

External Auditor Provision of Non-Audit Services

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Policy on External Auditor Provision of Non-Audit Services

1. Introduction and Context

- 1.1 It is recognised that there are occasions when use of the company or partnership which provides external audit services is appropriate in terms of the specialist nature of the work required, and the concentration of skills, knowledge, network and market leadership of the company or partnership also engaged to provide external audit services, and the wider value for money considerations associated with this. Provision of non-audit services by a company which also provides external audit services does not automatically constitute a potential or actual conflict of interest, provided that the principles and procedures set out in this Policy are observed.
- 1.2 The purpose of this Policy is to ensure that the provision of non-audit services by the company or partnership providing external audit work to the University Group does not impair the external auditor's objectivity and independence (or perceptions of its objectivity and independence) in its opinion, provided ultimately to the Council, that the annual financial statements:
- provide a true and fair view of the financial results for the year
 - have been prepared in accordance with the appropriate accounting standards *and*
 - are in accordance with the Office for Students (OfS) Accounts Directions.
- 1.3 Additionally, a judgment is made on whether the OfS and other funds provided for specific purposes have been applied for their intended purposes. Finally, an assessment is provided as to whether University is a going concern for the purposes of accounts preparation.
- 1.4 The Policy clarifies the types of non-audit services which could be provided, and where these would be: [a] permitted; [b] require further consideration and Audit and Risk Committee approval or [c] prohibited based on the risk of impacting on auditor independence and objectivity.
- 1.5 As a term and condition of funding, the OfS requires that a registered HE providers' audit committee agrees all significant matters with a bearing on the auditor's objectivity and independence, and makes a specific disclosure in the financial statements on the fees paid to the external auditors for non-audit services. This is underpinned by Committee of University Chairs (CUC) guidance recommending that the auditor and audit committee consider the nature and extent of services provided by the auditor in addition to the audit engagement.
- 1.6 Alongside the obligations placed on the University, the external auditors will be bound by professional standards such as the Code of Ethics of the Institute of Chartered Accountants in England and Wales (ICAEW) and how potential threats to auditor objectivity and independence are managed, including: self-interest, self-review, advocacy, familiarity and trust and intimidation. Whilst the University is not subject to Financial Reporting Council (FRC) Regulation, the FRC *Revised Ethical Standard and Guidance on*

Audit Committees (2016) contain relevant information applicable to audit companies and partnerships.

2. Scope

- 2.1 This Policy applies to all University staff who procure the services of the company or partnership which also simultaneously provide external audit services to the University, and should also be observed by the auditors alongside any other complementary or overriding professional standards by which they are bound. These may set a higher bar than that set out in this Policy.
- 2.2 The avoidance of threats to objectivity and independence also applies to internal auditors providing non-audit services, such as exclusion from work deemed to be management or operational in nature, or which could impair the internal auditors' ability to independently review internal controls.
- 2.3 It is the responsibility of the Finance Director to ensure compliance with the Policy as part of their role to co-ordinate the relationship with the external auditor.

3. Principles

- 3.1 A service is defined as 'core' by default if it is central to the external audit of the annual statutory accounts for the University Group, including those performed under different regulatory codes such as US GAAP. Non-audit services which are agreed between management and the Audit and Risk Committee as being routine in nature, and which fall below the £20k threshold do not require Audit and Risk Committee approval in advance of engagement. However, each case must be reported to the next meeting of the Committee with a clear justification and rationale for the work and why referral and a request for Audit and Risk Committee approval was judged to be not needed.
- 3.2 **Projects which exceed £20k (excluding VAT) per engagement require prior approval in all case, even where these are judged to be routine** (i.e., in advance of the work being formally engaged) of the Audit and Risk Committee. This can be sought by a written resolution of the majority of members in circumstances where awaiting for a scheduled meeting risked adversely impact the intended outcome of the work being undertaken.
- 3.3 Non-audit services which fall below £20k (excluding VAT), but which are complex and sensitive in nature, and where there are potential doubts or concerns over perceived or actual threats to auditor independence and objectivity require referral to Audit and Risk Committee for approval in advance of the engagement being entered into.
- 3.4 If the cost ratio of audit/non-audit work is likely or known to reach 1:1 before the end of the financial year (i.e. the non-audit work value amounted to the same expenditure or as the total core audit fee), this should be reported to the Committee for its consideration and approval. Exceptional circumstances only would permit the non-audit services fee exceeding the audit fee for the same period.
- 3.5 Non-audit services which are excluded from being undertaken by the organisation providing external audit services to the University, require an alternative organisation to

be identified in order to undertake the work, in line with the tender process set out in the Financial Regulations. Audit and Risk Committee would not expect proposals for excluded services to be presented to it for consideration, unless the nature of the work required this.

- 3.6 Non-audit work undertaken on a contingent fee basis is not permitted under any circumstances, such as where there is a pre-determined basis relating to the outcome or result of a transaction, or other event or result of the work performed.
- 3.7 Tax advisory work, including tax planning and recovery may be undertaken provided such advice does not conflict with the auditor's statutory guidance and responsibilities. However, a range of tax compliance activities are not permitted.
- 3.8 Appendix 1 provides a non-exhaustive list of examples under each of the categories identified above.
- 3.9 The aggregate amount payable on an annual basis for non-audit services should ordinarily be below the aggregate core external audit fee payable, noting that there may be exceptional circumstances where this is not the case.
- 3.10 In addition to non-audit services, there may be occasions when the external audit company engages with the University in relation to careers and employability matters such as placements, internships, graduate traineeships, teaching and research support, corporate donations and development and staff members from the company providing external audit undertaking roles on formal or advisory bodies of the University. These cases constitute a non-audit service and should be reported to the Audit and Risk Committee, with approval sought from the Committee where the activity may the case is sensitive, complex or could be perceived to be problematic.

4. Process

- 4.1 As stated in the Principles above, the financial cost of non-audit work undertaken is not the sole criterion for approval of non-audit services by the Audit and Risk Committee. However, the fee arrived at should be based on a reliable estimate provided in discussion with the external auditor company or partnership. This should be supported by a clear scoping document setting out the objectives, intended outputs and outcomes of the non-audit work, which can be provided to the Audit and Risk Committee where requested.
- 4.2 A written resolution of a majority of members of the Audit and Risk Committee to consider and approve non-audit services will suffice as approval of non-audit services required to be undertaken or engaged on between meetings, to minimise unnecessary delays to delivery of work.
- 4.3 In exceptional circumstances, where there is a time-critical aspect to engaging the service the external auditors for non-audit work, the Finance Director should seek approval from the Chair of the Audit and Risk Committee, dispensing with the requirement to engage the full Committee.

5. Reporting

- 5.1 In addition to the *ad hoc* reporting on cases for the Audit and Risk Committee information or approval as appropriate, the Audit and Risk Committee should receive an annual report, ahead of finalisation of, and disclosure in, the audited accounts, summarising:
- i. the fees paid to the external auditor for each of the non-audit services undertaken, with a description of the work undertaken and outcome of it
 - ii. any significant variations in the estimated or quoted fee level for a non-audit service as referred to the Committee for information or approval.
- 5.2 It is anticipated that over time, the Finance Directorate and Audit and Risk Committee will build up a bank of cases or examples of non-audit services undertaken at the University which may provide precedents to accelerate consideration and approval of similar cases.

Appendix 1: Categories of non-audit services and their treatment

Audit-related services <u>not</u> requiring Audit and Risk Committee approval, but for routine report to the Committee ahead of or following engagement	Non-audit services requiring referral to Audit and Risk Committee for consideration and approval in advance of being undertaken	Non-audit services which are not permitted to be undertaken
<p>Non-audit services which satisfies <u>both</u> criteria of being routine in nature and below £20k do <u>not</u> require Audit and Risk Committee approval. This includes:</p> <ul style="list-style-type: none"> • Certification of EU government funded research grant claims • Certification of UK government funded research grant claims • Certification of US Federal Student Loan Programmes <p>All other services where the cost is below £20k, and even where it is <i>de minimis</i> if it fits into the adjacent column on this table.</p>	<p>Non-audit services which falls below £20k or is above £20k and which relates to:</p> <ul style="list-style-type: none"> • Advice on mergers, sale or acquisition activities • Tax advisory services, such as tax planning and tax recovery services <p>Where management have any potential doubts or concerns over perceived or actual threats to auditor independence and objectivity, then referral to Audit and Risk Committee for its consideration should be undertaken.</p>	<ul style="list-style-type: none"> • Contingent fee work • Auditing any work undertaken by the company at the University • Management work, including systems implementation or secondment of staff from the external audit firm into management and decision-making on behalf of the University • Full outsourcing of activities • Financial systems work which might have a potential significant impact on the amounts that appear in the financial statements or how their treatment is approached • Acting for the University during a transaction • Handling tax entries, payments and tax compliance work • Any work where a mutual interest between the University and the auditor is such that it could compromise auditor objectivity and independence. • Internal audit services