

## Engagement of auditors for non-audit services - Policy and Procedure

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| Developed consultation with                   | in 2022 - Procurement; Chair of the Audit Committee and members of Audit Committee<br>2024 - Risk & Resilience Manager, Deputy Security, (Financial Services), Chair of the Audit Committee  |
| Owner   | Registrar & Secretary's Office   |
| Target audience                               | <ul style="list-style-type: none"> <li>Staff / subsidiary companies involved in the procurement of professional services for which use of the University's auditors might be considered.</li> <li>University internal and external auditors (in addition to their own policies and professional standards).</li> </ul>   |
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| Appendices                                    | Appendix A - Threats to auditor objectivity and independence and factors for consideration (Financial Reporting Council (FRC) Revised Ethical Standard 2019)   |
| External references                           | In respect to the independence of the external and internal auditors, the University will comply with guidance from the Office for Students, <a href="#">CUC: Higher Education Audit Committees Code of Practice (2020)</a> and other relevant professional, legal, ethical and regulatory standards on auditor independence, including the FRC 'Revised Ethical Standard' (2019) <sup>1</sup> . |
| Links to other internal policies / procedures | <ul style="list-style-type: none"> <li><a href="#">Financial Regulations</a></li> <li><a href="#">Conflict of Interests Policy</a></li> <li><a href="#">Counter Fraud Policy</a></li> <li><a href="#">Anti-bribery and Corruption Policy</a></li> <li><a href="#">Fraud &amp; Bribery Response Plan</a></li> <li><a href="#">Whistleblowing Policy &amp; Procedure</a></li> </ul>                |
| Version reference                             | 2.0  |
| Version History - summary of changes          | <ul style="list-style-type: none"> <li>1.0 [18 February 2022, Audit Committee]</li> <li>2.0 [22 March 2024, Audit Committee]</li> </ul>  |

<sup>1</sup> [https://media.frc.org.uk/documents/Revised\\_Ethical\\_Standard\\_2019.pdf](https://media.frc.org.uk/documents/Revised_Ethical_Standard_2019.pdf)

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### Purpose

1. The purpose of this Policy is to provide good governance for the engagement of the University's auditors for **non-audit services**, to protect auditor independence and ensure objectivity is not compromised.

### Definitions

2. **Non-audit services** are defined as professional services provided by:
  - (a) The University's **internal auditors** that fall outside of the annual internal audit plan agreed by the Audit Committee.
  - (b) The University's **external auditors** which fall outside the scope of its external audit of the University's annual financial statements.

### Responsibilities and application

3. The **Audit Committee** oversees the University's relationship with auditors and has delegated authority from the Board of Governors to monitor all non-audit work done by the University's [internal and external auditors](#), keeping the nature and extent of non-audit services under review. The **Audit Committee** has oversight for the application of this Policy, and the Chair (or nominee) has authority to approve or reject proposals raised under this Policy.
4. The scope of Policy<sup>2</sup> extends to the procurement of non-audit services for use by the **University** or its **subsidiaries**.
5. The **Director of Finance** will have responsibility to ensure compliance with the Policy, in relation to external audit, as part of their role to co-ordinate the relationship with the external auditor.
6. The **Registrar & Secretary** will be responsibility to ensure compliance with the Policy, in relation to internal audit, as part of their role to co-ordinate the relationship with the internal auditor.

### Prohibited non-audit services

7. The following list of prohibited non-audit services aligns with those identified by the Financial Reporting Council Ethical Standard.

### External auditors

8. External auditors are prohibited from activities which would generally be perceived as making judgements or decisions that are the responsibility of management and would compromise the auditor's objectivity in undertaking the external audit. Members of the external audit team should not be engaged for non-audit services. Examples include:
  - Work related to accounting records and financial statements that will ultimately be subject to external audit
  - Tax compliance services relating to Payroll tax and Customs duties
  - Management of, or significant involvement in, internal audit services
  - Secondments to management positions that involve any decision making
  - Investment advice and banking services
  - Financial information / accounting systems design or implementation
  - Legal or litigation support services
  - Human resources services, with respect of advising the Remuneration Committee, payroll services, restructuring, or recruitment services in relation to key management positions
  - Valuations services where the results will or may be incorporated in the audited financial statements, including valuations performed in connection with actuarial services
  - Any work where a mutuality of interest is created that could compromise the independence

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<sup>2</sup> In addition, the purchase of any goods or services shall also comply with the University's [Financial Regulations](#)

- Any other work which is prohibited by UK ethical guidance or other relevant legislation or regulation
9. Where there is any doubt over the external audit categorisation as a prohibited or permitted non-audit service, the Audit Committee Chair (or nominee) will consult with the Director of Finance for guidance.
10. As an additional requirement, the FRC Ethical Standard defines a cap on the level of fees for permitted non-audit services from the external auditors, at 70% of the average audit fees for the preceding 3-year period. The calculation of the fee cap is set out in the Ethical Standard and any proposed non-audit services will be considered in the light of this limit.

#### **Internal auditors**

11. Appropriate consultancy work may be undertaken by internal auditors in line with University procurement procedures. Member/s of the regular internal audit team (those responsible for signing off the annual internal audit opinion) should not be engaged for non-audit services. Use of their services for work in the following areas is prohibited:
- Financial information / accounting system design or implementation
  - Mergers
  - Business planning or taking management decisions
  - Cash management, initiating transactions and budgeting

#### **Permitted non-audit services**

#### **External auditors**

12. Subject to approval by the Audit Committee Chair, the external auditor is permitted to undertake the following non-audit work:
- advice on the preparation of financial information and the application of GAAP
  - training support for accounting projects and in relation to accounting standards
  - assistance with tax compliance activities, ***provided such advice does not conflict with the auditor's statutory guidance and responsibilities and they have no direct or immaterial effect on the audited financial statement***, this may include:
    - provision of tax advice, e.g., in relation to corporate transactions, recent developments, complex or high-risk areas, expatriate tax matters
    - preparation of draft returns
    - correspondence with tax authorities
  - transfer pricing advice
  - such other activities as may be agreed by the Audit Committee from time to time

#### **Internal auditors**

13. Subject to approval by the Audit Committee Chair, internal auditors may be engaged for consultancy work in such areas as:
- contract compliance
  - tax advice
  - non-accounting system consultancy
  - review of performance of external suppliers
  - support with procedures or investigations as appropriate under the [Whistleblowing Policy](#) or the [Fraud & Bribery Response Plan](#)
  - such other activities as may be agreed by the Audit Committee from time to time

#### **Reporting**

14. Reporting of non-audit remuneration is disclosed to the Audit Committee via:
- The Audit Committee's Annual Report and Opinion, explaining how auditor independence and objectivity are safeguarded if the internal or external auditor provided non-audit services

- The annual reports of the internal and external auditors
- Regular updates on non-audit services, along with any additional commentary on assignments, will be reported to the next Audit Committee via a Chair's action
- The Financial Statements

#### **Donations from sponsorship by the external or internal auditors**

15. The external or the internal auditors may seek to make donations in support of, or to sponsor activity or event in, the University. In these circumstances, the auditors shall first put the proposal to the **Audit Committee Chair** for consideration. All donations and sponsorship received from the auditors will be reported to the **Governance & Nominations Committee**.
16. If the Audit Committee is of the view that the proposed donation or sponsorship proposal would affect or be perceived to affect the external or the internal auditors' independence or objectivity, then that proposal shall no longer be pursued by the auditors.

#### **Provision of courses and other academic services to the external or internal auditors**

17. The University and its staff may from time to time supply the external or the internal auditors with consultancy, research, or other academic services. In general, such provision of services will not be considered to compromise the independence and objectivity of the external or the internal auditors. **School / Services** are required to notify the **Audit Committee Chair** of such services in case the work is of such a scale, nature or risk to the University that there is a potential threat to the auditors' objectivity and independence.
18. If the Audit Committee considers that the auditors' objectivity and independence will be threatened by the provision of work for the external or the internal auditors, the work will not be permitted to proceed.

#### **Approval process for provision of non-audit services**

19. All proposals for non-audit work require prior written **approval** from the Chair of the Audit Committee (or their nominee).

A written request for authorising the provision of non-audit services must be submitted to [governance@leedsbeckett.ac.uk](mailto:governance@leedsbeckett.ac.uk) setting out:

- a description of the service to be provided and by whom;
- whether there are any safeguards in place to eliminate, or reduce to an acceptable level, any potential threat to the auditors' objectivity and independence that may result from the provision of the services, this should also identify the audit team; and
- fee estimates. Any significant variations in the fee estimate shall be referred to the Audit Committee Chair.

20. A schedule of requests for non-audit work and its approval (or otherwise) will be maintained by the Registrar & Secretary's Office.

#### **Existing non-audit services provided**

21. Where an appointment, in line with the University's tender process, of a new audit firm conflicts with existing non-audit services provided, a formal review will be required to consider whether the University can continue to use the firm for those particular services.

#### **Policy Review**

22. The Registrar & Secretary's Office will formally review this Policy every 2 years. Any material proposed changes to the Policy will be referred to the **Audit Committee** for approval.

## Threats to auditor objectivity and independence and factors for consideration

For an engagement with the internal or external auditors to provide a non-audit service, the Audit Committee Chair shall identify and assess the significance of any related threats to the integrity or objectivity of the firm and covered persons, including whether independence would be compromised. It may also be necessary to refer to a draft engagement letter. The following factors should be considered:

- The likely relevance and impact of the non-audit / additional service on the financial statements, or on subject matter information or subject matter of the engagement;
- The extent to which performance of the proposed non-audit / additional service will involve the exercise of professional judgment;
- The size of the non-audit / additional service and the associated fee;
- The basis on which the fee is to be calculated;
- The staff who would be carrying out the non-audit / additional service;
- The staff from the entity relevant to the engagement who would be involved in the non-audit / additional service;
- The effectiveness of the available safeguards to eliminate the threats or reduce them to a level where independence would not be compromised.

The principal types of threats to the integrity, objectivity and independence of the firm and covered persons are:

- Self-interest threats which arise when the auditor has financial or other interests which might cause it to be reluctant to take actions that would be adverse to the interests of the audit firm or any individual in a position to influence the conduct and outcome of the audit. In relation to non-audit services, the main self-interest threat concerns fees and economic dependence;
- Self-review threats which arise when the results of a non-audit service performed by the engagement team or others within the firm are reflected in the amounts included or disclosed in the financial statements of the audited entity;
- Management threats which arise when the audit firm makes judgements or takes decisions on behalf of the management of the audited entity;
- Advocacy threats which arise when the audit firm undertakes work that involves acting as an advocate for an audited entity and supporting a position taken by management in an adversarial context;
- Familiarity (or trust) threats which arise when the auditor is predisposed to accept or is insufficiently questioning of the audited entity's point of view; and
- Intimidation threats which arise when the auditors conduct is influenced by fear or threats.