

# **Procurement of Non-Audit Services from External Auditors Policy**

**V1.0**

**May 2025**

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### **Data Protection Act 2018 (UK General Data Protection Regulation – GDPR) Legislation.**

The Trust has a duty under the Data Protection Act 2018 and UK General Data Protection Regulations 2016/679 to ensure that there is a valid legal basis to process personal and sensitive data. The legal basis for processing must be identified and documented before the processing begins. In many cases we may need consent; this must be explicit, informed, and documented. We cannot rely on opt out, it must be opt in.

Data Protection Act 2018 and UK General Data Protection Regulations 2016/679 is applicable to all staff; this includes those working as contractors and providers of services.

For more information about your obligations under the Data Protection Act 2018 and UK General Data Protection Regulations 2016/679 please see the Information Use Framework Policy or contact the Information Governance Team.

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## **1. Introduction**

The Financial Reporting Council (FRC) Ethical Standard (December 2024) places limitations on the non-audit services that can be provided by an entity's external auditor. These principles are reflected in expectations set by the National Audit Office (NAO) Auditor Guidance Note 01 to accompany its Code of Audit Practice ('the Code') to which auditors at NHS bodies must have regard.

## **1. Purpose of this Policy/Procedure**

- 2.1. It is fundamental that the independence of the Trust's External Auditors in reporting to the Board and other senior managers within the Trust, is not compromised. This policy seeks to secure that objective in a fair and transparent manner.
- 2.2. However, the Trust does not wish to be deprived of relevant advice and expertise when it is needed and 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.
- 2.3. This policy therefore outlines the threats to audit independence which may exist, and how these are to be addressed and monitored.
- 2.4. It then provides an approach to the definition of non-audit work, which is not prohibited under the Audit and Assurance guidance. Work which falls within this definition must be approved by the Chief Finance Officer and reported to the Audit and Risk Assurance Committee.

## **3. Scope**

- 3.1. This policy applies to Executive Directors, Senior Managers and Budget Holders who are authorised to commit resources directly e.g., by the approval of contracts or the ordering of goods.
- 3.2. This policy also applies to the Trust's External Auditors.

## **4. Definitions/Glossary**

- 4.1. External Auditor – an auditor, usually working for an audit firm, that is completely independent of the organisation it is auditing.
- 4.2. Non-audit Services – non-audit services comprise any engagement in which a firm, or a member of its network, provides professional services to an audited entity or its affiliates, other than the audit of financial statements of the audited entity.
- 4.3. Conflict of Interest – any relationship that is, or appears to be, not in the best interest of the organisation. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively.

- 4.4. Objectivity – acting and making decisions and judgements impartially, fairly and on merit (having regard to all considerations relevant to the task in hand but no other), without discrimination, bias or compromise because of commercial or personal self-interest, conflicts of interest or the undue influence of others, and having given due consideration to the best available evidence.
- 4.5. Independence – freedom from conditions and relationships which, in the context of engagement, would compromise the integrity or objectivity of the audit firm or anyone in a position to influence the outcome of an engagement.

## **5. Ownership and Responsibilities**

### **5.1. Role of the Audit and Risk Assurance Committee (acting in the capacity as the Auditor Panel).**

The Audit and Risk Assurance Committee is responsible for:

- Overseeing the relationship with the External Auditors, keeping the nature and extend of non-audit work under review to ensure independence is maintained.
- In accordance with the local Audit and Accountability Act 2014, must advise the Trust Board on the maintenance of an independent relationship with the external auditors.

### **5.2. Role of the Chief Finance Officer**

The Chief Finance Officer is responsible for:

- Authorising all non-audit work procured from the external auditors, ensuring the work is permissible and does not exceed the 70% cap (see paragraph 6.6).
- Reporting the procurement of all non-audit work to the Audit and Risk Assurance Committee.

## **6. Standards and Practice**

### **6.1. The Institute of Chartered Accountants in England and Wales (ICAEW) sets out threats to audit independence as:**

- 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.
- Self Review – where the auditors may be checking their own colleagues work and may feel constrained from identifying risks and shortcomings.
- 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.

- 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.
  - Intimidation – where the independence of the auditor could become compromised or influenced by fear or threats from a dominant party within the Trust.
- 6.2. The ICAEW confirms that where such threats exist, the auditor must put in place safeguards which eliminate or reduce them to clearly insignificant levels. However, the ICAEW also clarifies that the responsibility for ensuring auditor independence does not rest exclusively with the auditor. The Code of Governance for NHS provider trusts 2022 requires an NHS Trust to have a policy on its purchase of non-audit services from external auditors. This is based on the requirement contained within the UK Corporate Governance Code published by the Financial Reporting Council, which requires organisations' Audit Committees, to oversee the relationship with the auditors and therefore keep the nature and extent of non-audit services under review.
- 6.3. Certain non-audit services cannot be provided to an audited local public body while the firm is or is proposed to be the external auditor. These are listed in the National Audit Office Auditor Guidance Note 1 - General Guidance Supporting Local Audit, paragraph 57. Prohibited Services are listed in Appendix 3 of this policy.
- 6.4. There may be occasions when the external auditors are best placed to undertake work on behalf of the Trust because of their in-depth knowledge of the organisation. However, there are certain activities that would jeopardise the external auditor's independence and these will be prohibited, as listed below:
- Work related to accounting records and financial statements that will ultimately be subject to external audit.
  - Management of, or involvement in, internal audit services.
  - Secondment to or other involvement in Trust management positions that involve any decision-making.
  - Any work where a mutuality of interest is created that could compromise the independence of external auditors.
  - Any other work that is prohibited by the Current Ethical Standard from the Financial Reporting Council.
- 6.5. Subject to these prohibitions, it is permissible for the external auditors to undertake non-audit work. However, any such work can only be undertaken to the extent that it does not involve any decision-making or design of internal controls that have an impact on accounting records and financial statements.

- 6.6. The FRC Revised Ethical Standard 2024 requires that the total fees for such services provided to the audited entity and its controlled undertakings shall be limited to no more than 70% of the average fees paid in the three consecutive financial years for the audit of the audited entity and of its controlled undertakings and of the consolidated financial statements of that group of undertakings.
- 6.7. The National Audit Office Auditor Guidance (AGN) Note 01 – General Guidance Supporting Local Audits adds additional requirements to the Audit Fees cap.
- 6.8. Local public audit is wider in scope than the financial statements and includes other responsibilities such as the need to consider arrangements to secure value for money or to consider the exercise of the auditor's additional powers and duties under the Local Audit and Accountability Act. Therefore, audit work is defined as all work carried out under the Code.
- 6.9. Some non-audit services are specifically excluded from the 70% cap. These are listed in the National Audit Office Auditor Guidance Note 1 - General Guidance Supporting Local Audit and are included in Appendix 4 of this policy.

## 7. Dissemination and Implementation

- 7.1. This document will be published on the Trust's document library, as a source of information for Trust staff.
- 7.2. No specific training for staff is required.

## 8. Monitoring compliance and effectiveness

| Information Category                        | Detail of process and methodology for monitoring compliance                                                                             |
|---------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------|
| Element to be monitored                     | Adherence to these procedures.                                                                                                          |
| Lead                                        | The Financial Controller.                                                                                                               |
| Tool                                        | Internal and external audit reviews.                                                                                                    |
| Frequency                                   | Annually.                                                                                                                               |
| Reporting arrangements                      | The procurement of any non-audit work will be reported directly to the Audit and Risk Assurance Committee by the Chief Finance Officer. |
| Acting on recommendations and Lead(s)       | The Financial Controller will act on any recommendations from the Chief Finance Officer or the Audit and Risk Assurance Committee.      |
| Change in practice and lessons to be shared | Required changed to practice will be identified by the Chief Finance Officer and actioned by the Financial Controller.                  |

## **9. Updating and Review**

This document will be reviewed and updated every three years, or sooner where there are any significant changes.

## **10. Equality and Diversity**

10.1. This document complies with the Royal Cornwall Hospitals NHS Trust service Equality and Diversity statement which can be found in the [Equality Diversity And Inclusion Policy](#) or the [Equality and Diversity website](#).

10.2. Equality Impact Assessment

The Initial Equality Impact Assessment Screening Form is at Appendix 2.

## Appendix 1. Governance Information

| Information Category                                                     | Detailed Information                                                               |
|--------------------------------------------------------------------------|------------------------------------------------------------------------------------|
| <b>Document Title:</b>                                                   | Procurement of Non-Audit Services from External Auditors Policy V1.0               |
| <b>This document replaces (exact title of previous version):</b>         | New document                                                                       |
| <b>Date Issued/Approved:</b>                                             | 08 May 2025                                                                        |
| <b>Date Valid From:</b>                                                  | May 2025                                                                           |
| <b>Date Valid To:</b>                                                    | May 2028                                                                           |
| <b>Author/Owner:</b>                                                     | Sarah Gould, Financial Controller.                                                 |
| <b>Contact details:</b>                                                  | <a href="mailto:rcht.financeadmin@nhs.net">rcht.financeadmin@nhs.net</a>           |
| <b>Brief summary of contents:</b>                                        | Policy regarding procurement of non-audit services from external auditors.         |
| <b>Suggested Keywords:</b>                                               | Lease, leasing, management equipment service, MES, finance lease, operating lease. |
| <b>Target Audience:</b>                                                  | <b>RCHT:</b> Yes<br><b>CFT:</b> No<br><b>CIOB ICB:</b> No                          |
| <b>Executive Director responsible for Policy:</b>                        | Chief Finance Officer                                                              |
| <b>Approval route for consultation and ratification:</b>                 | Chief Finance Officer.<br>Audit and Risk Assurance Committee.                      |
| <b>Manager confirming approval processes:</b>                            | Deputy Chief Finance Officer                                                       |
| <b>Name of Governance Lead confirming consultation and ratification:</b> | Deputy Chief Finance Officer                                                       |
| <b>Links to key external standards:</b>                                  | Financial Reporting Council Ethical Standard.                                      |
| <b>Related Documents:</b>                                                | Standing Orders and Standing Financial Instructions.                               |
| <b>Training Need Identified:</b>                                         | No.                                                                                |

| Information Category                                                                    | Detailed Information         |
|-----------------------------------------------------------------------------------------|------------------------------|
| <b>Publication Location (refer to Policy on Policies – Approvals and Ratification):</b> | Internet and Intranet        |
| <b>Document Library Folder/Sub Folder:</b>                                              | Finance / Financial Services |

#### Version Control Table

| Date       | Version Number | Summary of Changes | Changes Made by                          |
|------------|----------------|--------------------|------------------------------------------|
| 18/03/2025 | V1.0           | Original document. | Sarah Gould,<br>Financial<br>Controller. |

**All or part of this document can be released under the Freedom of Information Act 2000.**

**All Policies, Strategies and Operating Procedures, including Business Plans, are to be kept for the lifetime of the organisation plus 6 years.**

**This document is only valid on the day of printing.**

#### **Controlled Document.**

This document has been created following the Royal Cornwall Hospitals NHS Trust [The Policy on Policies \(Development and Management of Knowledge Procedural and Web Documents Policy\)](#). It should not be altered in any way without the express permission of the author or their Line Manager.

## Appendix 2. Equality Impact Assessment

### Section 1: Equality Impact Assessment (EIA) Form

The EIA process allows the Trust to identify where a policy or service may have a negative impact on an individual or particular group of people.

For guidance please refer to the Equality Impact Assessment Policy (available from the document library) or contact the Equality, Diversity, and Inclusion Team  
[rcht.inclusion@nhs.net](mailto:rcht.inclusion@nhs.net)

| Information Category                                                                                                                | Detailed Information                                                     |
|-------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|
| <b>Name of the strategy/policy/proposal/service function to be assessed:</b>                                                        | Procurement of External Auditors for Non-Audit Services Policy V1.0      |
| <b>Department and Service Area:</b>                                                                                                 | Finance / Corporate                                                      |
| <b>Is this a new or existing document?</b>                                                                                          | Existing                                                                 |
| <b>Name of individual completing EIA</b><br>(Should be completed by an individual with a good understanding of the Service/Policy): | Sarah Gould, Financial Controller                                        |
| <b>Contact details:</b>                                                                                                             | <a href="mailto:rcht.financeadmin@nhs.net">rcht.financeadmin@nhs.net</a> |

| Information Category                                                                                                                      | Detailed Information                                                                                                                                                                                                                            |
|-------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>1. Policy Aim - Who is the Policy aimed at?</b><br><br>(The Policy is the Strategy, Policy, Proposal or Service Change to be assessed) | Those charged with governance, specifically members of the Audit and Risk Assurance Committee.                                                                                                                                                  |
| <b>2. Policy Objectives</b>                                                                                                               | Maintain independence of the Trust's External Auditors.                                                                                                                                                                                         |
| <b>3. Policy Intended Outcomes</b>                                                                                                        | It is fundamental that the independence of the Trust's External Auditors in reporting to the Board and other senior managers within the Trust, is not compromised. This policy seeks to secure that objective in a fair and transparent manner. |
| <b>4. How will you measure each outcome?</b>                                                                                              | Through audit reviews.                                                                                                                                                                                                                          |
| <b>5. Who is intended to benefit from the policy?</b>                                                                                     | This policy is in the public interest to ensure good governance.                                                                                                                                                                                |

| Information Category                                                                     | Detailed Information                                                                                                                                                                              |
|------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>6a. Who did you consult with?</b><br>(Please select Yes or No for each category)      | <ul style="list-style-type: none"> <li>Workforce: Yes</li> <li>Patients/visitors: No</li> <li>Local groups/system partners: No</li> <li>External organisations: No</li> <li>Other: Yes</li> </ul> |
| <b>6b. Please list the individuals/groups who have been consulted about this policy.</b> | <b>Please record specific names of individuals/ groups:</b><br>Executive Management Group.                                                                                                        |
| <b>6c. What was the outcome of the consultation?</b>                                     | Approved by Audit and Risk Assurance Committee.                                                                                                                                                   |
| <b>6d. Have you used any of the following to assist your assessment?</b>                 | <b>National or local statistics, audits, activity reports, process maps, complaints, staff, or patient surveys:</b><br>No.                                                                        |

## 7. The Impact

Following consultation with key groups, has a negative impact been identified for any protected characteristic? Please note that a rationale is required for each one.

Where a negative impact is identified without rationale, the key groups will need to be consulted again.

| Protected Characteristic                                                                            | (Yes or No) | Rationale |
|-----------------------------------------------------------------------------------------------------|-------------|-----------|
| <b>Age</b>                                                                                          | No          |           |
| <b>Sex</b> (male or female)                                                                         | No          |           |
| <b>Gender reassignment</b><br>(Transgender, non-binary, gender fluid etc.)                          | No          |           |
| <b>Race</b>                                                                                         | No          |           |
| <b>Disability</b> (e.g. physical or cognitive impairment, mental health, long term conditions etc.) | No          |           |
| <b>Religion or belief</b>                                                                           | No          |           |
| <b>Marriage and civil partnership</b>                                                               | No          |           |

| Protected Characteristic                                        | (Yes or No) | Rationale |
|-----------------------------------------------------------------|-------------|-----------|
| Pregnancy and maternity                                         | No          |           |
| Sexual orientation (e.g. gay, straight, bisexual, lesbian etc.) | No          |           |

**A robust rationale must be in place for all protected characteristics. If a negative impact has been identified, please complete section 2. If no negative impact has been identified and if this is not a major service change, you can end the assessment here.**

I am confident that section 2 of this EIA does not need completing as there are no highlighted risks of negative impact occurring because of this policy.

Name of person confirming result of initial impact assessment: Sarah Gould, Financial Controller.

**If a negative impact has been identified above OR this is a major service change, you will need to complete section 2 of the EIA form available here:**  
[Section 2. Full Equality Analysis](#)

## Appendix 3: NHS England and NHS Improvement: Prohibited non-audit services

This annex sets out the expectations of local NHS bodies. It is designed to replicate the guidance issued to auditors through Auditor Guidance Note (AGN) 0116 (version dated 21 December 2017) by the NAO to accompany its Code of Audit Practice. 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.
  - 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.
  - 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.
  - 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.
- 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.

## Appendix 4: NAO Non-audit Services Excluded for the Purposes of Applying the Cap

54. For the avoidance of doubt, the following non-audit services are explicitly excluded for the purposes of applying the 70% cap, in accordance with this Annex to AGN 01, at local public bodies:

- Reporting required by a competent authority or regulator under law or regulation, for example:
  - other assurance (such as work on the quality accounts of local health bodies or work on grant claims and returns at local authorities) where such assurance is mandated by legislation or by a relevant national body or regulator.
- Reports, required by or supplied to competent authorities/regulators supervising the audited entity, where the authority/regulator has either specified the auditor to provide the service or identified to the entity that the auditor would be an appropriate choice for service provider.
- Services which support the entity in fulfilling an obligation required by UK law or regulation, including listing requirements where: the provision of such services is time critical; the subject matter of the engagement is price sensitive; and it is probable that an objective, reasonable and informed third party would conclude that the understanding of the entity obtained by the auditor for the audit of the financial statements is relevant to the service, and where the nature of the service would not compromise independence.
- Audits or examinations of controlled entities, including charities, consolidated into the accounts of local public bodies.
- Assurance or attest work requested by the auditor of another public body (or on their behalf by a regulator or the NAO), for example assurance procedures carried out by the auditor of a pension fund to support the audit of a scheme employer.
- Services to the parent undertaking of a local public body where the parent undertaking is a government department (for example the Department of Health) or a relevant national body (for example NHS England) and where such services are inconsequential to, and remote from, the decision-making of the local audited body.
- Any other services required by national legislation to be performed by the auditor.