

External Auditor – Provision of Non-Audit Services

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| Originator name: | Ruth Anderson |
| Department: | Finance |
| Implementation date: | 1 December 2014 |
| Date of next review: | 1 December 2017 |
| Related policies: | Procurement Manual, Financial Regulations |
| Policy history: | Version 1 approved by Council 21 July 2011 |

Version History

| Version | Author | Revisions Made | Date |
|---------|---------------|----------------|--------------|
| 1 | Ruth Anderson | First Draft | March 2011 |
| 2 | Ruth Anderson | First Draft | October 2014 |
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Approval History

Equality Analysis

| Version | Reviewed by | Comments | Date |
|---------|---------------------|--------------------|-----------------|
| 1 | N/A | | |
| 2 | Jo McCarthy-Holland | No equality issues | 29 October 2014 |
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Committee Sign Off

| Version | Committee Name | Date of Final Sign Off |
|---------|-------------------------------|------------------------|
| 1 | Audit and Assurance Committee | 17 March 2011 |
| 1 | Council | 21 July 2011 |
| 2 | Audit and Assurance Committee | 23 October 2014 |
| 2 | Council | 20 November 2014 |
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| 1 | Introduction |
| 1.1 | Purpose |
| | <p>The purpose of this policy is to ensure that the provision of non-audit services by the external auditor does not impair the external auditor's independence and objectivity. Specifically, it clarifies the types of non-audit service:</p> <ul style="list-style-type: none"> • For which the use of the external auditor is pre-approved under this policy; • For which specific approval from the Audit and Assurance Committee is required before the external auditor is invited to tender; and • From which the external auditor is excluded. |
| 1.2 | Scope |
| | This policy applies to all staff engaged in the procurement of professional services where use of the external auditor might be considered. |
| 1.3 | Equality Analysis |
| | An Equality analysis has been undertaken and this has determined that no protected groups will suffer adverse consequences as a result of this policy. |
| 1.4 | Definitions |
| | <p>External auditor – the audit firm appointed to express an independent audit opinion on the University's financial statements.</p> <p>Non-audit services –professional services provided by the external auditor other than the audit of financial statements of the University.</p> <p>Audit related services – those non-audit services specified as such in APB Ethical Standard 5 (revised), as updated December 2011 'Non-Audit Services provided to Audited Entities'.</p> <p>i.e those non-audit services specified below that are largely carried out by members of the engagement team and where the work is closely related to the work performed in the audit and the threats to auditor independence are clearly insignificant and, as a consequence, safeguards need not be applied</p> <ul style="list-style-type: none"> • 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 |
| 1.5 | Legislative context |
| | <p>This policy has been drawn up in the context of the Financial Reporting Council Guidance on Audit Committees (September 2012) and the CUC Handbook for Members of Higher Education Audit Committees (February 2008/06).</p> <p>In determining the policy, consideration has been given to the possible threats to auditor objectivity and independence regarding the provision of non-audit services by the external auditor as described in the APB Ethical Standards for Auditors. APB Ethical Standard 5 (revised), as updated December 2011, explains that threats to auditor objectivity and independence may arise from:</p> |

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| | <ul style="list-style-type: none"> • 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 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. |
| 1.6 | Health & Safety Implications |
| 1.6.1 | N/A |
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| 2 | Policy |
| 2.1 | Principles |
| 2.1.1 | <p><u>Services for which pre-approval has been given by the Audit and Assurance Committee</u></p> <p>By virtue of this policy, the University's Audit and Assurance Committee has pre-approved the use of the external auditor to provide non-audit services in circumstances where the threats to auditor independence are considered low, for example, if the engagement is:</p> <ul style="list-style-type: none"> • routine in nature and the fee is not significant in the context of the audit fee; or • for an audit related service (see definitions at 1.3 above) <p>Services falling under this heading include, but are not restricted to:</p> <ul style="list-style-type: none"> • Certification of EU government funded research grant claims; • Certification of UK government grant claims; • Certification under the US Federal Student Loans Programme. |
| 2.1.2 | <p><u>Services for which specific approval from the Audit and Assurance Committee is required</u></p> <p>Specific approval must be sought from the Audit and Assurance Committee before inviting the external auditor to tender for any non-audit services which, because of their size or nature or because of special terms or conditions (for example contingent fee arrangements), may give rise to threats to the auditor's independence.</p> <p>For services up to and including £100k (net of VAT), approval may be given by the Chair of Audit and Assurance Committee. For services above £100k (net of VAT), the Chair of Audit and Assurance Committee will consult with fellow Committee members and a quorum of the Committee will be required to give approval.</p> <p>Services falling under this heading include, but are not restricted to:</p> <ul style="list-style-type: none"> • Consultancy projects relating to non-financial systems (see 2.1.3 below for specific exclusion relating to financial systems or other systems which have a potentially significant influence on the amounts that appear in the financial statements); |

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| | <ul style="list-style-type: none"> • Consultancy projects relating to the sale or acquisition of any group company or minority interest, or any merger activity; • Other consultancy projects which could give rise to a threat to the auditor's independence, by virtue of either:- <ul style="list-style-type: none"> ○ their nature; or ○ their size, individually or in aggregate, relative to the audit fee; • The secondment of an employee of the external auditor to the University, irrespective of fee arrangements (see 2.1.3 below for the specific exclusion relating to positions involving decision making). |
| 2.1.3 | <p><u>Services from which the external auditor is excluded</u></p> <p>The external auditor is excluded from the following:</p> <ul style="list-style-type: none"> • Provision of internal audit services; • Provision of tax compliance and tax advisory services, including tax planning and tax recovery services; • Work related to accounting records and financial statements that will ultimately be subject to external audit; • 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; • 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. |
| 2.2 | Procedures |
| 2.2.1 | <p><u>Services for which pre-approval has been given by Audit and Assurance Committee</u></p> <p>Subject to compliance with the University's standard tendering process, the external auditor may be appointed to provide services falling within 2.1.1 above, without further approval or reference to Audit and Assurance Committee. In case of doubt, staff should refer to the Chief Financial Officer for advice.</p> |
| 2.2.2 | <p><u>Services for which specific approval from the Audit and Assurance Committee is required</u></p> <p>Anyone who is considering inviting the external auditor to tender for a service falling within 2.1.2 above should notify the Chief Financial Officer before the invitation to tender is issued. The Chief Financial Officer will discuss the position with the Chair of Audit and Assurance Committee who, depending on the value of the proposed services (see 2.1.2 above), will determine whether or not it is appropriate to invite the external auditor to tender or consult with fellow Committee members for a decision. 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.</p> |
| 2.2.3 | <p><u>Services from which the external auditor is excluded</u></p> <p>N/A</p> |
| 2.2.4 | <p><u>Reporting Procedures</u></p> <p>The Audit and Assurance Committee will receive an annual report analysing fees paid to the external auditor for non-audit services.</p> <p>The Audit and Assurance Committee's annual report to Council and the Vice-Chancellor will explain how, if the external auditor provides non-audit services, auditor objectivity and independence is safeguarded. The explanation will include the following:</p> |

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| | <ul style="list-style-type: none"> • Reference to the University's policy 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. |
| 3 | Governance Requirements |
| 3.1 | Responsibility |
| | <p>It is the responsibility of Audit and Assurance Committee to recommend to Council a policy for using the external auditor to provide non-audit services.</p> <p>It is the responsibility of all staff to comply with the policy whenever there is a proposal to invite the external auditor to tender for non-audit services.</p> |
| 3.2 | Implementation / Communication Plan |
| | <p>This policy will be uploaded to the University's Corporate Policies website. 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.</p> |
| 3.3 | Exceptions to this Policy |
| | N/A. |
| 3.4 | Supporting Documentation |
| | N/A |