organisation within the healthcare sector specifically that your organisation satisfies the criteria for appointment as an External Auditor of an NHS Foundation Trust, as set out in paragraph 23(4) of Schedule 7 of the National Health Service Act (2006) or other similar sized large acute NHS or commercial organisation.</p> <p>Provide case study details for three comparable External Audit NHS customers. These may include University Hospitals Birmingham and Royal Orthopaedic Hospital.</p> <p>Demonstrate clear understanding of:</p> <ul style="list-style-type: none"> • Trust's business • Health sector • Business needs, issues (funding and policy), challenges, risks (internal and external) and emerging trends relevant to the Trust over the next 2-5 years <p>(This may be presented either by individual Trust or collectively across the Trusts)</p> <p>Demonstrate the right cultural/organizational fit and empathy with the Trust's values, priorities and ideally demonstrating these characteristics themselves.</p> <p>Demonstrate level of commitment to providing the Trust with the specified services.</p> <p>Provide copies of your firm's FRC and ICAEW QAD results for the last three years, including any known action by Regulators.</p> <p>Describe your arrangements to improve the quality of your work.</p> <p><i>N.B. We are <u>not</u> requesting references with customer contact details etc. at this stage.</i></p>	<p>20 %</p>
<p>Describe proposed approach to planning, providing and managing the External Audit services to the Trust, taking full account of the issues it faces, including:</p> <ul style="list-style-type: none"> • Arrangements for planning audit work. • Arrangements for delivering audit services that are customised, responsive and aligned with key risks and the Trust's needs, and how any changes in scope will be handled (and charged). • Processes for controlling, monitoring and reviewing audit work - to give assurance that the audit work itself is sound and conforms to relevant professional standards. • Processes that you will employ to raise issues of concern, resolve accounting and financial reporting issues, and the steps you will take to ensure client satisfaction. • How your organisation will liaise and work with the Trust's Finance 	<p>30 %</p>

	<p>Division and other internal stakeholders.</p> <ul style="list-style-type: none"> • How your organisation will liaise and work with the Internal Audit and Counter Fraud Service Providers. • How your organisation will attend and report to the Audit Committee meetings and liaise with the Chair of the Audit Committee. • How your organisation will liaise with the related entities, e.g. Corporate Trustee of the Charity, subsidiaries etc. • How technology is used to deliver the service. • Processes employed to address matters related to client satisfaction, performance measurement and continuous improvement. <p>Demonstrate the style adopted in delivering the above.</p> <p>Describe reporting arrangements in connection with the External Audit service, including details of how audit work will be reported, mechanisms for ensuring clarity and quality in reporting and arrangements for proper consultation and liaison with Managers in the preparation and follow-up of audit reports.</p> <p>Describe internal processes for quality assurance, and practices and arrangements to ensure sound governance, full independence and the avoidance of any conflicts of interest.</p> <p>Include a statement on existence of and approach to Conflicts of Interest statement. This should include details of any actual or potential conflicts of interest your organisation may have relating to this contract and provide an explanation of your proposed approach to dealing with those conflicts of interest and any that may arise during the contract.</p> <p>Policies in relation to ethical, environmental, equality and diversity and whistle blowing.</p> <p><i>N.B. Copies of existing Policies are <u>not</u> required at this stage of the procurement.</i></p>	
	<p>Structure, capacity, quality and location of the proposed External Audit Team, confirmation of proposed time key members will dedicate to the audit, Curriculum Vitae of key team members detailing relevant experience and skills, and approach to rotation, training, succession planning and continuity.</p> <p>Demonstrate team has:</p> <ul style="list-style-type: none"> • Subject matter expertise/authority • Necessary experience • Ability to address complex technical issues 	20 %
	<p>Demonstrate proactivity, ideas, continuous improvement and strategies relevant to the Trust's business and its service requirements.</p> <p>Articulate any potential synergies of providing the service across the different Trusts.</p>	15 %

<p>Describe what added value you could deliver to the Trust.</p> <p>Demonstrate measurable positive outcomes achieved from other External Audit engagements.</p> <p>Identify any efficiencies and improvements you may be able to deliver to the Trust and how these might be implemented.</p> <p>Provide recent, relevant examples where recommendations to other clients' management have improved controls / processes.</p> <p>Brief details of why the organisation believes it is particularly well placed to provide the External Audit service to this Trust and how this might benefit the Trust.</p>	
<p>Provide a detailed transition/implementation plan (including dates for completion) for non-incumbent Tenderers*:</p> <ul style="list-style-type: none"> • Process for audit transition from the incumbent audit firm. • Relevant previous experience with audit transitions of similar NHS Foundation Trusts. • Transition plan by individual Trust or across various Trusts <p>Demonstrate how your transition plan complies fully with the Financial Reporting Council's Revised Ethical Standard 2019 and National Audit Office guidance AGN01.</p> <p><i>*Incumbent Service Provider need not respond to this criterion as they shall be awarded the highest score of all Tenderers.</i></p>	15 %
Total Technical / Quality Score	100%