

**PUBLIC**

**Report to the Meeting of the Oxford Health NHS Foundation  
Trust**

**Council of Governors**

**18<sup>th</sup> November 2020**

<b>CoG 13/2020</b> (Agenda item: 10)
---

**For Information and Approval**

**External Audit Contract Review and Extension**

**Purpose**

The 2006 Act says that every NHS foundation trust must have an auditor that is appointed by the council of governors. The law states that it is for the council of governors to appoint or remove the auditor at a general meeting of the council.

To update the Council of Governors on the current external audit arrangements and the procurement options going forward when the initial three-year contract period comes to an end, and to seek approval for a 24-month extension as allowed for in the current contract.

The contents of this paper were previously presented to Audit Committee on the 16<sup>th</sup> September at which it was recommended to approve an extension to the contract by 2 years.

**Executive summary**

The report includes the following sections:

1. Current external audit contract
2. Procurement options
3. Other considerations
4. Contract extension fees
5. Audit Committee
6. Recommendation

## **PUBLIC**

### **Current External Audit Contract**

The current external audit contract with Grant Thornton encompasses the provision of the external audit services for the following areas:

- The independent audit of the Trust's Statutory Annual Accounts
- the independent examination of the Oxford Health Charity Accounts and
- the independent assurance to confirm that the Quality Accounts of the Trust have complied with the Quality Account Regulations

The Contract commenced on the 9<sup>th</sup> October 2017 for a period of 36 months with an option to extend for up to a further 24 months. The current contract therefore ended on the 8<sup>th</sup> October 2020.

The annual fees for these services for years 1 to 3 of the Grant Thornton contract are set out below alongside the audit fees for the previous 3 years when the external audit services were provided by Deloitte's:

Year	Trust Accounts	Quality Accounts	Charity Accounts	Total
2014/15 (Deloitte)	£53,500	£10,100	£4,000	£67,600
2015/16 (Deloitte)	£53,500	£10,100	£4,000	£67,600
2016/17 (Deloitte)	£53,500	£10,100	£4,000	£67,600
2017/18 (Grant Thornton)	£40,000	£7,500	£2,000	£49,500
2018/19 (Grant Thornton)	£40,000	£7,500	£2,000	£49,500
2019/20 (Grant Thornton)	£40,000	£7,500	£2,000	£49,500

\*All the above fees exclude VAT

Note: As part of the original tendering exercise, the fee estimate for years two and three of the contract included an estimate for inflation and/or cost reductions as a result of ongoing contract delivery efficiency improvements, so no further contract price adjustments would be considered during the initial three years of the contract.

### **Procurements Options**

- **Extend the existing contract** – the option to extend the contract with Grant Thornton for a further 24 months is the simplest way forward and will maintain a seamless and good service. However, this will result in a higher fee due to increased regulatory focus and expectations driving increased audit time. This expectation is clearly set out in a letter from Grant Thornton in 2019/20 when an additional fee of £8,200 for a change in the scope of the audit (or a 20.5% increase on the agreed fees above) for 2019/20 was identified. Further increases in the fee due to the introduction of a new code of audit practice are also expected in 2020/21. Based on the 2017 competitive tendering exercise and local benchmarking, there is evidence to suggest that OHFT current fee rates are extremely low. This option would allow us to negotiate on any increase in fee rates.
- **A BOB wide audit procurement consortium** – Royal Berkshire FT are leading on a BOB-wide procurement for Internal, External, Local Counter Fraud Services and Taxation services for the year starting 1<sup>st</sup> April 2021. This exercise would not be complete until after the expiry date of OHFT's current contract with Grant Thornton. Given the OHFT current low fee rates

## **PUBLIC**

and local market intelligence this option is likely to result in a significant increase in fees which would be beyond our control.

- **A full competitive tendering exercise** – a full procurement exercise would take around 6 months to complete which would take us beyond the expiry date of OHFT's current contract with Grant Thornton. Given the OHFT current low fee rates and local market intelligence this option is likely to result in a significant increase in fees which would be beyond our control.

### **Other Considerations**

- **NHSI guidance** (Audit and assurance: a guide to governance for providers and commissioners – December 2019) recommends that the NHS foundation trust should appoint an external auditor for a period of time which allows the auditor to develop a strong understanding of the finances, operations and forward plans of the NHS foundation trust. The current best practice is for a three to five-year period of appointment.
- **Benchmarking** - The equivalent audit fees for Berkshire Healthcare NHS Foundation Trust (a Community and Mental Health service trust, a part of BOB ICS and with 70% of OHFT income) is currently £74,000 for the Trust Accounts only.
- **Historical audit fees** – the following fees were submitted as part of the 2017 competitive tendering exercise:

Grant Thornton	£49,500
BDO	£61,925
Deloitte's	£79,500

### **Contract Extension Fees**

In addition to the base fee for the audit of the Trust's accounts, any new contract extension fee will include a 'changes in scope' audit fee and a new 'code of practice' audit fee. The external auditors have estimated that these changes will increase the fee by £8,200 and £10,000 per year respectively for the Trust accounts.

The estimated increase in the total annual audit fees for the next two financial years are set out below:

Year	Base Fee for Trust Accounts	Changes in Scope of Audit Fee	NAO New Code of Practice Fee	Trust Accounts Extension Fee	Quality Accounts	Charity Accounts	Total
2020/21	£40,000	£8,200	£10,000	£58,200	£7,500	£2,500	<b>£68,200</b>
2021/22	£40,000	£8,200	£10,000	£58,200	£7,500	£2,500	<b>£68,200</b>
Two Year Total	£80,000	£16,400	£20,000	£116,400	£15,000	£5,000	<b>£136,400</b>

Note: These figures exclude VAT

## **PUBLIC**

### **Audit Committee**

On the 16<sup>th</sup> September the Audit Committee reviewed the existing external audit arrangements and performance and considered the procurement options going forward. Considering these discussions, the Audit Committee recommended their approval to extend the external audit contract by a further 24 months. Subsequent to this the Audit Committee have now approved the proposed fee increase above by Grant Thornton.

### **Recommendation**

Given the lengthy timescales required to undertake a full procurement exercise, and in the knowledge that Grant Thornton have performed to contract, the current fee rates are already low and all options will result in an increase in fee rates, the Audit Committee recommends that the existing contract with Grant Thornton be extended for 24 months. This will provide continuity of service at a rate which continues to represent good value.

Following Audit Committee's recommendation, the Council of Governors are requested to formally approve the external auditor contract two year extension.

**Author and title:** Michael Williams, Financial Controller  
**Lead Executive Director:** Mike McEnaney, Director of Finance

1. *A risk assessment has been undertaken around the legal issues that this report presents and there are no issues that need to be referred to the Trust Solicitors.*
2. *This report satisfies or provides assurance and evidence against the requirements of the following Terms of Reference of the Committee:*
  - *to review the establishment and maintenance of an effective system of integrated governance, risk management and internal control (clinical and non-clinical activities) that supports the achievement of the Trust's objectives;*
  - *to monitor the integrity of the financial statements of the Trust and any formal announcements relating to the Trust's financial performance and to review the Annual Report and Financial Statement before submission to the Board; or*
  - *to ensure that the systems for financial reporting to the Board, including those of budgetary control, are subject to review as to completeness and accuracy of the information provided to the Board.*