



## Policy for the use of External Auditors for non-audit work

**Approving Body:** Audit, Risk and Assurance Committee

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**Policy owner:** University Secretary

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# Policy for the use of External Auditors for non-audit work

## 1. Introduction

This policy is in place to mitigate any risks threatening, or appearing to threaten, the external audit firm's independence and objectivity arising through the provision of non-audit services and applies to all the activities including subsidiary companies of Aberystwyth University.

This policy is in line with the recommendations set out in the Financial Reporting Council's (FRC's) Guidance on Audit Committees (2016) and the requirements of the FRC's Revised Ethical Standard (2019). In line with these recommendations and requirements, an external audit firm is only appointed to perform a service when doing so would be consistent with both the requirements and overarching principles of the Ethical Standard, and when its skills and experience make it the most suitable supplier.

Under the provisions of the Combined Code of corporate governance, the Audit, Risk and Assurance committee is required to oversee the relationship with the auditors and keep the nature and extent of non-audit services under review.

The University tenders for the provision of the External Audit, Tax Advisory and Grant Audit services through the use of the OJEU (Official Journal of the European Union). These are all tendered as separate lots. All three lots are awarded individually and separately, and may be awarded to the same supplier or different suppliers.

## 2. Purpose of this policy

It is important that the independence of our external auditors in reporting to the University Council and the University's Audit, Risk and Assurance Committee does not appear to be compromised but, equally, the University should not be deprived of expertise where it is needed and can be leveraged from the external auditors as a whole.

This policy seeks to set out what threats to audit independence theoretically exist and therefore provides a definition of non-audit work which can be shared by the University and the external auditors. It then seeks to establish the approval processes and corporate reporting mechanisms that will be put in place for any non-audit work that the external auditors are asked to perform.

## 3. Threats to independence

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

- *Self-interest* – where an interest in the outcome of their work or in a depth of relationship with the University may conflict with the auditors’ objectivity;
- *Self-review* – where the auditors may be checking their own colleagues’ work and might feel constrained from identifying risks 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

#### 4. Types of non-audit work and the associated approval process

In order to provide a transparent mechanism by which non-audit work can be reviewed and progressed without too great an administrative burden, the following three categories of work have been agreed as applying to the professional services available from the external auditors:

##### i. Statutory and audit related work

There are certain projects where the work is clearly audit related and the external auditors are best placed to do the work (e.g. regulatory work and other assurance work; for example, a new subsidiary company). Such assignments do not require Audit, Risk and Assurance Committee approval. However, recognising that the level of non-audit fees may also be a threat to independence, a limit of £25,000 per engagement is suggested above which prior approval should be sought for such work from the Chair of the Audit, Risk and Assurance Committee (see point 5 for approval process).

##### ii. Audit related and advisory services

There are projects and engagements where the external 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 or market leadership.

It is proposed that, for projects of this nature which exceed a limit of £25,000 per engagement, prior approval is sought from the Chair of the Audit, Risk and Assurance Committee.

iii. 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 (as defined by the threats to independence set out above) such as where the external auditors would be in a position where they are auditing their own work (for example, systems implementation).

More details on each category of work is set out in the table in Appendix A.

5. Process

All proposed work will involve the business sponsor of the proposed work obtaining a proposed scope and fee estimate from the external auditors through the Director of Finance and Corporate Services before the work commences.

If the fee exceeds the £25,000 limit, details of the scope and fee proposal should be submitted to the Chair of the Audit, Risk and Assurance Committee for approval to proceed. If approved, the project should be logged by the University Secretary to be reported to the next scheduled Audit, Risk and Assurance Committee meeting and recorded in a schedule of non-audit work and fees.

If during an engagement it becomes evident that the final cost of the work will be above the original fee estimate and exceed the £25,000 threshold, the Chair of the Audit, Risk and Assurance Committee shall be immediately informed of the full scope of the engagement and the progress made to date. The same information shall also be reported to the next scheduled Audit, Risk and Assurance Committee meeting and recorded in a schedule of non-audit work and fees.

6. Reviewing and updating this policy

The external auditors will include within their annual audit letter an appendix that summarises any additional work that they have performed for the University and its subsidiaries and a review of the effectiveness of this policy. As part of that reporting process the external auditors will ask the Audit, Risk and Assurance Committee to formally agree on an annual basis that it is content with the structure, content and operation of this policy.

## Appendix A

The table below sets out examples of the different work types that could be requested of the external auditors. It would not be practical to include all the services provided by them and therefore documented in the table below are the characteristics that drive the classification of services into the different work streams. This table is intended to provide illustrative examples of how the implementation of this policy would be approached should the University request assistance from them.

	<b>Statutory and audit related (Not requiring audit committee approval, unless in excess of £25K per engagement)</b>	<b>Audit and assurance related and non-audit advisory services (Not requiring audit committee approval, unless in excess of £25K per engagement)</b>	<b>Projects that are not permitted</b>
<b>Characteristics</b>	<ul style="list-style-type: none"> <li>Advice on areas core to the financial statements audit</li> </ul>	<ul style="list-style-type: none"> <li>Requiring independent objective assessment of information or procedures</li> <li>Staff secondments below senior management level</li> <li>Other advisory services</li> </ul>	<ul style="list-style-type: none"> <li>Participation in management or a clear risk of self-interest, review or advocacy</li> </ul>
<b>Acquisitions / Disposals</b>	<ul style="list-style-type: none"> <li>None</li> </ul>	<ul style="list-style-type: none"> <li>Due diligence and related advice</li> <li>Completion accounts audit</li> <li>Agreement of price adjustment as a result of completion accounts</li> <li>Advice on integration activities</li> <li>Preparation of forecast of investment proposals</li> </ul>	<ul style="list-style-type: none"> <li>Acting directly for the University in negotiations of a transaction</li> </ul>
<b>Internal Audit and Risk Management Services</b>	<ul style="list-style-type: none"> <li>None</li> </ul>	<ul style="list-style-type: none"> <li>Provision of specialist skills / training</li> <li>Advice on methodology and systems</li> <li>Co-sourcing</li> <li>Advice and design of policies, systems or procedures.</li> </ul>	<ul style="list-style-type: none"> <li>Full outsourcing</li> <li>Systems implementation</li> </ul>
<b>Taxation</b>	<ul style="list-style-type: none"> <li>None</li> </ul>	<ul style="list-style-type: none"> <li>Preparation of draft returns</li> <li>Submission of returns and correspondence with tax authorities</li> <li>Advice on tax matters</li> <li>Transfer pricing</li> <li>Valuation for the purposes of taxation</li> </ul>	<ul style="list-style-type: none"> <li>Preparation of accounting entries for tax</li> <li>Handling taxation payments</li> </ul>
<b>General Assurance and Accounting</b>	<ul style="list-style-type: none"> <li>Grants certification</li> <li>Advice on accounts preparation and application of accounting standards</li> </ul>	<ul style="list-style-type: none"> <li>Training for accounting and risk management projects</li> </ul>	<ul style="list-style-type: none"> <li>Preparation of accounting entries &amp; book keeping services</li> <li>Preparation of financial information</li> </ul>

