

## Executive Summary

### Report to the Board of Directors

31 March 2020

<b>Subject</b>	Policy for the use of External Auditors for non-audit work
<b>Supporting TEG Member</b>	Neil Priestley, Director of Finance
<b>Author</b>	Julie Wright, Deputy Director of Finance (Financial Accounting)
<b>Status<sup>1</sup></b>	A*

#### PURPOSE OF THE REPORT

To provide the periodic update of the Policy for the use of External Auditors for non-audit work, incorporating the recent guidance issued by NHSE/NHSI in December 2019 regarding Audit and Assurance.

#### KEY POINTS

The principles of the policy remain in line with the previous version, although external guidance references have been updated. The guidance issued in December 2019 provided additional clarification regarding the nature of services which are prohibited to be undertaken by the Trust's External Auditor; these have been referenced in a new appendix to the policy.

#### IMPLICATIONS<sup>2</sup>

AIM OF THE STHFT CORPORATE STRATEGY 2017-2020		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 Board of Directors is asked to approve the Policy for the use of External Auditors for non-audit work.

#### APPROVAL PROCESS

Meeting	Date	Approved Y/N
TEG	19/02/2020	Y
Audit Committee	10/03/2020	Y
BoD	31/03/2020	

<sup>1</sup> Status: A = Approval  
A\* = Approval & Requiring Board Approval  
D = Debate  
N = Note

<sup>2</sup> Against the five aims of the STHFT Corporate Strategy 2017-20



# 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
365	1.1	Current	Neil Priestley Director of Finance	Julie Wright, Deputy Director of Finance (Financial Accounting)
<b>Approval Body</b>		Audit Committee		<b>Date Approved</b>
<b>Ratified by</b>		Board of Directors		<b>Date Ratified</b>
<b>Date Issued</b>		TBC		<b>Review Date</b> 1/4/23
<b>Contact for Review Name and Job Title:</b> 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 England and NHS Improvement - Audit and assurance: a guide for providers and commissioners

NHSI Guidelines on the use of consultants

### Legal Framework

European & UK Procurement Regulations

### For more information on this document please contact:-

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### Version History

Version	Date Issued	Brief Summary of amendments	Owner's Name:
1	04/09/2017	New Policy	Julie Wright
1.1	TBC	External document refresh references & introduction of list of prohibited services for external auditors, in line with NHSE/NHSI Audit & Assurance guide	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 and Assurance. The guidance in its latest form was issued in December 2019.

## **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, which is not prohibited under the Audit and Assurance guidance. 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 National Audit Office Code of Audit Practice. 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 supports the tendering of both these services within a single tender package. This approach follows the NHSE/NHSI guide on audit and assurance, which recommends the external assurance on quality reports **should** be provided by the FT's external auditor. 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. The NHSE/I Audit and Assurance Guide also outlines further services which are prohibited to be provided by the Trust's External Auditor (see Appendix A).
- 4.6 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 to these proposals.

## **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:

<b>Principle:</b>	<b>Responsibility:</b>
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 <b>and</b> 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 <b>and</b> 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 <b>and</b> 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 <b>and</b> Director of Finance/TEG
5.1.6 Following tender, a requisition will be raised for all non-audit services to ensure transparency of work requests to the Procurement Department.	Budget Holder/Budget Manager
5.1.7 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 <b>and</b> 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:

<b>Monitoring &amp; Reporting:</b>	<b>Responsibility:</b>
<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>	Procurement Director
<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</p> <p>(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 <b>and</b> 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>	Audit Committee Chair

The following services **cannot be provided** by the organisation'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 inspections 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 such services involve searching for or seeking out candidates for such positions or undertaking reference checks for such positions

ii) structuring the organisation design and

iii) cost control.

However, the services referred to in points (a)(i), (a)(iv) to (a)(vii) and (f), may be provided (but would be included for the purposes of applying the 70% cap) if the following requirements are complied with:

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 organisation'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 and

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.