

EXECUTIVE SUMMARY
REPORT TO THE COUNCIL OF GOVERNORS
HELD ON 5TH SEPTEMBER 2017

Subject	Policy for Non-Audit Work by External Auditors
Lead	Neil Priestley, Director of Finance
Author	Julie Wright, Deputy Director of Finance (Financial Accounting)
Status¹	A

PURPOSE OF THE REPORT

To introduce a policy, as outlined in the Monitor Risk Assurance Framework, in relation to the use of Trust External Auditors to undertaken non-audit work. The aim of the policy is to ensure the External Auditors remain independent, whilst enabling the Trust to access relevant advice and expertise when required.

KEY POINTS

The policy outlines the potential threats to independence of the External Auditor and how these should be addressed and resolved.

Recognising that many of the professional accountancy firms likely to be eligible to act as the Trust's External Auditors will also offer other advisory services, eg VAT, financial recovery or turnaround advice, etc the policy provides a definition of non-audit work, and aims to strike a balance between service need and independence. The financial threshold for the cost of non-audit services from the External Auditor has been set at being no more than 70% of the audit fee in any one year. External Audit have confirmed this threshold and policy complies with current Institute of Chartered Accountants in England and Wales (ICAEW) ethical standards.

It should be noted that as part of the annual reporting process, the Trust is required to obtain an external limited assurance report on its Quality Report. The ICAEW has confirmed that the fee for this work will be classified as non-audit work. The Trust currently contracts for both this audit and the statutory financial audit as one piece of work, given the synergies which can be gained by this approach. Consequently an element of the "non-audit" work threshold is already utilised.

As the Trust's External Auditors are formally appointed by the Council of Governors the policy is formally presented to the Council for noting.

IMPLICATIONS

AIM OF THE STHFT CORPORATE STRATEGY 2012-2017		TICK AS APPROPRIATE
1	Deliver the Best Clinical Outcomes	
2	Provide Patient Centred Services	
3	Employ Caring and Cared for Staff	
4	Spend Public Money Wisely	✓
5	Deliver Excellent Research, Education & Innovation	

RECOMMENDATIONS

The Council of Governors is asked to note the Policy

APPROVAL PROCESS

Meeting	Presented	Approved	Date
Audit Committee	Neil Priestley	Yes	10/01/2017
TEG	Neil Priestley	Yes	12/04/2017
Board of Directors	Neil Priestley	Yes	19/04/2017

¹ Status: A = Approval
A* = Approval & Requiring Board Approval
D = Debate
N = Note



Policy for the Use of External Auditors for Non-Audit work

Reference Number	Version	Status	Executive Lead(s) Name and Job Title	Author(s) Name and Job Title
TBC	1	Current	Neil Priestley Director of Finance	Julie Wright, Deputy Director of Finance (Financial Accounting)
Approval Body		Audit Committee		Date Approved 10/1/2017
Ratified by		Board of Directors		Date Ratified 19/04/2017
Date Issued		29/08/2017		Review Date 01/2/2020
Contact for Review Name and Job Title: Julie Wright, Deputy Director of Finance (Financial Accounting)				

Associated Documentation:

Trust Controlled Documents

Standing Orders, Standing Financial Instructions and Reservation of Powers

External Documentation

NHS FT Code of Governance over audit, assurance and accountability.

NHSI Guidelines on the use of consultants

Legal Framework

European & UK Procurement Regulations

For more information on this document please contact:-

Sponsor/Owner: Julie Wright
Deputy Director of Finance (Financial Accounting)
Address: 2nd Floor, Clocktower Building
Northern General Hospital
Telephone No.; Ext 66521
Email: julie.wright@sth.nhs.uk

Version History

Version	Date Issued	Brief Summary of amendments	Owner's Name:
1		New Policy	Julie Wright

Document Imprint

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Executive Summary

Policy for the Use of External Auditors for Non-Audit work

Document Objectives: To outline the factors to be taken into account when considering the engagement of the Trust's External Auditor in the provision of non-audit services, thereby ensuring the independence of the External Auditor is not impaired.

Group/Persons Consulted: Procurement Director
Trust Secretary
Trust Risk and Assurance Manager

Monitoring Arrangements and Indicators: To be reviewed every 3 years (or sooner if relevant guidance changes).

Training Implications: Budget Holders and Budget Managers
Staff involved in the procurement of audit and advisory services

Equality Impact Assessment: N/A

Resource implications: N/A

Intended Recipients:

Who should:-

- **be aware** of the document and where to access it
All members of the Procurement Department, Budget Holders and Budget Managers
- **understand** the document
All members of the Procurement Department, Budget Holders and Budget Managers
- **have a good working knowledge** of the document
All members of the Procurement Department, Budget Holders and Budget Managers

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1. INTRODUCTION

- 1.1 This policy is required as a result of national guidance issued to NHS Foundation Trusts with regard to Governance over Audit, Assurance and Accountability. The guidance was issued as an accompaniment to the Monitor Risk Assurance Framework, but is still extant under the NHS Improvement Single Oversight Framework.

2. KEY OBJECTIVES OF THE POLICY

- 2.1 It is fundamental that the independence of the Trust's External Auditors in reporting to the Board and other senior managers within the Trust, is not compromised. This policy seeks to secure that objective in a fair and transparent manner.
- 2.2 However the Trust does not wish to be deprived of relevant advice and expertise when it is needed and under procurement law, the opportunity to tender for appropriate work should be made available to all qualified providers, where there is no conflict of interest arising from the work.
- 2.3 This policy therefore outlines the threats to audit independence which may exist, and how these are to be addressed and monitored.
- 2.4 It then provides an approach to the definition of non-audit work. Work which falls within this definition should normally be procured in line with the thresholds within Trust Standing Orders), alongside with the relevant processes listed in this policy, which need to be adopted in the tendering and delivery of this work.

3. THREATS TO AUDITOR INDEPENDENCE

- 3.1 The Institute of Chartered Accountants in England and Wales (ICAEW) sets out threats to audit independence as:
- 3.1.1 Self Interest – where an interest in the outcome of work or in the depth of relationship with the Trust may conflict with the auditor's objectivity.
- 3.1.2 Self Review – where the auditors may be checking their own colleagues work and may feel constrained from identifying risks and shortcomings.
- 3.1.3 Being in an advocacy position – advocacy may be present in an engagement, but could become a threat if an auditor becomes an advocate for an extreme position in an adversarial matter.
- 3.1.4 Over-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.
- 3.1.5 Intimidation – where the independence of the auditor could become compromised or influenced by fear or threats from a dominant party within the Trust.

- 3.2 The ICAEW confirms that where such threats exist, the auditor must put in place safeguards which eliminate or reduce them to clearly insignificant levels. If the auditor is unable to fully implement adequate safeguards, then the auditor must not carry out the work.
- 3.3 However, the ICAEW also clarifies that the responsibility for ensuring auditor independence does not rest exclusively with the auditor. UK Corporate Governance Code requires organisations' Audit Committees, as representatives of the "shareholders" (or in the case of FT's the Council of Governors), to oversee the relationship with the auditors and therefore keep the nature and extent of non-audit services under review. This matter is considered further in sections five and six of this policy.

4. DEFINITION OF NON-AUDIT WORK

- 4.1 Under international auditing standards definition, External Audit services relate solely to the audit work required to be undertaken to reach the statutory opinion given on the financial statements of the organisation being audited, e.g. the true and fair view opinion. This definition currently does not extend to the limited opinion given on the assurance work undertaken in relation to quality reporting.
- 4.2 External Audit services may only be supplied by providers who meet strict criteria for financial qualification and competence, and who fully comply on an ongoing basis with the Audit Code for NHS FT's. By default, this restricts the volume of potential applicants for the position of Trust External Auditor to mainly the larger professional accountancy firms and partnerships.
- 4.3 These firms/partnerships often also provide other services as part of their commercial offering - internal audit services, tax advisory services (e.g. VAT or employment tax advice), VFM advice, financial service best practice reviews, financial recovery and turnaround advice and other financial consultancy advice frequently being amongst them. They also usually provide limited assurance services on Quality Reporting within the Trust Annual Report, which are deemed outside the scope of External Audit services, as noted in paragraph 4.1 above.
- 4.4 Given the close correlation and timetabling of the statutory financial audit opinion work and the limited quality report assurance work, and the provider efficiency which can be achieved by offering both services within a single tender package, this policy permits the tendering of both these services within a single tender package. However, the Trust Audit Committee must be satisfied as to the provider independence and separation of duties in undertaking the work within both the provider tender response and practice during the contract period. The fees for each element of work must also be separately reported.
- 4.5 To ensure the maximum independent advice and assurance to the Audit Committee over Trust governance arrangements, the provision of internal audit services to the Trust **must** always be provided independently of the external audit services to the Trust.
- 4.6 Other than the exceptions recorded at paragraphs 4.4 and 4.5, all other tenders for work which could be potentially provided by the incumbent provider of the Trust External Audit service, shall be defined and treated as tenders for the provision of non-audit work under the terms of this policy. The processes outlined in section 5 shall therefore apply during the tender process.

5. TENDER PROCESS AND RESPONSIBILITIES FOR NON-AUDIT WORK

5.1 The tender process for work determined as non-audit services as outlined in section 4 above must adopt the following principles:

Principle:	Responsibility:
5.1.1 The External Auditor should not be prevented from competing for non-audit service work offered by the Trust, unless there is a clear conflict of interest in doing so. Where there is a potential, likely or clear conflict of interest, the Trust will make this known to the Trust External Auditor at the time of tendering the service. NHSI guidelines in relation to the use of consultants should be adhered to	Budget Holder/Budget Manager and Trust Procurement Staff
5.1.2 The External Auditor will be asked to confirm a statement of non-conflict of interest or provide a statement as to how any potential or likely conflict of interest will be addressed in any work it wishes to compete for.	Trust Procurement Staff and External Audit Engagement Lead
5.1.3 The terms of the appointment of the Trust External Auditor should make it clear that, should it wish to compete for any non-audit work at the Trust, the staff it supplies for such an engagement must be separate and independent from the staff it supplies for the external audit service.	Trust Procurement Staff and External Audit Engagement Lead
5.1.4 The team responsible for the appointment of the External Audit Service should not form the majority representation of the tender selection process for any other non-audit service. Wherever possible, the Trust selection team for non-audit services should be completely separate from the team for external audit services.	Trust Procurement Staff
5.1.5 The fee for the provision of non-audit services by the External Auditor to the Trust should not exceed nor form a substantial percentage (>70%) of the External Audit fee in any given year or over the external audit contractual period. Where this may be the case, the potential contract should be discussed with the Director of Finance, and External Audit Engagement Lead, before the contract is awarded. Any proposal to ultimately award the non-audit contract on this basis must be approved by TEG and will be subsequently reported to the Audit Committee.	Trust Procurement Staff and Director of Finance/TEG
5.1.6 Any non-audit contract let to the Trust's External Auditors within the guidance of this policy should be reported to the next available Audit Committee.	Trust Procurement Staff and External Audit Engagement Lead

6. MONITORING AND REPORTING PROCESS AND RESPONSIBILITIES IN RELATION TO NON-AUDIT WORK

6.1 The Sheffield Teaching Hospitals NHS Foundation Trust Audit Committee will oversee and discharge their responsibilities in relation to this matter by:

Monitoring & Reporting:	Responsibility:
<p>6.1.1 Requiring the Trust Procurement Department to report any non-audit service contract award to the External Auditors to the Audit Committee at the first available opportunity.</p> <p>This will include any existing contracts when and where the External Audit incumbent changes.</p>	<p>Procurement Director</p>
<p>6.1.2 Including within the Audit Committee Statement of Financial Consideration for the financial year, as reported within the Trust Annual Report, the value and nature of any non-audit work undertaken by the External Auditors.</p> <p>Given the non-audit work definition outlined in section 4 above, this will include - as a minimum - the work undertaken and fee paid for the limited assurance work in relation to the Quality Report.</p>	<p>Audit Committee (As supported by the Deputy Director of Finance (Financial Accounting) and the Trust Risk and Assurance Manager)</p>
<p>6.1.3 Considering on an annual basis, the performance of the Trust's External Audit service.</p> <p>This will include consideration of the independence and objectivity of the audit service and hence, by good practice, any non-audit services provided by the External Audit provider will be considered as part of this review.</p>	<p>Audit Committee and Director of Finance</p>
<p>6.1.4 Reporting to the Council of Governors on an annual basis, any non-audit services provided by the Trust's External Auditor.</p> <p>This report will likely be provided at the same time as the Audit Committee's recommendation to the Council over the re-appointment of the External Auditor for the forthcoming year.</p>	<p>Audit Committee Chair</p>