



Non-Audit Services Policy

University of Glasgow

Introduction

This policy applies to all companies, businesses and functional areas within the University of Glasgow Group; and to all situations where we propose to engage with the internal or external auditor for the provision of non-audit services.

Through the application of this policy, the Group wishes to avoid the following general categories of threats to independence, identified by the Financial Reporting Council:

- **Self-interest threat** – arises where the Auditor has a financial or other interest that might cause them to be reluctant to take actions that could be, or could be perceived to be, adverse to the interests of the audit firm or any individual in a position to influence the conduct and outcome of the audit;
- **Self-review threat** – arises when the Auditor is put in the position of reviewing its own work;
- **Management threat** – arises when partners or employees of the audit firm play any part in the management of, or take decisions on behalf of management of the Company;
- **Familiarity (or trust) threat** – arises when an audit firm or member of the audit

team is predisposed to accept, or insufficiently questioning of, the point of view of the Company;

- **Advocacy threat** – arises when the audit firm acts as advocate for the Company and supports the position taken by the management of the Company in an adversarial or promotional situation, creating an actual or perceived threat; and
- **Intimidation threat** – arises when the Auditor's conduct is influenced by fear or threats.

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) which apply to external auditors.

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.

In addition, the Ethical Standard requires an assessment of whether it is probable that an

objective, reasonable and informed third party would conclude independence is not compromised.

This policy also complies with the applicable internal audit standards, the Public Sector Internal Audit Standards (2017)(PSIAS).

The PSIAS sets out mandatory guidance which must be incorporated into the internal audit charter, approved annually by ARC. These include similar principles to the FRC:

- **Independence:** the internal auditor must be organisationally independent and report directly to the Board and senior management
- **Objectivity** – requires that their work is conducted in an unbiased manner

Where the internal auditor takes on roles beyond internal audit, they may only do so if safeguards are in place to mitigate any actual or perceived threat to the independence or objectivity of the auditor.

Approval

The approval of the Audit & Risk Committee (ARC) must be obtained before the external and internal auditor are engaged to provide any permitted non-audit services.

Sales of Services by the University Purchases of Services by the University Fees

Where an internal or external audit firm intend on approaching a department within the University to collaborate or partake in paid work, the audit firm must approach the Audit and Risk Committee to seek approval that no conflict of interest exists.

For the external auditor, this ensures the University aligns with the FRC's Revised Ethical Standard (2019);

2.26 Firms, covered persons and persons closely associated with them shall not enter into business relationships with any entity relevant to the engagement, or its management or its affiliates except where those relationships:

- *involve the purchase of goods or services from the firm or the entity in the ordinary course of business and on an arm's length basis and which are not material to either party; or*
- *would be inconsequential to either party in the view of an objective, reasonable and informed third party.*

For the internal auditor, this ensures the University complies with PSIAS 2017:

1100 The internal audit activity must be independent and internal auditors must be objective in performing their work...Threats must be managed at the individual auditor, engagement, functional and organisational levels.

This approval is required whether the work relates to Joint Business Relationships (JBRs) or contracts for remunerated services.

Where an internal or external audit firm have submitted a bid for non-audit services, the following procedures must be carried out on a case by case basis;

1. Procurement are required to notify Central Finance that either the Internal or External Audit firm are being looked at as the preferred bidder.
2. Procurement should include appropriate justification as to why the external / internal auditor are the most appropriate supplier.
3. Central Finance must seek approval from ARC prior to entering into any formal engagement with the external / internal auditor.
4. Following this, ARC must be notified once the contract has been signed.
5. All non-audit service must be reported to ARC at each meeting.

When reviewing requests for permitted non-audit services, ARC will assess:

- whether the provision of such services impairs the auditor's independence or objectivity and any safeguards in place to eliminate or reduce such threats;
- the nature of the non-audit services;
- whether the skills and experience make the auditor the most suitable supplier of the non-audit service;
- the fee to be incurred for non-audit services, both for individual non-audit services and in aggregate, relative to the Group audit fee;
- the criteria which govern the compensation of the individuals performing the audit; and
- in the case of the internal auditor, whether there is any conflict between the proposed services and the internal audit plan.

Any arrangement with the External auditor that includes **contingent fee arrangements is not permitted.**

In addition, the total fees for non-audit services provided by the External auditor to the Group shall be limited to no more than 70% of the average of the statutory audit fee for the Group paid to the auditor. This ratio should be met in the second year of appointment, if not the first.

Confirmation of independence

ARC will seek annually from the audit firm information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including those regarding the rotation of audit partners and staff.

Appointment of New Auditor

The appointment of a new external or internal auditor, will follow the University tender process as enhanced by the Non-Audit Services control process.

Where the University Group already engages in non-audit services with the auditor, a formal review is required and;

1. ARC must be notified of all such engagements (both purchases and sales) as part of the tender process
2. ARC must advise whether the University can continue to use the Firm in regard to each activity and whether engagement can continue for those particular services
3. For External audit, where the overall fee level of non-audit services exceeds the 70% cap of the total group audit fee, every effort should be made to minimise the ratio in year 1 and the ratio of 70% should be met by year 2.