

Use of External Auditors for Non-Audit Services (F-007)

Version Number:	1.3
Author (name & job title)	Jenny Jones, Trust Secretary Di Roberts, Deputy Director of Finance
Executive Lead (name & job title):	Peter Beckwith, Director of Finance
Name of approving body:	Integrated Audit and Governance Committee (V1.0)
Date full policy approved:	February 2016 (V1.0)
Date Ratified at Trust Board:	March 2016 (V1.0)
Next Full Review date:	October 2026

<i>Minor amendments made prior to full review date above (see appended document control sheet for details)</i>	
<i>Date approved by Lead Director:</i>	<i>31 October 2023</i> <i>Peter Beckwith, Finance Director</i>
<i>Date EMT as approving body notified for information:</i>	<i>November 2023</i>

Policies should be accessed via the Trust intranet to ensure the current version is used

Contents

1. INTRODUCTION	3
2. SCOPE	3
3. POLICY STATEMENT	3
4. DUTIES AND RESPONSIBILITIES.....	4
5. PROCEDURES RELATING TO THE POLICY	4
6. EQUALITY & DIVERSITY	5
7. IMPLEMENTATION AND MONITORING.....	5
8. MONITORING & AUDIT.....	5
9. REFERENCE TO ANY SUPPORTING DOCUMENTS	5
10. MONITORING COMPLIANCE.....	5
Appendix A - EXAMPLES OF WORK TYPES.....	6
Appendix B - PROHIBITED NON-AUDIT SERVICES	7
Appendix C - Document Control Sheet	9
Appendix D - Equality Impact Assessment (EIA).....	10

1. INTRODUCTION

It is important that the independence of the Trusts external auditors in reporting to governors, non-executive Directors and the Trust itself is not, or does not appear to be, compromised in terms of the objectivity of their opinion on the financial statements of the Trust.

Equally the Trust should not be deprived of expertise when it is needed, should the External Auditors be able to demonstrate a higher quality and more cost effective service than other providers.

The Financial Reporting Council (FRC) Ethical Standard places limitations on the non-audit services that can be provided by an entity's external auditor. These principles were reflected in the National Audit Office (NAO) Auditor Guidance Note 01 to accompany its Code of Audit Practice to which auditors of NHS bodies must have regard.

NHS England's audit and assurance; a guide for providers and commissioners, sets out the expectations for good governance over audit and assurance and helps NHS bodies understand their responsibilities.

2. SCOPE

The policy applies to the provision of any non-audit service that might be provided by the external auditor.

The purpose of this policy is as follows:

- To ensure that any non-audit service provided by the external auditor cannot impair or cannot be seen to impair the objectivity and independence of their opinion on the Financial Statements;
- To establish a straightforward and transparent process for procuring and reporting any non audit services to enable the Audit Committee to monitor compliance and to facilitate the requirements to declare such services in the Foundation Trust's Annual Report and Annual Accounts; and
- To provide guidance in relation to the purchase of services from the external auditors where they demonstrate the best quality, best value for money, and the work does not create a conflict of interest.

3. POLICY STATEMENT

If the Foundation Trust wishes to utilise the External Auditors to provide non-audit services it is important that the external auditors **do not**:

- Audit their own work;
- Make management decisions for the Foundation Trust;
- Create a conflict of interest;
- Find themselves in the role of advocate for the Foundation Trust (e.g. promoting the Foundation Trust's position or opinion to the point where objectivity may be compromised); or
- Create a threat to independence.

This means that areas where the auditors **may not** be appointed to include:

- Preparing accounting records or financial statements;
- Valuation services material to the financial statements or where there is a high degree of subjectivity;
- Management of internal audit;
- Material IT system design or implementation;
- Recruitment of Senior Management; and
- Legal and regulatory.

A full list of prohibited non-audit services, as per the Audit and assurance: a guide to governance for providers and commissioners, are included in Appendix B.

The National Audit Office Audit Guidance Note 01, requires audit firms to ensure the value of all non audit services provided are less than 70% of the audit fee in any one financial year.

Assurance work and opinions provided by external auditors in relation to the Trust's Quality Accounts and reports is permitted, and falls outside the scope of the NAO's Code of Audit Practice.

4. DUTIES AND RESPONSIBILITIES

Trust Board

The Trust Board has overall responsibility for compliance with this policy

Chief Executive

The Chief Executive will ensure that the Foundation Trust has an effective policy in place for the use of external auditors for non-audit services.

Director of Finance

The Director of Finance will consider and approve if appropriate any proposals to use external auditors for non-audit purposes.

Senior Management

Senior Managers are responsible to their Director for the implementation of this policy and to ensure the arrangements in this policy are disseminated appropriately within their areas of responsibility.

Audit Committee

The Audit Committee will receive updates from the Lead Director, with respect to actions taken by the Trust to ensure compliance with the policy. The external auditor should report non audit fees and other details to the Audit Committee each year. The Audit Committee should review and monitor the external auditor's independence and objectivity.

Council of Governors

The Council of Governors should receive a report from the Audit Committee, at least annually, of non-audit services that have been approved for the auditors to provide under the policy (on the basis of services approved, regardless of whether they have started or finished) and the expected fee for each service.

Policy Author

The policy author will ensure that the policy is reviewed on a timely basis and that any engagements are reported as outlined in paragraph 4 above.

All Staff

All staff who have delegated authority to make such an appointment must adhere to this policy.

5. PROCEDURES RELATING TO THE POLICY

For each instance where the engagement of the external auditor to provide a non-audit service is being contemplated:

- the approval of the Director of Finance must be sought; and

- the Director of Finance, as part of the consideration of the request, will seek written confirmation from the external auditor that the proposed appointment adheres with the Financial Reporting Council's Ethical standard; and
- The Director of Finance will ensure the cost of the work, combined with the cost of any other non-audit work undertaken, does not exceed 70% of the annual audit fee.

If the proposal is approved and a non-audit engagement is made, it must be reported to the Audit Committee. Such engagements will also be reported in the Foundation Trust's Annual Report in line with the guidance issued by Monitor.

6. EQUALITY & DIVERSITY

The Foundation Trust aims to ensure that all of its policies are equitable with regard to age, disability, gender, race, religion and belief or sexual orientation.

An Equality Impact Assessment has been carried out by the Author which confirms that this policy does not impact on any equality group. (appendix D)

7. IMPLEMENTATION AND MONITORING

This policy will be disseminated by the method described in the Document Control Sheet (Appendix C)

The implementation of this policy requires no additional financial resource.

This policy is not an NHSLA requirement.

8. MONITORING & AUDIT

The Director of Finance will be responsible for monitoring the effectiveness and reviewing the implementation of this policy, regularly considering its suitability, adequacy and effectiveness taking into account legal development and changes in the Trust's business. Any improvements identified will be made as soon as possible.

9. REFERENCE TO ANY SUPPORTING DOCUMENTS

- *Audit Guidance Note 01, September 2022 – National Audit Office.*
- *Revised Ethical Standard, December 2019 – Financial reporting Council*
- *Audit and assurance :a guide to governance for providers and commissioners – NHSE, December 2019*

10. MONITORING COMPLIANCE

See appendix C

Appendix A - EXAMPLES OF WORK TYPES

This table below sets out examples of the different work types that could be requested from the external auditor. The table provides examples of how the implementation of this policy would be approached should the Trust request assistance from the External Auditor.

	Statutory and Audit Related (Not requiring Audit Committee approval unless in excess of £50,000)	Audit and Assurance related and non audit advisory Services (Sensitive projects requiring referral without de minimis)
Quality Accounts	Assurance work on the Annual Quality Report	Mandated work but falls outside the scope of the code of audit practice and therefore should be reported as non-audit service
Characteristics	Advice on areas core to the financial statement audit	Requiring independent objective assessment of information or procedures <ul style="list-style-type: none"> - Staff secondments - Other advisory services
Acquisitions/Disposals	Accountants reports Reporting on financial assistance Audit of carve out financial statements	Due diligence and related advice <ul style="list-style-type: none"> - Completion accounts audit - Agreement of process adjustments as a result of completion accounts - Advice on integration activities - Preparation of forecast of investment proposals
Internal Audit and Risk Management Services	None	<ul style="list-style-type: none"> - Provision of specialist skills/training - Advice on methodology and systems - Co-sourcing - Advice and design of policies
Taxation	None	<ul style="list-style-type: none"> - Preparation of draft returns - Submission of returns and correspondence with tax authorities - Advice on tax matters - Transfer pricing - Valuation for the purposes of taxation
General Accounting	None	<ul style="list-style-type: none"> - Advice on accounts preparation and applications of accounting standards - Training for accounting and risk management projects - Book keeping services

Appendix B - PROHIBITED NON-AUDIT SERVICES

Below is from Annex 1 of the Audit and assurance: a guide to governance for providers and commissioners, published in December 2019 by NHS Improvement and NHS England

The following services cannot be provided by the Trust's current or proposed external auditor.

- A. Tax services relating to
 - I. Preparation of tax forms
 - II. Payroll tax
 - III. Customs duties
 - IV. Identification of public subsidies and tax incentives unless support from the auditor in respect of such services is required by law
 - V. Support regarding tax inspections by tax authorities unless support from the auditor in respect of such services is required by law
 - VI. Calculation of direct and indirect tax and deferred tax or
 - VII.** Provision of tax advice
- B. Services that involve playing any part in the management or decision making of the audited body
- C. Bookkeeping and preparing accounting records and financial statements
- D. Payroll services
- E. Designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems
- F. Valuation services, including valuations performed in connection with actuarial services or litigation support services
- G. Legal services, with respect to
 - I. The provision of general counsel
 - II. Negotiating on behalf of the audited body or
 - III.** Acting in an advocacy role in the resolution of litigation
- H Services relating to the audited body's internal audit function
- I Services linked to the financing, capital structure and allocation, and investment strategy of the audited body, except providing assurance services in relation to the financial statements, such as the issuing of comfort letters in connection with prospectuses issued by the audited body
- J Promoting, dealing in, or underwriting shares in an entity controlled by the audited body
- K Human resources services, with respect to
 - I. Management in a position to exert significant influence over the preparation of the accounting records or financial statements which are the subject of the statutory audit where services involve searching for or seeking out candidates for such positions or undertaking reference checks for such positions
 - II. Structuring the organization design and
 - III. Cost control

The services referred to in points (a)(i), (a)(iv) to (a)(vii) and (f) above **may** be provided but only if **all** the following requirements are met:

- a) They have an inconsequential effect, separately or in aggregate, on the financial statements or on the organisation's arrangements to secure value for money
- b) The estimation of the effect on the financial statements, or on the organization's arrangements to secure value for money, is comprehensively documented and explained to those charged with governance
- c) The principles of independence laid down in section 1 of the FRC's Ethical Standard are complied with.
- d) For the purposes of giving an opinion on the financial statements and/or, where appropriate, reaching a conclusion on arrangements to secure value for money, the auditor would not place significant reliance on the work performed in carrying out these services.

Where there are doubts about whether a service would have an inconsequential effect on the financial statements or arrangements to secure value for money in the view of an objective, reasonable and informed third party, then the effect is not regarded as inconsequential.

Appendix C - Document Control Sheet

This document control sheet, when presented to an approving committee must be completed in full to provide assurance to the approving committee.

Document Type	Policy		
Document Purpose	Information regarding the use of external auditors for the Trust		
Consultation/ Peer Review:	Date:	Group / Individual	
<i>list in right hand columns consultation groups and dates -></i>			
Approving Committee:	Integrated Audit and Governance Committee (V1.0)	Date of Approval:	February 2016
Ratified at:	Board	Date of Ratification:	March 2016
Training Needs Analysis: <i>(please indicate training required and the timescale for providing assurance to the approving committee that this has been delivered)</i>		Financial Resource Impact	
Equality Impact Assessment undertaken?	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/> Rationale:
Publication and Dissemination	Intranet <input type="checkbox"/>	Internet <input type="checkbox"/>	Staff Email <input type="checkbox"/>
Master version held by:	Author <input type="checkbox"/>	HealthAssure <input type="checkbox"/>	
Implementation:	<i>Describe implementation plans below - to be delivered by the Author:</i>		
	Policy will be updated on intranet and used for all non audit work procured from Trusts external auditors.		
Monitoring and Compliance:	Use of Auditors for non audit work has to be disclosed to the Audit Committee and in the Annual Report.		

Document Change History:			
Version Number / Name of procedural document this supersedes	Type of Change i.e. Review / Legislation	Date	Details of Change and approving group or Executive Lead (if done outside of the formal revision process)
1.0	New policy	Feb 2016	New policy written and approved at Integrated Audit and Governance committee February 2016.
1.1	Review	Oct 2018	Review of policy amends to contact details for counter fraud, Trust logo and Committee name Approved at Audit Committee November 2018
1.2	Review	June 2020	Review following the NHSI/E guidance that came out December 2019 Approved at Audit Committee June 2020
1.3	Review	Oct-23	Reviewed with minor changes Minor amendments include clarity of language in section 2, scope, section 3, policy statement and section 5 procedures, updated references, minor updates to appendix B Approved by Director sign-off (Peter Beckwith) 31 October 2023.

Appendix D - Equality Impact Assessment (EIA)

For strategies, policies, procedures, processes, guidelines, protocols, tenders, services

- Document or Process or Service Name: **Use of External Auditors for Non Audit Services**
- EIA Reviewer (name, job title): **Peter Beckwith, Director of Finance**
- Is it a Policy, Strategy, Procedure, Process, Tender, Service or Other? **Policy**

Main Aims of the Document, Process or Service			
To clarify the use of external auditors for non-audit services			
Please indicate in the table that follows whether the document or process has the potential to impact adversely, intentionally or unwittingly on the equality target groups contained in the pro forma			
Equality Target Group 1. Age 2. Disability 3. Sex 4. Marriage/Civil Partnership 5. Pregnancy/Maternity 6. Race 7. Religion/Belief 8. Sexual Orientation 9. Gender re-assignment	Is the document or process likely to have a potential or actual differential impact with regards to the equality target groups listed? Equality Impact Score Low = Little or No evidence or concern (Green) Medium = some evidence or concern (Amber) High = significant evidence or concern (Red)	How have you arrived at the equality impact score? a) who have you consulted with b) what have they said c) what information or data have you used d) where are the gaps in your analysis e) how will your document/process or service promote equality and diversity good practice	
Equality Target Group	Definitions	Equality Impact Score	Evidence to support Equality Impact Score
Age	Including specific ages and age groups: Older people Young people Children Early years	Low	The policy sets out responsibilities and arrangements for non audit services regardless of age
Disability	Where the impairment has a substantial and long term adverse effect on the ability of the person to carry out their day to day activities: Sensory Physical Learning Mental Health (and including cancer, HIV, multiple sclerosis)	Low	
Sex	Men/Male Women/Female	Low	The requirements of the policy apply equally
Marriage/Civil Partnership		Low	The requirements of the policy apply equally
Pregnancy/Maternity		Low	The requirements of the policy apply equally
Race	Colour Nationality Ethnic/national origins	Low	The requirements of the policy apply equally to any race.
Religion or Belief	All Religions Including lack of religion or belief and where belief includes any religious or philosophical belief	Low	The requirements of the policy apply equally to any religion or belief
Sexual Orientation	Lesbian Gay Men Bisexual	Low	The requirements of the policy apply equally to any sexual orientation
Gender re-assignment	Where people are proposing to undergo, or have undergone a process (or part of a process) for the purpose of reassigning the person's sex by changing physiological or other attribute of sex	Low	The requirements of the policy apply equally to any gender

Summary

Please describe the main points/actions arising from your assessment that supports your decision above

*This policy will ensure that the use of external audit for non audit services is followed.
Monitoring will take place to ensure that there is no ongoing negative effects on any of the equality target groups*

EIA Reviewer – **Peter Beckwith, Director of Finance**

Date completed; **August 2023**

Signature **P. Beckwith**