

**Joint Policy for Cumbria Partnership Foundation Trust & North Cumbria
University Hospital NHS Trust**

Policy Title: Engagement of External Auditors

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| Accountable Director | Executive Director of People and Digital |
| Policy Author | Company Secretary |

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Policy On A Page

SUMMARY & AIM

- It is important that the independence of External Auditors for Cumbria Partnership NHS Foundation Trust (CPFT) and North Cumbria University Hospitals NHS Trust (NCUH) in reporting to Non-Executive Directors, Governors (CPFT only) and the Board of Directors is not, or does not appear to be compromised in terms of the objectivity of their opinion on the financial statements of the Trusts.
- The policy seeks to set out what threats to audit independence theoretically exists and this provides a definition of non-audit work which be shared by the Trust and its External Auditor.

KEY REQUIREMENTS

1. It is important for all staff to be aware of the Trust's policy relating to engagement of external auditors.
2. Individual statutory and audit related projects of £10,000 and above involving the Trust's External Auditors must only proceed following the approval of the Audit & Risk Committee.
3. 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

TARGET AUDIENCE:

This policy applies to all Trust employees at Cumbria Partnership NHS Foundation Trust and North Cumbria University Hospitals NHS Trust

TRAINING:

No mandatory training required for this policy but specific requests for training on the use of this policy must be submitted to the Director of Finance, Estates & Digital

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1. INTRODUCTION

- 1.1 It is important that the independence of External Auditors for Cumbria Partnership NHS Foundation Trust (CPFT) and North Cumbria University Hospitals NHS Trust (NCUH) in reporting to Non-Executive Directors, Governors (CPFT only) and the Board of Directors is not, or does not appear to be compromised in terms of the objectivity of their opinion on the financial statements of the Trusts. Equally, the Trusts must 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 External Auditors are required to comply with relevant ethical standards and guidance issued or adopted by their professional bodies. This includes the Ethical Standards issued by the Financial Reporting Council (FRC) and in particular, Ethical Standard 5 which deals with 'non-audit' services provided to audit clients. The ethical standards and guidance require that a member of a professional body must 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 Auditor's opinions, conclusions and recommendations must be, and be seen to be impartial. Auditors and their staff must exercise their professional judgement and act independently of the Trust. They must 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 The policy therefore seeks to set out what threats to audit independence theoretically exists and this provides a definition of non-audit work which 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 NHS Improvement (NHSI) in the Code of Governance for Foundation Trusts and by the National Audit Office (NAO) in the Code of Audit Practice states the need to implement a policy for approving any non-audit services that are to be provided by External Auditors.
- 1.6 The Institute of Chartered Accountants in England and Wales (ICAEW) 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 auditors objectivity;
 - Self Review – where the auditors may be checking their own colleagues work and might feel constrained from identifying risks and shortcomings;
 - Management – exists when the auditor undertakes work that involves making judgements and taking decisions that are properly the responsibility of management;
 - 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 a member of the audit team may be deterred from acting objectively and exercising professional scepticism by threats, actual or perceived, from directors, managers or other employees of an audit client.

2. PURPOSE

This policy is in place to provide the necessary framework to assist the effective management of External Auditors in line with the requirements set out by NHSI and the NAO.

3. POLICY DETAILS – ARRANGEMENTS/DETAILS

3.1 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.

- Statutory and audit related work not requiring Audit & Risk Committee approval defined as 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). Such assignments do not generally require Audit & Risk Committee approval. However, there shall be a fee limit of £10,000 for each individual project above which prior Audit & Risk Committee approval must be sought for such work.
- Audit related and advisory services requiring prior Audit & Risk 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) or due to their previous experience. Audit & Risk Committee approval must be sought for projects of this nature. Effective planning must ensure Audit & Risk Committee approval, where necessary, can be sought prior to the commencement of a project. However, in exceptional circumstances and where the priority of need and Audit & Risk Committee meeting schedule does not enable full Audit & Risk Committee approval to be sought, the Chair of the Audit & Risk Committee or Deputy Chair in the absence of the Chair, will consider the need to arrange an extraordinary meeting of the Audit & Risk Committee.
- 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). This includes projects commissioned by national regulators into services solely provided by the Trust where these projects are materially relevant to the External Auditor's opinions stated within the annual report and accounts.

More detail on each type of work is set out in Appendix 1.

3.2 The Audit & Risk Committee is responsible for approving all non-audit work undertaken by the External Auditors.

- 3.3 For the avoidance of doubt, the Audit & Risk Committee requires the business sponsor of the proposed work to obtain a proposed scope and fee estimate before the work commences. The business sponsor must also seek written confirmation that the External Auditor will be able to safeguard their independence in relation to the proposed work.
- 3.4 If the the proposed fee obtained as part of 3.3 exceeds the established limits or falls into a category of work that requires approval, details of the scope and fee proposal must be submitted to the Chair of the Audit & Risk Committee and Director of Finance, for consideration and approval. If approved, the project must be logged by the Audit & Risk Committee administrator to be raised at the next Audit & Risk Committee meeting and the Company Secretary informed in order that a schedule of non-audit work fees can be maintained. For CPFT, the Governors Council must be updated as necessary at the next available meeting.
- 3.5 In cases where it is undecided which category services fall into they will default to the category that requires Audit & Risk Committee approval and be expected to take that route until such time as a this policy is reviewed and updated by the Audit & Risk Committee.

4. TRAINING AND SUPPORT

Formal training is not required. Skills, knowledge and attributes required by post holders with detailed responsibilities are sufficient for the application of this policy.

5. PROCESS FOR MONITORING COMPLIANCE

The process for monitoring compliance with the effectiveness of this policy is as follows:

| Aspect being monitored | Monitoring Methodology | Reporting | | |
|--|------------------------|--|---|-----------|
| | | Presented by | Committee | Frequency |
| Review and approval on the structure, content and operation of the policy | Annual Report | Director of Finance, Digital & Estates | Audit & Risk Committee | Annually |
| Audit & Risk Committee will include within their Annual Report to the Trust Board of Directors and the Governors Council (CPFT) any additional work performed by the Trust's External Auditors | Annual Report | Director of Finance, Digital & Estates | Board of Directors and Governors Council (CPFT) | Annually |

| Aspect being monitored | Monitoring Methodology | Reporting | | |
|--|------------------------|---|------------------------|-----------|
| | | Presented by | Committee | Frequency |
| External Auditors will include within their annual ISA260 an appendix that summaries any additional work that they have performed for the Trust and a review of the effectiveness of this policy | Annual Report | External Auditors (facilitated by the Director of Finance, Digital & Estates) | Audit & Risk Committee | Annually |

Wherever the above monitoring has identified deficiencies, the following must be in place:

- Action plan
- Progress of action plan monitored by the Audit & Risk Committee minutes
- Risks will be considered for inclusion in the appropriate risk registers

6. REFERENCES:

- Code of Audit Practice (National Audit Office, April 2015)
- Governance over audit, assurance and accountability: guidance for foundation trusts (Monitor, March 2015)
- NHS Foundation Trust Code of Governance (Monitor, July 2014)
- NHS Foundation Trust Annual Reporting Manual (Monitor, February 2019)
- Group Accounting Manual (Department of Health & Social Care, April 2019)
- Ethical Standards (Finance Reporting Council, June 2016)

7. ASSOCIATED DOCUMENTATION:

- POL/003/001 – Reservation and Delegation of Powers and Standing Financial Instructions Policy (CPFT)
- Standing Orders, Reservation and Delegation of Powers and Standing Financial Instructions (NCUH)

8. DUTIES (ROLES & RESPONSIBILITIES):

8.1 Chief Executive / Trust Board Responsibilities:

The Chief Executive and Trust Board jointly have overall responsibility for the strategic and operational management of the Trust, including ensuring that Trust policies comply with all legal, statutory and good practice requirements.

8.2 Executive Director Responsibilities: Executive Director of People and Digital

All policies have a designated Executive Director and it is their responsibility to be involved in the development and sign off of the policies, this must ensure that Trust policies meet statutory legislation and guidance where appropriate. They must ensure the policies are kept up to date by the relevant author and approved at the appropriate committee.

8.3 Managers Responsibilities:

Managers are responsible for ensuring the implementation and compliance with this policy within their respective areas.

8.4 Staff Responsibilities:

Staff who have delegated authority to make such an appointment involving external auditors must adhere to this policy.

8.5 Approving Committee Responsibilities: Audit & Risk Committee

The Chair of the Audit & Risk Committee (approving committee) will ensure the policy approval is documented in the final section of the Checklist for Policy Changes. For NCUH, the Committee will agree the approval of the policy. For CPFT, the Committee will agree the final draft of the policy to enable submission to the Governors Council which is responsible for approving this policy.

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

9. ABBREVIATIONS / DEFINITION OF TERMS USED

| ABBREVIATION | DEFINITION |
|--------------|---|
| CPFT | Cumbria Partnership NHS Foundation Trust |
| FRC | Financial Reporting Council |
| ICAEW | Institute of Chartered Accountants in England and Wales |
| NAO | National Audit Office |
| NCUH | North Cumbria University NHS Trust |
| NHSI | NHS Improvement |

| TERM USED | DEFINITION |
|-----------|------------|
| | |

APPENDIX 1 – 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

| | Statutory and Audit Related (not requiring Audit & Risk Committee approval unless over £10k) | Audit and Assurance Related and Non-Audit Advisory Services (sensitive projects requiring referral without de minimis) | Projects that are not permitted. |
|--|--|---|--|
| Characteristics | <ul style="list-style-type: none"> Advice on areas core to the financial statement audit. | <ul style="list-style-type: none"> Requiring independent objective assessment of information or procedures Staff secondments Other advisory services | <ul style="list-style-type: none"> Participation in management |
| Acquisitions / Disposals | <ul style="list-style-type: none"> Accountants reports Reporting on financial assistance Audit of carve out financial statements | <ul style="list-style-type: none"> Due diligence and related advice Completion accounts audit Agreement of adjustments as a result of completion accounts Advice on integration activities Preparation of forecast of investment proposals | <ul style="list-style-type: none"> None |
| Internal Audit and Risk Management Services | <ul style="list-style-type: none"> None | <ul style="list-style-type: none"> Provision of specialist skills/training Advice on methodology and systems Co-sourcing Advice and design of policies, systems or procedures | <ul style="list-style-type: none"> Full outsourcing Systems implementation |

| | Statutory and Audit Related (not requiring Audit & Risk Committee approval unless over £10k) | Audit and Assurance Related and Non-Audit Advisory Services (sensitive projects requiring referral without de minimis) | Projects that are not permitted. |
|---------------------------|---|--|---|
| Taxation | <ul style="list-style-type: none"> • None | <ul style="list-style-type: none"> • Preparation of draft returns • Submission of returns and correspondence with tax authorities • Advice on tax matters • Transfer pricing • Valuation for the purposes of taxation | <ul style="list-style-type: none"> • Preparation of accounting entries for tax • Handling taxation payments |
| General Accounting | <ul style="list-style-type: none"> • None | <ul style="list-style-type: none"> • Advice on accounts preparation and application of accounting standards training for accounting and risk management projects • Book keeping services | <ul style="list-style-type: none"> • Preparation of accounting entries • Preparation of financial information |

DOCUMENT CONTROL

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| Equality Impact Assessment Date | N/A |
| Sub-Committee & Approval Date | <i>Audit and Risk Committee 8th May 19</i> |

History of previous published versions of this document:

| Trust | Version | Ratified Date | Review Date | Date Published | Disposal Date |
|--------------|-----------------|----------------------|--------------------|-----------------------|----------------------|
| CPFT | POL/002/ 100 | 23/05/2018 | May 2019 | May 2019 | N/A |

Statement of changes made from previous version

| Version | Date | Section & Description of change |
|----------------|-------------|---|
| 0.1 | 14/04/2019 | Policy rewritten to take into account the move to the joint arrangements across the trusts (CPFT and NCUH). Policy updated to ensure all reference are up to date and reflect current guidance. |

List of Stakeholders who have reviewed the document

| Name | Job Title | Date |
|------------------------|--|-------------|
| Briian Hetherington | Chair of Audito & Risk Committee – CPFT | 14/04/2019 |
| Jeff O’Neill | Chair of Audit & Risk Committee – NCUH | 14/04/2019 |
| Michael Smillie | Director of Finance, Estates & Digital | 14/04/2019 |
| Jane Smith | Lead Governor – CPFT | 14/04/2019 |
| Keith Amey | Deputy Lead Governor – CPFT | 14/04/2019 |
| James Collins | Engagement Manager, Mazars, External Auditors – CPFT | 14/04/2019 |
| Richard Anderson | Engagement Manager, Grant Thornton, External Auditors – NCUH | 14/04/2019 |
| Helena McDonnell | Assistant Director of Finance – NCUH | 14/04/2019 |
| Michael Billinghamurst | Deputy Director of Finance – CPFT | 14/04/2019 |