



## **Policy on the Provision of Non-Audit Services by External and Internal Audit**

### **1. Introduction and Context**

- 1.1 The independence and objectivity of the University's appointed external and internal auditors is a vital element in the good governance of the University.
- 1.2 It is recognised that, on occasion, it may be appropriate to appoint either the external or internal auditor to undertake a specialist piece of work where its skills and experience make it the most suitable supplier. There may also be other clear benefits, including, but not limited to, the auditor's pre-existing understanding and knowledge of the University and its ability to undertake the work without significant additional preparation compared to the potentially increased costs and discontinuity, efficiency and confidentiality risks associated with enlisting a new provider.
- 1.3 It is important to note that the engagement of the external or internal auditor in this way does not automatically compromise its independence and objectivity, which should be considered on a case-by-case basis.
- 1.4 However, it is important that clear principles and procedures are in place through this Policy to clarify the types of work, potential conflicts of independence and objectivity and approval routes where it is proposed that the external or internal auditor provides a non-audit service to the University.
- 1.5 Whilst not directly applicable to the University, this Policy has been prepared with regard to, and to ensure an appropriate level of consistency with, the requirements and overarching principles of the Financial Reporting Council's (FRC's) Revised Ethical Standard 2019 (2019 ES). This recently replaced the 2016 Ethical Standard (2016 ES), coming in to force for accounting periods commencing on or after 15 March 2020 for Public Interest entities (PIEs) and on or after 15 December 2020 for Other Entities of Public Interest (OEPIs). In line with the 2019 ES, this Policy moves away from the position under the 2016 ES whereby the focus was on whether or not a proposed non-audit service was prohibited, to a list of permitted services which prescribes the only types of non-audit services which may be provided by the external and internal auditor to the University. In light of a series of high profile failures and resulting credibility deficit, the audit professions direction of travel across all industry sectors was clear, the types and level of non-audit services were becoming increasingly restricted.

### **2. Purpose**

- 2.1 The purpose of this Policy is to ensure the transparency of the provision of non-audit services by the University's appointed external and internal auditor and that this does not impair its independence and objectivity (or the perception thereof) through setting out a series of safeguards and associated control processes to ensure compliance with the Policy.
- 2.2 Further, as part of the Audit Committee's oversight of the relationship with both the external and internal auditor, discharging the requirements of this Policy will enable the Audit Committee to keep the nature and extent of non-audit services under ongoing review, ensuring that its independence and objectivity is not compromised or perceived to be so.



### **3. Permitted and Prohibited Non-Audit Services**

3.1 To achieve the stated purpose and associated aims and objectives of this Policy, this section clarifies:

#### **3.2 Non-Audit Services undertaken by External Auditor**

3.2.1 By virtue of this Policy, the following specific limited types of non-audit services are permitted for the external auditor and do not require advance Audit Committee consideration and approval subject to adherence to the University's Financial Regulations:

- Teacher's Pension Scheme (TPS) End of Year Certificate (EOYC) certification;
- US Federal Student Loans Programme certification;
- Grant claim audit and certification work;
- National College for Teaching and Leadership (NCTL) (or equivalent return) certification.

3.2.2 Any and all other types of non-audit services are required to be the subject of explicit consideration and approval by Audit Committee in advance, regardless of value and before the external auditor is appointed to undertake the work.

3.2.3 It is therefore anticipated that any proposal seeking Audit Committee approval to appoint the external auditor to undertake a non-audit service would be particularly exceptional and only in cases, for example, where it is the clear market leader in a particular field and the work could not be performed by an alternative provider to the same standard required by the University.

#### **3.3 Non-Audit Services undertaken by Internal Auditor**

3.3.1 By virtue of this Policy, the following non-audit services are permitted for the Internal Auditor and do not require advance Audit Committee consideration and approval subject to adherence to the University's Financial Regulations:

- Incidents giving rise to concerns over control weaknesses which necessitate work in excess of that required to form an internal audit conclusion which is put to management.

3.3.2 Investigations or reviews of areas of concern arising from a proven or suspected fraud are assumed to be core, rather than non-audit, work at the outset.

3.3.3 Any and all other types of non-audit services are required to be the subject of explicit consideration and approval by Audit Committee in advance, regardless of value and before the internal auditor is appointed to undertake the work.

3.3.4 It is recognised that core internal audit work is typically much wider in scope than that of external audit, making the distinction between core audit and non-audit work less clear cut. In the broadest sense, the core internal audit programme relates to any audits which are intended to provide assurance on the adequacy and effectiveness of risk management, control and governance arrangements provided to the Accountable Officer, Audit Committee, Board of Governors and onwards to the Office for Students (OfS).

3.3.5 It is therefore important to ensure that any work that by definition is considered an extension of the work undertaken as part of the core audit work is not permitted to be undertaken in the form of the provision of non-audit services. This will ensure that non-audit work does not overlap with areas that have either been the subject of core audit work in the past, or that the Audit Committee may wish to receive assurance on in the future, avoiding potential self-review threats, which could impair the ability of the internal auditor to independently review internal controls.



3.3.6 This approach differs from the University position adopted with respect to non-audit services undertaken by the external auditor in that it is not assumed the internal auditor does not perform any other types of non-audit service other than those specifically listed at paragraph 3.4.1.

3.3.7 It is anticipated that any proposal seeking Audit Committee approval to appoint the internal auditor to undertake a non-audit service would be concerned with seeking wider assurance of areas outside the scope of core internal audit work and in particularly complex or high risk areas. Such work proposals may also legitimately incorporate an advisory aspect, where this advice is key to providing assurance to management and governors that the right decisions are being taken.

3.4 Whilst the lists of permitted non-audit services are not intended to be exhaustive, they may only be amended by the Audit Committee.

3.5 Sections 4 and 5 of this Policy specify the principles and process to be applied to all other types of non-audit services as part of their advance consideration and approval by the Audit Committee.

**4. Principles to be applied in the Consideration of all Non-Audit Service Proposals**

4.1 It is important to manage potential risks and threats to the independence and objectivity of the external and internal auditor.

4.2 In order to achieve this, any and all non-audit service proposals brought to the Audit Committee for approval are required to give express consideration to the following:

- threats to independence and objectivity defined by the Institute of Chartered Accountants in England and Wales (ICAEW) and how they are either mitigated through, or not applicable to, the proposal under consideration;
- other points of principle to be considered in all cases.

<b>Risk/threat</b>	<b>Nature of the risk/threat</b>
Self-interest	The auditor has a vested interest in the outcomes of the work, whether financial or otherwise
Self-review	Where the auditors may be checking their own colleague's work and might feel constrained from identifying risk and shortcomings
Management	Where the auditors are seen to be undertaking roles or making decisions that should be the preserve of management in the University
Advocacy	Which may be present in engagement but could become a threat if an auditor becomes an advocate for an extreme position in an adversarial matter
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
Intimidation	Where the independence of the auditor could be compromised
<b>Other principle points of consideration</b>	<b>Guidance</b>
Fee level	Consideration should be given to the quantum of the fee associated with the proposed engagement, both in isolation and relative to the annual statutory external audit fee or core internal audit fee as applicable (see paragraphs 6.4 and 6.5).
Fee type	The provision of services on the basis of a contingent fee is explicitly prohibited under this Policy.
Quality	The appreciable benefits that the University will derive from the appointment of the external or internal auditor compared to an alternative supplier.
Due Diligence	The external or internal auditor as applicable has undertaken its own checks and are content that the engagement does not compromise its independence or objectivity through meeting its own ethical standards and



	operational policies. It should be ensured that the team undertaking the non-audit service is distinct from that involved in the core audit activities.
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## **5 Process for the Advance Approval of Non-Audit Work**

- 5.1 Where a particular non-audit service is not listed or there is any ambiguity about its categorisation, the Finance Director or Secretary to Board and Head of Governance will liaise with the Chair of the Audit Committee to determine the correct application of this Policy for external or internal audit respectively.
- 5.2 All types of non-audit services that are not pre-approved under this Policy require advance Audit Committee consideration and approval before the auditor is appointed and the work commences.

### Information requirements to support the proposal

- 5.3 All proposals to the Audit Committee seeking approval for the engagement of the external or internal audit for non-audit services, should be prepared by the relevant sponsor and must include:
- Full consideration of proposal vis a vis the principles set out in section 4;
  - A description of the service and scope of the work to be provided and the intended benefits that the University expects to derive from it;
  - An explanation of the rationale as to why it is in the interest of the University to appoint the external or internal auditor as opposed to another supplier, including supporting evidence that the intelligence to be gleaned is not more widely available in the market;
  - How auditor independence and objectivity has been, or will be, safeguarded with explicit reference to the ICAEW defined threats to independence and objectivity;
  - A reliable estimate of the total cost of the work to be undertaken and a corresponding estimate of the total cumulative fees that will accrue to the external audit or internal auditor in respect of non-audit services for the year in question.

### Protocols regarding Audit Committee consideration of proposals

- 5.4.1 Audit Committee has final approving authority for the appointment of the external or internal auditor for non-audit services on the recommendation of the Finance Director or Secretary to Board and Head of Governance respectively, and who are responsible for liaising with auditor on any work undertaken.
- 5.4.2 Where no Audit Committee meeting is scheduled within an appropriate timeframe, approval may be sought from the Audit Committee via written resolution.
- 5.4.3 In either case, a proposal can be approved by a majority decision of Audit Committee members.
- 5.3.4 The Secretary to Board and Head of Governance, as Secretary to the Audit Committee, is responsible for ensuring the approval of Audit Committee is sought, whether by and as stated, placing the proposal on the agenda for a scheduled meeting or by means of written resolution.
- 5.4.5 In order to avoid any undue delay to particular time sensitive or critical work and in such exceptional circumstances only, the University may forego full Audit Committee consideration and approval through the Secretary to Board and Head of Governance seeking direct approval from the Chair of the Audit Committee.



## **6 Monitoring and Review**

- 6.1 The application of this Policy will be monitored on an ongoing basis by the Audit Committee.
- 6.2 The ongoing management and monitoring of the non-audit work, including delivery in line with the agreed scope and budget, once commenced is the responsibility of the Director of Finance and Secretary to Board and Head of Governance for external and internal audit respectively, or the relevant University Executive sponsor of the work if different.
- 6.3 Through the external audit year-end report and internal audit annual report and opinion, the Audit Committee will receive confirmation of any and all non-audit service fees and details of the work undertaken during the financial year concerned.
- 6.4 In respect of the external auditor in particular, non-audit service fees will be monitored in line with the 70% cap on the fees for non-audit services provided by audit firms to Public Interest Entities (PIEs) relative to the statutory audit fee introduced through the 2016 ES. This will commence from 2020/21 onwards based on a comparison with the average of three consecutive preceding years of statutory audit fees.
- 6.5 In the event that the estimated cost of a non-audit service would result in the total non-audit service fees for the year in question exceeding the 70% cap, this is required to form explicit content of the proposal to be considered by the Audit Committee.
- 6.6 Where it is anticipated that the cost of a non-audit service will exceed the estimated amount originally approved by the Audit Committee, approval from the Chair of the Audit Committee should be sought and obtained before further work is committed to. At their discretion, the Chair may request that this is subject to consideration by the full Committee if they consider the variance to be materially significant.
- 6.7 This Policy will be subject to review every three years following its approval by the Audit Committee.
- 6.8 The implementation, maintenance and upkeep of this Policy is the responsibility of both the Finance Director and Secretary to Board and Head of Governance as the custodians of the external audit and internal audit contracts respectively.

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