

External Auditor – Provision of Non-Audit Services Procedure

Enabling Policy Statement; Executive Owner; Approval Route:	Our Operations - Chief Operating Officer - Operations Committee Chief Financial Officer Audit & Assurance Committee / Council
Associated Policy Statements:	N/A
Authorised Owner:	Head of Financial Accounting
Authorised Co-ordinator:	Executive Assistant to Chief Financial Officer
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Sub documentation:	N/A

Approval History

Version	Reason for review	Approval Route	Date
5	Scheduled review of previous Procedure (previously referred to as policy)	Audit and Assurance Committee	07.07.22
5.1	Incorporating feedback from both the Chair of AAC and the AAC meeting on 07.07.22	Audit and Assurance Committee	15.11.22

Version History

Version	Author	Revisions Made	Date
1	Ruth Anderson	First Draft	March 2011
2	Ruth Anderson	None	October 2014
3	Ruth Anderson	None	February 2018
3a	Ruth Anderson	Clarification of thresholds in 2.1.1 & 2.1.2	6 March 2018
4	Ruth Anderson	Insertion of upper limits in 2.1.2	October 2018
5	Ian Prebble	Clarification and expansion of 4.3.1	July 2022
5.1	Ian Prebble	Second Draft	Oct 2022

1. Purpose

This procedure ensures that the external auditors are not engaged to provide non-audit services that would impair their independence and objectivity. Specifically, it clarifies the process by which any non-audit services are approved.

2. Scope and Exceptions to the Procedure

This procedure applies to all staff engaged in the procurement of professional services where use of the external auditor might be considered.

3. Definitions and Terminology

External auditor: The audit firm appointed to express an independent audit opinion on the University's financial statements.

Non-audit services: As per the definition set out in the Financial Reporting Council Revised Ethical Standard 2019 Section 5.7 – "Non-audit services comprise any engagement in which an external auditor provides professional services other than the audit of financial statements of the University.

Audit related services: Audit related services are considered a sub-set of Non-audit services. As per the definition set out in the Financial Reporting Council Revised Ethical Standard 2019 Section 5.35 - "Audit related services are those non-audit services specified that are largely carried out by members of the audit engagement team, and where the work involved is closely related to the work performed in the audit and threats to the auditors independence are clearly insignificant and as a consequence, safeguards need not be applied. However such services are still subject to the 70% cap"

Non-audit services of an audit-related nature include the following:

- Reporting required by law or regulation to be provided by the auditor
- Reviews of interim financial information
- Reporting on regulatory returns
- Reporting to a regulator on client assets
- Reporting on government grants
- Reporting on internal financial controls when required by law or regulation
- Extended audit work that is authorised by those charged with governance performed on financial information and/or financial controls where this work is integrated with the audit work and is performed on the same principal terms and conditions

70% Cap: As per the Financial Reporting Council Revised Ethical Standard 2019 Section 4.15, the total fees for such non-audit services provided by the audit firm shall be limited to no more than 70% of the average of the fees paid to the audit firm in the last three consecutive financial years for the audit(s) of the audited entity"

Tax compliance work: Tax services relating to the routine calculation of tax liabilities and preparation and filing of the associated tax returns.

4. Procedural Principles

4.1 Audit related services

- 4.1.1 Approval by the Chair of Audit and Assurance Committee is required for the provision of **any** new audit related services (see definitions in section 3 above) .

4.2 Non-audit services

- 4.2.1 Specific approval must be sought from the Audit and Assurance Committee before inviting the external auditor to quote or tender for any non-audit service. It is expected that the auditors would be unlikely to tender for non-audit services, other than those of an audit-related nature.
- 4.2.2 In determining whether or not to give approval and subject to the 70% cap, the Committee should consider, inter alia:
- threats to independence and objectivity resulting from the provision of such services and any safeguards in place to eliminate or reduce those threats to a level where they would not compromise the auditor's independence and objectivity
 - the nature of the non-audit services and any likely relevance and impact of the service on the financial statements
 - whether the skills and experience of the audit firm make it the most suitable supplier of the non-audit service
 - the fees incurred, or to be incurred, for non-audit services both for individual services and in aggregate, relative to the audit fee, including special terms and conditions (for example contingent fee arrangements)
 - the criteria which govern the compensation of the individuals performing the audit
- 4.2.3 The Chief Financial Officer will advise on the safeguards to be put in place to ensure independence should the external auditor be awarded the contract.
- 4.2.4 The University should follow its standard procurement procedures at all times.

4.3 Services which the external auditor is excluded from providing:

- 4.3.1 The external auditor is excluded from providing the following services:
- Provision of internal audit services
 - Tax compliance work and tax services which would involve acting as an advocate for the University in the resolution of an issue
 - Work related to accounting records and financial statements that will ultimately be subject to external audit and are not of a routine or mechanical nature requiring little or no professional judgement
 - Work related to financial systems or other systems which have a potentially significant impact on the amounts that appear in the financial statements (e.g. Payroll, Student Administration, Accommodation, IT infrastructure)
 - Secondments to positions that involve decision making or any other service that would result in the auditor taking any part in the management decision making
 - Any services, the financial outcome of which would be material to the financial statements, including but not limited to actuarial services, litigation support services, legal services
 - Any work where a mutuality of interest is created that could compromise the independence of the external auditor
 - Any other work which is prohibited by UK ethical guidance, such as recruitment and remuneration services

4.4 Reporting Procedures

- 4.4.1 The Audit and Assurance Committee will receive an update at every meeting on any fees that have been paid to the external auditor for non-audit related services.

4.4.2 The Audit and Assurance Committee’s annual report to Council and the Vice-Chancellor will include the following:

- Reference to the University’s procedure on the use of the external auditor for non-audit services;
- An analysis of the fees paid to the auditor for each category of services and for each significant engagement (other than audit related services);
- Why the Audit and Assurance Committee concluded it was in the interests of the University to purchase non-audit services from the external auditor (rather than another supplier); and
- How auditor objectivity and independence have been safeguarded.

5. Governance Requirements

5.1. Implementation: Communication Plan

This procedure will be uploaded to the University’s Policies webpage. It will be communicated to all Heads of Departments via a Leaders Alert, for onward dissemination as appropriate. It will be communicated directly to procurement staff.

5.2. Implementation: Training Plan

N/A

5.3. Review

This procedure has a review period of every three years

5.4. Legislative Context and Higher Education Sector Guidance or Requirements

5.4.1 This procedure has been drawn up in the context of:

The Financial Reporting Council Revised Ethical Standard 2019

The Financial Reporting Council Guidance on Audit Committees (April 2016)

The CUC Higher Education Audit Committees Code of Practice (May 2020)

5.4.2 Specifically, in determining the procedure, consideration has been given to the possible threats to auditor objectivity and independence as described in Section 5 (Non-audit / Additional Services) of the Financial Reporting Council Revised Ethical Standard 2019. This explains that threats to auditor objectivity and independence may arise from:

- Self-interest threats which arise when the auditor has financial or other interests which might cause it to be reluctant to take actions that would be adverse to the interests of the audit firm or any individual in a position to influence the conduct and outcome of the audit. In relation to non-audit services, the main self interest threat concerns fees and economic dependence;
- Self-review threats which arise when the results of a non-audit service performed by the engagement team or others within the firm are reflected in the amounts included or disclosed in the financial statements of the audited entity;
- Management threats which arise when the audit firm makes judgements or takes decisions on behalf of the management of the audited entity;

- Advocacy threats which arise when the audit firm undertakes work that involves acting as an advocate for an audited entity and supporting a position taken by management in an adversarial context;
- Familiarity (or trust) threats which arise when the auditor is predisposed to accept or is insufficiently questioning of the audited entity's point of view; and
- Intimidation threats which arise when the auditors conduct is influenced by fear or threats.

5.5. Sustainability

N/A