Policy for the Approval of Additional Services by the Trust’s External Auditors

Staff involved in development:  
Job titles only:  
Director of Finance, Director of Corporate Affairs, Chief Accountant

Division:  
N/A

Department:  
N/A

For use by:  
All staff

Purpose:  
The Trust is obliged to adopt and implement a policy for considering and approving any additional services to be provided by its External Auditors.

This document supports:  
Standards and legislation:  
Monitor’s Audit Code for NHS Foundation Trusts, December 2005

Key related documents:  
Monitor’s Audit Code for NHS Foundation Trusts, December 2005

Approved by:  
Management/Clinical Directorate Group

Approval date:

Ratified by Board of Governors/Board of Directors/Committee of the Board of Directors

Board of Governors  
Audit Committee

Date:  
7 June 2007

Review date:  
September 2009 (unless regulatory requirements indicate an earlier review)
1. **Introduction**

This policy replaces the previous policy entitled “Policy for Engagement of External Audit Services for non-Audit Work”, which was approved by the Risk, Control and Assurance Committee in October 2006. The policy has been revised to reflect the provision contained in Section 2.12 of the *Audit Code for NHS Foundation Trusts* (Monitor, December 2005), which states that “the auditor may, with the approval of the Board of Governors, provide the NHS Foundation Trust with services which are outside the scope of the audit as defined in this code (additional services). The Trust shall adopt and implement a policy for considering and approving any additional services to be provided by the auditor”.

2. **Purpose of the policy**

It is important that the independence of the Trust’s external auditors in reporting to Governors, non-Executive Directors (NEDs) and the Trust itself does not appear to be compromised, but equally, the Trust should not be deprived of expertise where it is needed and can be leveraged from its external auditors as a whole.

This policy seeks to set out what threats to audit independence theoretically exist and provides a definition of non-audit work, which can be shared by the Trust and its external auditors. It then seeks to establish the approval processes and corporate reporting mechanisms that will be put in place for any non-audit work that the external auditors are asked to perform.

3. **Threats to independence**

The Institute of Chartered Accountants in England and Wales sets out threats to independence as:

i. self-interest, where an interest in the outcome of their work, or in a depth of a relationship with the Trust, may conflict with the auditors’ objectivity

ii. self-audit, where the auditors may be checking their own colleagues’ work and might feel constrained from identifying risks and shortcomings

iii. advocacy, which may be present in engagement, but could become a threat if an auditor becomes an advocate for an extreme position in an adversarial matter

iv. familiarity or trust, where the level of constructive challenge provided by the auditor is diminished as a result of assumed knowledge or relationships that exist
4. **Defining types of non-audit work**

In order to provide a transparent mechanism by which non-audit work can be reviewed and progressed without too great an administrative burden falling on the Trust, the following three categories of work have been identified as applying to the professional services from external audit:

i. **Statutory and audit-related work**

There are certain projects where work is clearly audit-related and the external auditors are best-placed to do the work (e.g. regulatory work, e.g. acting as agents to Monitor, the Audit Commission, the Healthcare Commission, for specified assignments).

It is proposed that such assignments do not require further approval from the Audit Committee or the Board of Governors. However, recognising that the level of non-audit fees may also be a threat to independence, a limit of £25,000 will be applied, for each discrete piece of additional work, above which limit prior approval must be sought from the Board of Governors, following a recommendation by the Audit Committee.

The Director of Finance has the Board’s delegated authority to approve additional work up to the value of £25,000 per discrete piece of additional work and a competitive tendering exercise will not be required in such cases.

ii. **Advisory services**

There are projects and engagements where the auditors may be best-placed to perform the work:

- due to their network within and knowledge of the business (e.g. taxation advice, due diligence and accounting advice)
- due to their previous experience or market leadership

In all such instances, the Trust’s Standing Financial Instructions (SFIs) Procurement of Services should be followed and the prior approval of the Board of Governors, following a recommendation by the Audit Committee, be obtained prior to commencement of the work. Neither approval of the Board of Governors nor a recommendation from the Audit Committee will be required for discrete pieces of work within this category with a value of less than £10,000, subject to a cumulative limit of £25,000 per annum

iii. **Projects that are not permitted**

There are some projects that are not to be performed by the external auditors. These projects represent a real threat to the independence of the audit team, e.g. where the external auditors...
would be placed in a position where they were auditing their own work (e.g. systems implementation).

Appendix A gives examples of all three types of work (i – iii above).

5. **The approval process for additional services awarded to the external auditors for a value in excess of £25,000**

As stated at 4.i and 4.ii above, prior approval must be sought from the Audit Committee and the Board of Governors, for each discrete piece of additional work awarded to the external auditors for a value in excess of £25,000.

i. The business sponsor of the suggested additional services must obtain a proposed scope and fee proposal from the external auditors before the approval of the Audit Committee and the Board of Governors can be sought. The proposed scope and fee proposal must be presented to the next meeting of the Audit Committee and the Board of Governors, who will base their decision on whether or not to commission the additional services from the external auditors on the basis of the information contained in the proposed scope and fee proposal.

ii. In cases where it is undecided into which category (i – iii above) services fall, they will default to one of the categories that requires prior approval of the Audit Committee and the Board of Governors.

iii. Additional services commissioned in this way will be overseen and monitored by the Audit Committee, as is all external audit work.

iv. Where waiting for the next meeting of the Board of Governors would mean an unacceptable delay in the commissioning of such additional services, the approval of the Board of Governors may be sought by post and/or email. Such approval will be reported and recorded in the Minutes of the next meeting of the Board of Governors.

6. **Monitoring**

In order to further ensure independence, details and the value of all non-statutory work commissioned from the external auditors for non-statutory work in any financial year shall be reported to the Audit Committee at each meeting of that Committee to enable it to make an assessment as to whether the independence of the Trust’s external auditors in reporting to Governors, non-Executive Directors (NEDs) and the Trust itself would appear to be compromised.
Appendix A

The table below sets out examples of the different work types that the Trust may request from external audit. As it would not be practical to consider all the services provided by external audit, the characteristics that drive the classification of services into the different work-streams have been shown.

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Statutory and audit-related</th>
<th>Audit and assurance-related and non-audit advisory services</th>
<th>Projects that are not permitted</th>
</tr>
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</table>
| **Acquisitions/ Disposals** | Advice on areas core to the financial statements audit | Requiring independent objective assessment of information  
Staff secondments  
Business Case production | Participation in management |
| **Internal Audit and risk management services** | Accounts reports  
Reporting on financial assistance  
Audit financial statements | Due diligence and related advice  
Completion accounts audit  
Agreement of price adjustment as a result of completion accounts  
Advice on integration activities  
Preparation of forecast of investment proposals | |
| **Taxation** | None | Provision of specialist skills/training  
Advice on methodology and systems  
Advice and design policies, systems and procedures | Full outsourcing Systems implementation |
| **General Accounting** | None | Advice on accounts preparation and application of accounting standards  
Training for accounting and risk management projects | Preparation of accounting entries  
Preparation of financial information |