

## Governing Body meeting (held in public)

**DATE: 24 March 2016**

<b>Title</b>	<b>Appointment of Auditor Panel for the Procurement of External Auditors by NHS Bexley CCG</b>	
This paper is for <b>Decision</b>		
Recommended action for the Governing Body	<p>That the Governing Body:</p> <p><b>Approve</b></p> <ol style="list-style-type: none"> <li>1. The delegation of the responsibility of the auditor panel to the Audit and Integrated Assurance Committee;</li> <li>2. The CCG to procure external audit services and to explore the possibility of working with the other South East London CCGs on a joint approach to that procurement.</li> </ol>	
Potential areas for Conflicts of interest	Not applicable.	
Executive summary	This paper updates the Governing Body members on the process for procuring external audit services following the abolition of the Audit Commission, including the formation of an auditor panel within the CCG, and makes a recommendation for the approach to be taken by the CCG to deliver these new requirements. The paper also requests formal permission to procure external audit services with effect from April 2017.	
How does this paper support the CCGs objectives?	<b>Patients:</b>	Not applicable.
	<b>People:</b>	Meets requirement to have an auditor panel in place supported by CCG officers.
	<b>Pounds:</b>	Procurement process provides independent assurance that the annual accounts are prepared correctly and that the financial systems are appropriate and can be relied upon for reporting.
	<b>Process:</b>	Meets requirements to have an auditor panel which has the responsibility for appointing auditors. Procurement process provides independent assurance that the processes and procedures within the CCG are robust and fit for purpose.

## Clinical Commissioning Group

What are the Organisational implications	Key risks	Risk that costs will increase, there may also be a risk of challenge from unsuccessful providers post procurement.	
	Equality	Not applicable.	
	Financial	It is unknown what the cost will be following the procurement but it is a requirement to have these services in place. By procuring collectively, there may be some economies of scale and this will ensure value for money. Each CCG will however be free to choose their own provider which may mean that not all CCGs will have the same external auditor.	
	Data	Not applicable.	
	Legal issues	Not applicable.	
	NHS constitution	Not applicable.	
Engagement	Not applicable.		
Audit trail	Papers have been presented to the AIAC in March 2016.		
Comms plan	Not applicable.		
Author: Julie Witherall AD of Financial Management	Clinical lead: Dr S Deshmukh	Executive sponsor: Theresa Osborne Chief Financial Officer	
Date	15 February 2016		

# **Appointment of Auditor Panel for the Procurement of External Auditors by NHS Bexley CCG**

## **Introduction**

This paper updates the Governing Body members on the process for procuring external audit services, following the abolition of the Audit Commission, and makes a recommendation for the approach to be taken by the CCG to deliver these new requirements. The paper also requests formal permission to procure external audit services to ensure that the service is in place for April 2017.

## **Background**

External auditors are responsible for the audit of the CCG's annual financial statements and are required to be satisfied that the CCG has in place proper arrangements for securing economy, efficiency and effectiveness (Value for Money) in its use of resources. The external auditors have to be independent of the organisation and provide constructive challenge to the CCG.

The Audit Commission was previously responsible for the centralised system of appointing external auditors to local authorities and health service bodies. This system meant that the CCG would have no input into the appointment of the external auditor, making the process truly independent.

However, the Local Audit and Accountability Act 2014 (the 2014 Act) brought significant change to the local public audit regime by replacing these centralised arrangements with a system which allows each body to make its own appointment.

Although the Audit Commission was abolished on 31<sup>st</sup> March 2015, existing audit services will remain in place until 31<sup>st</sup> March 2017. These contracts are managed by a transitional body known as Public Sector Audit Appointments Ltd (PSAA) which is a Local Government Association company set up for the purpose. PSAA is responsible for:

- Regulating auditors' work
- Monitoring quality
- Managing audit relationships
- Making any new auditor appointments
- Approving any non-audit work
- Setting audit fees

PSAA appointed Grant Thornton as external auditors for NHS Bexley CCG until 31<sup>st</sup> March 2017 by which time the CCG will need to have undertaken a procurement process to appoint auditors with effect from 1<sup>st</sup> April 2017.

## **Auditor Panels**

Under the 2014 Act, CCGs and NHS Trusts must have an auditor panel in place to advise on the appointment of their external auditors. As the appointment for the auditors for 2017/18 must be made by the end of the preceding year, that is by 31<sup>st</sup> December 2016, the auditor panel needs to be in place in early 2016.

The external audit appointment can be for longer than a year, but there must be a procurement process at least once every five years. An auditor can be re-appointed for a further term if they are successful in the procurement. The external audit firm must be eligible in line with the requirements of the Financial Reporting Council (FRC). Two or more external auditors can be appointed to audit the accounts and in such cases the auditors may act jointly or separately.

The 2014 Act specifies that all local public bodies covered by the legislation must have auditor panels to advise on selection, appointment and removal of external auditors and to maintain an independent relationship with them. The only exemption to this would be if a body decided to make an appointment via a collective procurement such as through a sector led body. There are no current proposals for such a body in the NHS.

The auditor panel's key role is to check that:

- The procurement and selection of external auditors is appropriately undertaken
- The relationship and communications with the external auditors are professional
- Conflicts of interest are effectively dealt with

The auditor panel will have a role in establishing and monitoring the CCG's policy on the awarding of non-audit services. A more detailed Terms of Reference for the auditor panel will be brought to a future Governing Body meeting for approval.

The CCG must consult and take account of the auditor panel's advice on the selection and appointment of the external auditor. The advice given by the panel must be published should the CCG not follow that advice; the reasons for not doing so must also be published. The auditor panel will need to be quorate to take a decision. For this to be the case, independent members must be in the majority and there must be at least 2 independent members present or 50% of the total auditor panel's total membership, whichever is the highest.

The CCG's Governing Body should decide how it appoints the audit panel and the panel must be either:

- A specially established panel

OR

- An existing committee, sub-committee or panel provided it agrees to comply with the provisions applying to auditor panels.

The auditor panel should have its own terms of reference which are agreed by the Governing Body. If it was decided that the Audit and Integrated Assurance Committee were to form the auditor panel then the Committee's terms of reference would need to be updated to reflect this additional responsibility.

The auditor panel must have a minimum of three members and must have a majority of members who are independent and non-executive members of the Governing Body. The Chair of the panel must also be independent and a non-executive member of the Governing Body. The Chair of the Governing Body cannot be the Chair of the auditor panel. The CCG's Governing Body is responsible for making the decision about the membership and Chair of the panel.

The Chair of the auditor panel will be required to provide a report to the Governing Body about the activities and decisions of the panel. If the panel is the Audit and Integrated Assurance Committee, the report must be separate to the minutes of the Audit and Integrated Assurance Committee.

It is expected that guidance on the procurement of external audit services will be provided by the Department of Health in early 2016.

### **Proposal**

It is proposed that the Audit and Integrated Assurance Committee performs the function of the auditor panel in NHS Bexley CCG. The current membership of the Audit and Integrated Assurance Committee meets the requirements of an auditor panel. This proposal was discussed at the March Audit and Integrated Assurance Committee. Following discussion with the Audit Chair, it was agreed to recommend to the Governing Body that the Audit and Integrated Assurance Committee undertakes the role of the auditor panel on behalf of the CCG.

It is also proposed that the Governing Body approve the procurement of external auditors to begin their tenure on 1<sup>st</sup> April 2017. NHS Bexley CCG is in discussion with the other South East London CCGs about a joint approach to the procurement of external auditors. This approach will require each organisation's Governing Body/Auditor Panel to approve and agree the service specification.

### **Recommendation**

The Governing Body is asked to approve:

- The delegation of the responsibility of the auditor panel to the Audit and Integrated Assurance Committee;

- the CCG to procure external audit services and to explore the possibility of working with the other South East London CCGs on a joint approach to that procurement.