

Gazette Supplement



Policy on the use of external auditors to provide non-audit services

1 Purpose and objectives

1.1. An important element of good governance is the independence of the external auditors ("the Auditor"). Within certain parameters, the Auditor can provide certain non-audit services but their independence and objectivity must be safeguarded at all times.

1.2. This document sets out the policy and summarises the procedures for the engagement and remuneration of the Auditor for the conduct of non-audit related work. This policy defines three types of non-audit related services being those for which:

1.2.1. the Auditor is explicitly excluded from undertaking ("prohibited non-audit services");

1.2.2. specific approval from the Audit and Scrutiny Committee ("the Committee") is required before the Auditor is contracted ("permitted non-audit services"); and

1.2.3. use of the Auditor is pre-approved as a matter of policy (ie without the need to seek specific approval of the Committee prior to contracting with the Auditor for engagement) ("pre-approved permitted non-audit services").

1.3. The list of prohibited and permitted non-audit services identified in sections 2 and 3 below has been drawn up with reference to, and incorporating a number of the recommendations of, the 2008 HEFCE guidance for audit committees and the more recent guidance from the Audit Practices Board in the UK and the Guidance on Audit Committees published by the Financial Reporting Council in December 2010. The lists of services set out below may be amended only by the Committee and is not intended to be exhaustive. Where the proposed non-audit service is not referred to in either the list of prohibited or permitted

activities or there is any doubt over the categorisation, please contact the Director of Finance for guidance.

1.4. Acceptance of donations from, or sponsorship by, the Auditor may also affect, or be perceived to affect, the Auditor's independence and objectivity. Therefore, in addition to setting out the policy and procedure in relation to the conduct of non-audit related work, the opportunity is taken to clarify the position in respect of the acceptance of donations from, and sponsorship by, the Auditor (see section 6 below).

2 Prohibited non-audit services

2.1. The following sets out those activities that the Auditor is prohibited from undertaking as the activities are generally perceived to involve the Auditor making judgments or decisions which are the responsibility of the University's senior officers and which would interfere with their objectivity when undertaking the external audit:

2.1.1. Accounting

- bookkeeping for underlying accounting transactions, or maintaining accounting records or the preparation of financial statements to be audited and used outside the University;

2.1.2. Tax

- assignments performed where fees are contingent and material and/or dependent on uncertain tax law and audit judgment;
- acting as an advocate before a regulatory or statutory body on a matter which is material to the financial statements or dependent on audit judgment; or

- handling tax payments on behalf of the University;

2.1.3. Internal audit

- providing a fully outsourced internal audit function;
- carrying out internal audit work in an area on which the Auditor would want to place reliance in any subsequent audit; or
- undertaking an internal audit management role;

2.1.4. Information technology

- design or implementation of financial information systems;

2.1.5. Valuations and appraisals

- valuations and/or other appraisal services where the results will or may be incorporated in audited financial statements;

2.1.6. Corporate finance and corporate transaction services

- corporate finance or corporate transaction services for the University;

2.1.7. Legal

- legal services involving matters where the outcome has a potentially material effect on the University financial statements;

2.1.8. Human resources

- providing recruitment services in relation to key management positions within the University; or
- seconding employees to key management positions within the University;

2.1.9. Other

- any joint business activity¹, save as otherwise agreed by the Committee (following the process set out in paragraphs 3.3 to 3.8);
- providing actuarial or pension valuation services to the University; or
- any other matter specifically prohibited by law.

3 Permitted non-audit services²

3.1. In general, it is considered more appropriate to instruct the Auditor to undertake permitted non-audit services, rather than another body, because of the Auditor's detailed understanding of the University's business; this may result in cost efficiencies and, where relevant, may assist with the maintenance of confidentiality.

3.2. Subject to any provision made for pre-approved permitted non-audit services (see paragraph 4 below) and subject to the advance approval³ of the Committee (which may be withheld), the following list sets out those non-audit services that the Auditor is permitted to undertake:

3.2.1. Accounting

- advice on the preparation of financial information and the application of GAAP; or
- training support for accounting projects and in relation to accounting standards;

3.2.2. Tax

- assistance in tax compliance activities including preparation of draft returns, submission of returns and correspondence with tax authorities;
- advice on tax matters, recent developments and/or complex or high risk areas;
- expatriate tax matters;

- transfer pricing advice;
- subject to 2.1.5 above, valuations for tax purposes; or
- tax advice in relation to corporate transactions;

3.2.3. Human resources

- secondments to lower level positions (with guidance from the Director of Finance in each case);

3.2.4. Such other activities as may be agreed by the Committee from time to time.

Approval process

3.3. The advance written approval of the Committee must be obtained prior to the engagement of the Auditor with respect to any permitted non-audit services on a case-by-case basis.

3.4. In addition to obtaining the Committee's approval in advance of the undertaking of the activity, it is also necessary to obtain the Committee's approval for any proposed fee to be charged by the Auditor for undertaking the permitted non-audit service.

3.5. Except where pre-approved in accordance with paragraph 4 below, a specific written request for authorisation for the provision of non-audit services must be submitted to the Director of Finance who will in turn submit it to the Committee. Each request must include:

- 3.5.1. a description of the nature of the non-audit service to be provided;
- 3.5.2. whether there are any safeguards in place to eliminate or reduce to an acceptable level any potential threat to Auditor objectivity and independence that may result from the provision of the services; and
- 3.5.3. an estimate of the total fees (including reasonable expenses) that will accrue to the Auditor in the provision of the services, both for individual services and in aggregate, noting the period over which they will be incurred and the amount relative to the audit fee (including the basis on which fees are calculated).

3.6. When submitting the request to the Committee in accordance with paragraph 3.5 above, the Director of Finance shall include a statement outlining the rationale for using the Auditor (for example, by specifying other service providers considered and explaining why the skills, knowledge and experience of the Auditor make it appropriate to appoint the Auditor).

3.7. The Auditor may only be engaged to conduct the services in question once the written submission has been formally approved by the Chair.

3.8. Where no Committee meeting is scheduled within an appropriate time frame, approval should be sought from the Chair of the Committee.

4 Pre-approved permitted non-audit services

4.1. The Committee may choose to set a threshold of annual expenditure for non-audit services below which, if the activity falls within the definition of 'permitted' non-audit services as set out in section 3 above, approval in advance from the Committee would not be required. The activity would thus be classed as 'pre-approved permitted non-audit services'. The threshold set would measure the cumulative total of the fees incurred in any one financial year for non-audit services⁴.

4.2. The Committee will consider whether to set such a threshold on an annual basis at the same time that it considers the reappointment of the Auditor. If it chooses to set such a threshold, then the figure chosen will take into account the audit fees for the previous financial year, any relevant external guidance and best practice.

4.3. As noted in paragraph 3.4, any fees for permitted non-audit services in excess of the threshold must be approved by the Committee in advance of the expenditure being incurred, in accordance with the process set out in section 3.

5 Reporting of fees paid to the Auditor for non-audit work

The Committee will receive a written annual report from the Director of Finance at the end of each financial year describing the fees paid to the Auditor for any non-audit work undertaken during that year. The report shall include fees for any pre-approved permitted non-audit services undertaken.

6 Acceptance of donations from, and sponsorship by, the Auditor

6.1. If the Auditor wishes to make a donation to the University or to a college, or to sponsor a University or college activity or event, the Auditor, in consultation with the Director of Finance, shall first put the proposal to the Committee for consideration.

¹ For the purposes of this policy, the Committee has agreed that, subject to the Auditor paying the standard fee for the course in question, attendance by the Auditor's staff on courses run by the University does not fall within the category of 'joint business activity' and it is therefore permissible (agreed at the Committee's meeting of 27 June 2012).

² Even where such activities are permitted, due consideration should be given, in light of the specific circumstances in question, to whether the conduct of such services by the Auditors could compromise the independence or objectivity of the Auditors.

³ As set out in paragraphs 3.3 and 3.8.

⁴ On 18 June 2012, the Committee agreed to an annual threshold of 25% of the external audit fee for the previous financial year.

6.2. If the Committee agrees that the proposed donation or sponsorship proposal would not affect, or be perceived to affect, the Auditor's independence or objectivity, then:

6.2.1. in the case of a proposed donation to the University, the proposal shall be passed to the Development Office for processing in the usual way, including, where appropriate, the seeking of approval from the Committee to Review Donations;

6.2.2. in the case of a proposal for sponsorship of a University event or activity, the proposal shall be referred to the Committee for Development and Alumni Relations or the General Purposes Committee or other body (as appropriate) for further consideration; or

6.2.3. in the case of a proposed donation to, or sponsorship of an event or activity at, a college, the Auditor shall be free to take forward its discussions with the college.

6.3. If the Committee is of the view that the proposed donation or sponsorship proposal, whether concerning the University or a college, would affect or be perceived to affect the Auditor's independence or objectivity, then that proposal shall no longer be pursued by the Auditor.

As approved by Council on 9 July 2012.