The attached policy document relates to the engagement of the Trust’s External Auditor (currently PwC) for non-audit work, to ensure that potential conflicts of interest, either real or perceived, are avoided. Monitor guidance recommends that such a policy is in place within Foundation Trusts.

The policy is subject to annual review to ensure that it remains fit for purpose and was considered by the Audit Committee at its meeting on 11\textsuperscript{th} February 2016. The Audit Committee did not feel any amendments were necessary and was therefore re-approved, subject to final ratification by the Council of Governors.

To ratify the policy for a further year.
Northern Lincolnshire and Goole NHS Foundation Trust actively seeks to promote equality of opportunity. The Trust seeks to ensure that no employee, service user, or member of the public is unlawfully discriminated against for any reason, including the “protected characteristics” as defined in the Equality Act 2010. These principles will be expected to be upheld by all who act on behalf of the Trust, with respect to all aspects of Equality.
1.0 Introduction and Purpose

1.1 It is important that the independence of our External Auditors in reporting to Governors, Non-Executive Directors and Northern Lincolnshire and Goole NHS Foundation Trust (the Trust) is not, or does not appear to be, compromised in terms of the objectivity of their opinion on the financial statements of the Trust. Equally the Trust should not be deprived of expertise where it is needed, should the External Auditors be able to demonstrate higher quality and more cost effective service than other providers.

1.2 Auditors are required to comply with relevant ethical standards and guidance issued or adopted by their professional accountancy bodies. This includes the Ethical Standards issued by the Auditing Practices Board (APB). The ethical standards and guidance require that a member of a professional accountancy body should behave with integrity in all professional, business and financial relationships. Integrity implies not merely honesty but fair dealing and truthfulness.

1.3 Auditors must carry out their work with independence and objectivity. The Auditors’ opinions, conclusions and recommendations should both be, and be seen to be, impartial. Auditors and their staff should exercise their professional judgement and act independently of the NHS Foundation Trust. They should ensure they maintain an objective attitude at all times and that they do not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest.

1.4 This policy therefore seeks to set out what threats to audit independence theoretically exist and thus provides a definition of non-audit work which can be shared by the Trust and its External Auditor. It then seeks to establish transparent approval processes and corporate reporting mechanisms that will be put in place for any non-audit work that the Trust’s External Auditor is asked to perform.

1.5 Guidance issued by Monitor, the Independent Regulator of NHS Foundation Trusts recommends (in both the Foundation Trust Code of Governance and the Audit Code for Foundation Trusts) that Foundation Trusts implement a policy for approving any non-audit services that are to be provided by their External Auditor.

1.6 The Institute of Chartered Accountants in England and Wales sets out threats to independence as the following:

- Self-interest – where an interest in the outcome of their work or in a depth of relationship with the Trust may conflict with the auditor’s objectivity
- Self-audit – where the auditors may be checking their own colleagues work and might feel constrained from identifying risks and shortcomings
- 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
2.0 Area

This policy applies to all employees working for the Trust.

3.0 Duties

3.1 Council of Governors is responsible for approving this policy.

3.2 The Chief Executive is ultimately responsible for the effective implementation of this policy.

3.3 The Director of Finance has responsibility for ensuring this policy is adhered to and for ensuring that the policy remains up to date and appropriate.

3.4 All Directors/Managers are responsible for ensuring the implementation of and compliance with this policy within their respective areas.

3.5 All Staff who have delegated authority to make such an appointment must adhere to this policy.

3.6 Trust Audit Committee has delegated authority to approve non-audit work in line with this policy and to monitor its effectiveness.

4.0 Defining types of non-audit work and the associated approval process

4.1 In order to provide a transparent mechanism by which non-audit work can be reviewed and progressed, the following categories of work are agreed as professional services available from the Trust’s External Auditors.

4.1.1 Statutory and audit related work not requiring Audit Committee approval:

- Projects where the work is audit related and the external auditors are likely to be best placed to do the work (e.g. Grants returns, covenant reporting, lease compliance reporting). It is proposed that such assignments do not require Audit Committee approval

- However, there shall be a fee limit of £25,000 above which prior Audit Committee approval should be sought for such work

4.1.2 Audit related and advisory services requiring prior Audit Committee approval:

- There are projects and engagements where the auditors are best placed to perform the work:
  - Due to their network within and knowledge of the business (e.g. taxation advice, due diligence and accounting advice)
  - Due to their previous experience

- It is proposed that prior Audit Committee approval is sought for projects of this nature
4.1.3 Projects that are not permitted

There are some projects that are not to be performed by the External Auditors. These projects represent a real threat to the independence of the audit team such as where the External Auditors would be in a position where paragraph 1.6 might apply, such as auditing their own work (for example, systems implementation).

4.2 More detail on each type of work is set out in Appendix A.

4.3 The Audit Code for NHS Foundation Trusts (Monitor, 2014, section 2.12) states that ‘The auditor may, with the approval of the council of governors, provide the NHS Foundation Trust with services which are outside the scope of the audit as defined in this code (additional services).’ Under the policy, the Council of Governors delegates authority to the Audit Committee for commissioning additional services from the Auditor.

4.4 The Audit Committee is therefore responsible for approving all non-audit work undertaken by the External Auditors.

4.5 For the avoidance of doubt, the Audit Committee requires the business sponsor of the proposed work to obtain a proposed scope and fee estimate before the work commences. The business sponsor should also seek written confirmation that the Auditor will be able to safeguard their independence in relation to the proposed work.

4.6 If the proposed fee obtained as part of 4.5 exceeds the established limits or falls into a category of work that requires approval, details of the scope and fee proposal should be submitted to the Audit Committee Chairman and Director of Finance for consideration and approval. If approved the project should be logged by the Audit Committee secretary to be raised at the next Audit Committee meeting and the Trust Secretary informed in order that a schedule of non-audit work fees can be maintained and the Council of Governors updated as necessary at the next available meeting.

4.7 In cases where it is undecided which category services fall into they will default to the category that requires Audit Committee approval and be expected to take that route until such time as a this policy is reviewed and updated by the Audit Committee.

5.0 Monitoring Compliance and Effectiveness

The arrangements for monitoring compliance with and effectiveness of this policy/procedure will be as follows:

- The Audit Committee will formally agree on an annual basis that it is content with the structure, content and operation of this policy

- The Audit Committee will include within their Annual Report to the Trust Board and the Council of Governors all additional work performed by the Trust's External Auditors

- The External Auditors will include within their annual ISA 260 (report to those charged with governance) an appendix that summarises any additional work that they have performed for the Trust and a review of the effectiveness of this policy
• Such engagements will also be reported in the Trust’s Annual Report in line with guidance issued by Monitor.

6.0 Associated Documents

6.1 Audit Code for NHS Foundation Trusts (Monitor, December 2014).


7.0 References

There are no references.

8.0 Definitions

There are no definitions.

9.0 Consultation

9.1 Trust Audit Committee

9.2 Council of Governors

10.0 Equality Act (2010)

10.1 In accordance with the Equality Act (2010), the Trust will make reasonable adjustments to the workplace so that an employee with a disability, as covered under the Act, should not be at any substantial disadvantage. The Trust will endeavour to develop an environment within which individuals feel able to disclose any disability or condition which may have a long term and substantial effect on their ability to carry out their normal day to day activities.

10.2 The Trust will wherever practical make adjustments as deemed reasonable in light of an employee’s specific circumstances and the Trust’s available resources paying particular attention to the Disability Discrimination requirements and the Equality Act (2010).
Appendix A

EXAMPLES OF WORK TYPES

The table below sets out examples of the different work types that could be requested from the External Auditor and the associated approval process.

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Statutory and Audit Related (not requiring Audit Committee approval unless over £25k)</th>
<th>Audit and Assurance Related and Non-Audit Advisory Services (sensitive projects requiring referral without de minimis)</th>
<th>Projects that are not permitted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisitions / Disposals</td>
<td>• Accountants reports&lt;br&gt; • Reporting on financial assistance&lt;br&gt; • Audit of carve out financial statements</td>
<td>• Due diligence and related advice&lt;br&gt; • Completion accounts audit&lt;br&gt; • Agreement of adjustments as a result of completion accounts&lt;br&gt; • Advice on integration activities&lt;br&gt; • Preparation of forecast of investment proposals</td>
<td>• Participation in management</td>
</tr>
<tr>
<td>Internal Audit and risk management services</td>
<td>• None</td>
<td>• Provision of specialist skills/training&lt;br&gt; • Advice on methodology and systems&lt;br&gt; • Co-sourcing&lt;br&gt; • Advice and design of policies, systems or procedures.</td>
<td>• Full outsourcing&lt;br&gt; • Systems implementation</td>
</tr>
<tr>
<td>Taxation</td>
<td>• None</td>
<td>• Preparation of draft returns&lt;br&gt; • Submission of returns and correspondence with tax authorities&lt;br&gt; • Advice on tax matters&lt;br&gt; • Transfer pricing&lt;br&gt; • Valuation for the purposes of taxation</td>
<td>• Preparation of accounting entries for tax&lt;br&gt; • Handling taxation payments</td>
</tr>
<tr>
<td>General Accounting</td>
<td>• None</td>
<td>• Advice on accounts preparation and application of accounting standards&lt;br&gt; • Training for accounting and risk management projects&lt;br&gt; • Book keeping services</td>
<td>• Preparation of accounting entries&lt;br&gt; • Preparation of financial information</td>
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</tbody>
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