

## Policy for the Approval of Non-Audit and Additional Services by the Trust’s External Auditors

<b>CATEGORY:</b>	Policy
<b>CLASSIFICATION:</b>	Governance
<b>PURPOSE</b>	This policy sets out the limits of additional work, beyond the statutory audit, that an external auditor can perform.
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## 1. Policy Statement

- 1.1 The purpose of this policy is to ensure compliance with the Revised Ethical Standard of 2016 for Audit and Assurance ('the standard') as issued by the Financial Reporting Council (FRC) <sup>(1)</sup>. This sets out principles covering non-audit and additional services provided by the organisation's external auditors which are outside the scope of the statutory audit. This new ethical standard has regard to the non-audit work undertaken by external auditors but also covers the subject of internal auditors and taxation or other services supplied, setting out what safeguards are required.
- 1.2 The ethical standard applies to all statutory external audit (or assurance) engagements; the purpose being to ensure the audit opinion (or assurance statement) is professionally sound and objective. This should in turn, enhance the credibility of information covered by the audit opinion (or assurance statement).
- 1.3 For NHS Foundation Trusts, the external auditors issue an audit opinion on the Statutory Accounts (Financial Statements) and a limited assurance opinion on the annual Quality Report. These are requirements of NHS Improvement and are linked to the Trust's licence to operate.
- 1.4 The standard limits the amount of non-audit work or services an external auditor can provide in order to avoid potential conflicts of interest from arising. Should a conflict of interest arise, this could create a potential risk (threat) that the external audit is unduly influenced by other factors. Further detailed guidance is given by the National Audit Office: 'Auditor Guidance Note 1 (AGN 01)' <sup>(2)</sup>.
- 1.5 The users of the financial statements or quality report (including the general public) require confidence that the external auditor is independent of the Trust, impartial and unbiased. Whilst the audit firm in question may be satisfied itself that it is independent, given any particular condition or relationship with the client, the users of published information may draw a different conclusion. The standard sets out the ethical rules and guidance necessary to ensure that the users of published information have the required assurance that the auditor is professionally independent.

## 2. Scope

This policy applies specifically to non-audit work and any other additional services carried out for the Trust by the appointed external auditors. This includes any work undertaken for bodies hosted by the Trust including (but not limited to), NEQAS (National External Quality Assessment Schemes) or the West Midlands AHSN (Academic Health Science Network). The Trust is the legally recognised corporate body which contracts with the external auditor, so any non-audit work commissioned by hosted organisations is also subject to these rules: The same also applies to the Trust's wholly owned subsidiary

companies, as the external audit opinion applies to the group, not just the parent Trust. The appointed external auditor is the group's auditor and also the auditor to the subsidiaries' individual limited company accounts.

### **3. Framework**

- 3.1 The standard sets out that the fundamental objective of any audit engagement is that users trust and have confidence that the audit or assurance opinion is professionally sound and objective. This in turn should enhance the credibility to users of the information that the opinion covers. It should also enhance the intended users' understanding of the underlying 'subject matter'.
- 3.2 Users' interest in the audit engagement usually arises because they have an actual or prospective stake in an entity (e.g. patients, staff, governors, regulators or the general public) but do not have direct access to the subject matter.
- 3.3 Although auditors are reporting to users, they are engaged to do so by the Trust whose information they are reporting on. Accordingly their contractual 'client' (the Trust) is different to their beneficial 'client' (users). These principal (the user) – agent (Trust and auditor) relationships give rise to potential for conflicts of interest that need to be addressed if the user is to have trust and confidence in the audit process. Regulation and oversight of audit practitioners, including professional and ethical codes and standards, addresses the need for trust and confidence between users and practitioners.
- 3.4 The National Audit Office Guidance Note AGN 01 is the NAO's interpretation of the Ethical Standard as applied to the public sector. Links to this document, along with the FRC ethical standard are included at the end of this Policy. These provide more details on the specific requirements designed to achieve the confidence described in 3.3 above.
- 3.5 The ethical standard places various duties upon the external audit firm with regard to both the external audit itself and other services (where they occur). These include:
- Rotation of audit partners after a maximum of 5 years.
  - Having a different partner (not the external audit partner) to lead any additional work.
  - No one from the external audit firm can have a key management position at the client (the Trust) or membership of the Audit Committee.
  - If any close family member of the engagement partner takes a role at the client this must be subject to review.

- 3.6 The National Audit Office AGN 01 provides further guidance on the limits to non-audit services provided by the external auditor. It includes the prohibitions list in the ethical standard and prescribes a 70% cap on other permitted non-audit services.
- 3.7 Permitted non-audit services carried out by the external auditor are defined as work that is: not relating to the financial statements and/or financial controls, is not integrated with the external audit work plan nor performed by the existing audit team. The Trust views the provision of Local Counter Fraud Services (LCFS) and consultancy as being permitted non-audit services.
- 3.8 The external audit firm are prohibited from providing the following non-audit services:
- Tax services, including preparation of tax forms and the giving of tax advice.
  - Any services that include taking part in the key management decision making process of the audited entity.
  - Book keeping and preparation of accounting records.
  - Payroll services.
  - Designing or implementing internal controls.
  - Actuarial or litigation services.
  - The client entity's (the Trust) internal audit process.
  - Human resource services.
- 3.9 Such non-audit services must be communicated to those charged with governance. The Audit Committee must be informed of any non-audit work to be carried out by the external auditor in order for it to be reviewed for compliance with the above standard. The cap is defined as: the total fees for non-audit services to the audited entity (the Trust and its controlled entities) in any one year should not exceed 70% of the total external audit fee (including subsidiaries and quality report) for the same year.
- 3.10 The NAO AGN 01 defines some exclusions from what is included in non-audit services; this includes audits of subsidiaries (as this is part of the external audit process), the audit of the Quality Report (same reason) and any other services required by law or the parent body (NHS Improvement). These are the audit related services also noted in the ethical standard.
- 3.11 The ethical standard also refers to internal auditors, by default these are not suppliers of the external audit (see prohibitions above), therefore they may supply other services, such as taxation services or consultancy advice, so long as separate partners lead those processes and there is no cap quantified. The ethical standard does place certain conditions and prohibitions on what the internal auditors can do: for example internal audit cannot be part of the key management decision making process of the entity (the Trust).

## **4. Duties**

Some responsibilities for the review and approval of non-audit services provided by auditors are outlined in the Trusts' Scheme of Accountability and Delegation and Standing Financial Instructions. The Chief Financial Officer is required to oversee and authorise any non-audit expenditure with the External Auditors.

To ensure the Trust and its appointed auditors continue to meet the ethical standards, more detailed responsibilities are set out below;

### **4.1 Board of Directors**

4.1.1 Approve the overall policy regarding non-audit and additional services by the external auditor.

### **4.2 Chief Financial Officer**

4.2.1 To discuss with the Director of Finance and Chief Financial Accountant any issues arising from this policy and the engagement of external auditors to perform non-audit services.

4.2.2 Ensure that Trust managers who might engage external auditors in non-audit work are aware of this policy.

4.2.3 Review any requests for the external auditors to perform a non-audit service in line with this policy.

4.2.4 Decide (accept or decline) any requests for external auditors to perform a non-audit service in line with this policy and report this to the Audit Committee.

4.2.5 Seek prior approval from the Audit Committee for any additional work awarded to the external auditors for a value in excess of £100,000.

4.2.6 Report all non-audit work to Audit Committee and Council of Governors.

4.2.7 Where an external auditor provides non-audit services, the value of the services provided and an explanation of how auditor objectivity and independence are safeguarded must be included in the Audit Committee section of the Annual Report.<sup>(3)</sup>

#### **4.3 Budget holders and managers who might potentially engage the external audit firm**

4.3.1 To report any potential requirement for non-audit services or work that might be requested of the external audit firm to the Chief Financial Officer, Director of Finance or Chief Financial Accountant for review before any appointment is made.

4.3.2 To be aware of the significant restrictions on what services external auditors can provide to the Trust outside of the external audit.

### **5. Implementation and Monitoring**

#### **5.1 Implementation**

This policy and its associated procedures are available on the Trust intranet and will be disseminated to staff through the Divisional management and internal team structures within the Trust.

#### **5.2 Monitoring**

Requests for non-audit services which are agreed by the CFO will be reported to Audit Committee and the Council of Governors. .

### **6. References**

Financial Reporting Council      Revised Ethical Standard 2016 - Audit and Assurance

<https://www.frc.org.uk/Our-Work/Publications/Audit-and-Assurance-Team/Revised-Ethical-Standard-June-2016.pdf>

National Audit Office Auditor Guidance Note 01

<https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Auditor-Guidance-Note-01-General-Guidance-Supporting-Local-Audit.pdf>

Monitor (NHS Improvement) The NHS Foundation Trust Code of Governance

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/327068/CodeofGovernanceJuly2014.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/327068/CodeofGovernanceJuly2014.pdf)