

Executive Summary

Report to the Board of Directors

Being Held on 28th March 2023

Subject	Policy for the use of External Auditors for Non-Audit Work
Supporting TEG Member	Sandi Carman, Assistant Chief Executive
Author	Beth Jones, Business Manager
Status¹	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 implications from the withdrawal of NHS Foundation Trust Quality Reporting by NHSE and the introduction of Auditor Guidance Note AGN03.

KEY POINTS

The principles of the policy remain in line with the previous version, although external guidance references have been updated.

IMPLICATIONS²

Aim of the STHFT Corporate Strategy		✓ 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	Create a Sustainable Organisation	✓
6	Deliver Excellent Research, Education and Innovation	✓

RECOMMENDATIONS

The Board of Directors is asked to approve the updated policy following approval by Audit Committee at the meeting held on 07 March 2023.

APPROVAL PROCESS

Meeting	Date	Approved Y/N
Audit Committee	7/3/23	Y
Board of Directors	28/3/23	

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

² Against the six aims of the STHFT Corporate Strategy 'Making a Difference – The next Chapter 2022-27'

Policy for the use of External Auditors for Non-Audit Work

1. Introduction

- 1.1 It is fundamental that the independence of the Trust's External Auditors in reporting to the Board of Directors, Audit Committee and other senior managers within the Trust is not compromised. This policy seeks to secure that objective and a fair and transparent manner.
- 1.2 However, the Trust does not wish to be deprived of relevant advice and expertise when it is needed. Additionally, 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.
- 1.3 This policy therefore outlines the threats to external audit independence which may exist, and how these are to be addressed and monitored.
- 1.4 It then provides an approach to the definition of non-audit work, which is not prohibited under the NHSE/NHSI Audit and Assurance Guidance (2019). Work which falls within this definition should normally be procured in line with the thresholds and authorities within the Trust Reservation of Powers to the Board of Directors and Scheme of Delegation Policy, alongside the relevant processes listed in this policy, which need to be adopted in the tendering and delivery of this work.

2. Purpose

- 2.1 The policy outlines 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.

3. Scope and exceptions

- 3.1 This policy applies to:

Setting	Trust Wide
Individuals	All staff involved in the procurement of audit and advisory services
Speciality	N/A to patients

4. Policy details

4.1 Threats to Auditor Independence

- 4.1.1 The Institute of Chartered Accountants in England and Wales (ICAEW) sets out threats to audit independence as:
 - 4.1.1.1 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.

- 4.1.1.2 Self-Review – where the auditors may be checking their own colleagues work and may feel constrained from identifying risks and shortcomings.
 - 4.1.1.3 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.
 - 4.1.1.4 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.
 - 4.1.1.5 Intimidation – where the independence of the auditor could become compromised or influenced by fear or threats from a dominant party within the Trust.
- 4.1.2 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.
- 4.1.3 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 Foundation Trusts, 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 4.2, 4.3 and 6 of this policy.

4.2 Definition of non-audit work

- 4.2.1 Under National Audit Office Auditor Guidance Note 3 (AGN 03), 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, (i.e., the true and fair view opinion) and the opinion on if the organisation has arrangements in place for securing economy, efficiency and effectiveness in its use of resources (i.e., the value for money (VFM) opinion). The definition would not extend to the any limited opinion given on any assurance work undertaken in relation to quality reporting, should this be required in any financial year by the NHSE Annual Reporting Manual guidance.
- 4.2.2 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.
- 4.2.3 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.
- 4.2.4 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 Audit and Assurance Guidance also outlines further services which are prohibited to be provided by the Trust's External Auditor (see Appendix A).

- 4.2.5 All 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 4.3 shall therefore apply during the tender process to these proposals.

4.3 Tender Processes and Responsibilities for non-audit work

- 4.3.1 The tender process for work determined as non-audit services as outlined in section 4.2 above must adopt the following principles:

Principle:	Responsibility:
4.3.1.1 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. NHSE guidelines in relation to consultancy spending should be adhered to	Budget Holder/Budget Manager and Trust Procurement Staff
4.3.1.2 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
4.3.1.3 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
4.3.1.4 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
4.3.1.5 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 Chief Finance Officer, 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 Chief Finance Officer/TEG
4.3.1.6 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

4.3.1.7 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 and External Audit Engagement Lead
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5. Roles and responsibilities

Role	Responsibility
As noted in section 4.3.1 above	

6. Monitoring

Standard, process or issue to be monitored	Monitoring method	Monitored by	Reported to	Frequency
Award of any non-audit contracts to the Trust's External Auditor	Review of new non-audit contracts let to the External Auditor. Review of any existing non-audit contracts when External Auditor incumbent changes	Procurement Director	Audit Committee	As required
Provision of any non-audit services provided by the External Auditor	As above	Audit Committee Chair	Council of Governors	Annual Report
Consideration of the performance of the External Auditor	Review of the independence and objectivity of the External Auditor	Chief Finance Officer	Meeting of the Audit Committee held in Private	Annual Report
Transparent reporting of the value and nature of any non-audit work undertaken by the Trust's External Auditor	Inclusion within the Audit Committee's Statement of Financial Consideration, within the Trust Annual Report	Trust Corporate Governance Manager and Deputy Chief Finance Officer (Financial Accounting)	Audit Committee and Board of Directors	Annually

7. Definitions

Term	Description
Audit Committee	Means the Committee established in accordance with Paragraph 38 of the Constitution.

Board of Directors	Means the Chair, Executive Directors, and Non-Executive Directors of the Trust collectively as a body and appointed in accordance with the Constitution of the Foundation Trust
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, (i.e., the true and fair view opinion) <u>and</u> the opinion on if the organisation has arrangements in place for securing economy, efficiency and effectiveness in its use of resources (i.e., VFM opinion).
FRC	Financial Reporting Council
ICAEW	Institute of Chartered Accountants in England and Wales
NHSE/NHSI	Formerly joint body of NHS England/NHS Improvement now NHS England (NHSE)
Non-audit services	Means those services provided by the External Auditor outside those covered by the National Audit Office's Code of Audit Practice (see Appendix A).
VFM	Value for Money

8. References / standards and statutory legal requirements

National Audit Office - Auditor Guidance Note 1 (AGN 01)
National Audit Office – Auditor Guidance Note 3 (AGN 03)
National Audit Office - Code of Audit Practice
Financial Reporting Council's Ethical Standard
NHS England and NHS Improvement - Audit and assurance: a guide for providers and commissioners (issued 2019)
UK Procurement Regulations
NHSE Consultancy Spending Approval Criteria for Providers

9. Associated Trust and external documents

[Reservation of powers to the Board of Directors and Scheme of Delegation Policy](#)
[Standing Financial Instructions Policy](#)

10. Appendices

Appendix A: Non-audit Services which are prohibited to be provided by the Trust's External Auditors

11. Document control

Ref	365
Version	2
Status	Current
TEG sponsor	Neil Priestley, Chief Finance Officer

Controlled Document Lead / Author*	Julie Wright, Deputy Chief Finance Officer (Financial Accounting)
Approval body	Audit Committee
Date approved	7/3/23
Ratification body	Board of Directors
Date ratified	28/3/2023
Issue date	TBC
Review date	31/3/2026

12. Version history

Version	Date issued	Brief summary of changes	Author
2	TBC	External document refresh & clarification of External Audit Services following expanded VFM work required under AGHN 03 and to reflect cessation of requirement to obtain external audit opinion on the Quality Report as confirmed by NHSE	Julie Wright
1.1	31/3/2020	External document refresh references & introduction of list of prohibited services for external auditors, in line with NHSE/NHSI Audit & Assurance Guidance	Julie Wright
1	4/9/2017	New Policy	Julie Wright

13. Consultation and review

Groups / persons consulted	Date
Assistant Chief Executive/ Trust Corporate Governance Manager	28/2/23
Procurement Director	28/2/23

14. Intended recipients

Essential reading for	Budget Holders and Budget Managers All staff involved in the procurement of audit and advisory services
Information for	All staff

15. Rapid equality impact assessment

What relevant quantitative and qualitative information (data) do you have? This may include national or local research, surveys, reports or research; workforce / patient data; complaints and patient experience data, etc.
N/A

Delete ✓ ✗ as appropriate

	Positive Impact [#]	Negative Impact [#]	Neutral Impact [#]	Advances equality of opportunity	Eliminates unlawful discrimination	Fosters good relations between people
Race (including nationality)			✓			
Religion/belief and non-belief			✓			
Disability			✓			
Sex			✓			
Gender Reassignment			✓			
Sexual Orientation			✓			
Age			✓			
Pregnancy and			✓			

Maternity						
Marriage / Civil Partnership			✓			
Human Rights (FREDA principles)			✓			
Carers			✓			
Other groups E.g. Travellers, vulnerable adults/children, homeless, care leavers, asylum seekers or refugees			✓			

#Extent of impact

Positive Impact - This will actively promote or improve equality of opportunity or address unfairness or tackle discrimination

Negative Impact - This will have a negative or adverse impact which will cause disadvantage or exclusion

Neutral Impact - There is no likely impact on any of the protected groups

List any specific equality issues and information gaps that may need to be addressed through engagement and/or further research
N/A

15.1 Analysing the equality information

In this section record your assessment and analysis of the evidence. This is a key element of the EIA process as it explains how you reached your conclusions, decided on priorities, identified actions and any necessary mitigation.

Analysis of the effects and outcomes
N/A

15.2 Outcome of equality impact assessment

No major change needed	Adjust Policy / proposal	Adverse impact but continue	Stop and remove policy / proposal
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✓			
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15.3 Action plan

Give details of any actions required to remedy any negative impact(s) identified above:

Action to address negative impact	By whom	By when	Resource implication
N/A			

15.4 Monitoring, review and publication

How will the policy be monitored?	See section 6. Monitoring
Manager signing off EIA	Date of next review
Julie Wright	28/2/23
Approved by	Date sent to EDI Team sth.equalityanddiversity@nhs.net :
Please provide name of committee and date approved	Date
	Date published (if applicable)
	Date

16 Other impacts

Financial implications	None
Training implications	Yes – provided to Budget Holders, Budget Managers and Authorised Signatories via Finance Dept Financial Training
Sustainability implications	None
Other	None

17 Document imprint

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Policy template version 2.4

APPENDIX A:

Non-audit Services which are prohibited to be provided by the Trust's External Auditors

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.

