

Audit and assurance: a guide to governance for providers and commissioners

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Contents

1. Introduction	2
2. Appointing and managing external audit contracts	4
3. External audit findings and reporting.....	13
4. Other assurance provided by external auditors	18
Annex 1: Prohibited non-audit services.....	20

1. Introduction

Purpose

NHS bodies (NHS trusts, NHS foundation trusts and clinical commissioning groups (CCGs)) must appoint an external auditor for their organisation. Appointing and working with external auditors requires compliance with legislation and demonstration of good governance. This guide sets out our expectations for good governance over audit and assurance and will help NHS bodies understand their responsibilities.

Terminology in this document

The term 'local auditor' is used by the Local Audit and Accountability Act 2014 ('2014 Act') to refer to the individual or firm appointed as external auditor of an NHS trust or CCG, and other bodies outside the scope of this document. The term in the 2014 Act does not extend to the external auditor at an NHS foundation trust. In this document for ease we therefore use the term 'external auditor' to mean the external auditor at an NHS trust, NHS foundation trust, or CCG. Where a specific requirement covered in this document does not apply to all organisations, we make it clear in the guide.

Applicability of this guidance

The NHS provider licence¹ requires NHS providers to have regard to guidance on governance issued by NHS Improvement. NHS providers are expected to comply with it and should disclose in their annual report if they do not, together with reasons for the divergence. CCGs should report any areas of non-compliance with this guidance in their annual report as governance weaknesses.

¹ While NHS trusts are exempt from the requirement to apply for and hold the licence, directions from the Secretary of State require NHS Improvement (NHS TDA) to ensure that NHS trusts comply with conditions equivalent to the licence as it deems appropriate. This includes giving directions to an NHS trust where necessary to ensure compliance. We aim to treat all providers in comparable circumstances similarly unless there is sound reason not to. We therefore base our oversight of all NHS trusts and NHS foundation trusts on the conditions of the NHS provider licence.

Principles set by this guidance

This guide both helps organisations understand their legal responsibilities and explains our expectations of good governance. The following list summarises the expectations placed on NHS bodies specifically by this guidance (going beyond legal requirements), based on regulations or good practice in the corporate sector or other public sector bodies:

Page	Applicable to	Area of guidance
6	NHS foundation trusts	Experience of NHS foundation trust auditor
9	All NHS bodies	Best practice for audit contract being 3-5 years period of appointment
10	All NHS bodies	The NHS body should change audit firm at least every 20 years
10	NHS foundation trusts	Audit committee reporting to council of governors on auditor performance
10	NHS foundation trusts	Expectation for how often an NHS foundation trust audit should be subject to market testing
11	NHS foundation trusts	Policy on non-audit services and annual role of council of governors
12	All NHS bodies	List of non-audit services that cannot be provided by the external auditor and a cap on non-audit fees
13	All NHS bodies	Section 3 sets expectations for how NHS bodies should respond to external auditors' findings

2. Appointing and managing external audit contracts

Appointment of external ('local') auditor: NHS trusts and CCGs

The 2014 Act requires NHS trusts and CCGs to have an auditor panel to advise on the selection, appointment and removal of external auditors and on maintaining an independent relationship with them. When the organisation appoints the external auditor, it must consult and take account of its auditor panel's advice.

The Department of Health and Social Care (DHSC) and the Healthcare Financial Management Association (HFMA) published guidance in 2015 on [the role and composition of auditor panels, and NHS trusts' and CCGs' duties](#).²

Section 7 of the 2014 Act requires that an NHS trust or CCG appoints an external auditor to audit its accounts by 31 December in the financial year preceding the one to which the audit relates.

Eligibility of auditors

The 2014 Act requires that an NHS trust's or CCG's external auditor is registered with a recognised supervisory body (RSB), is eligible for appointment under the rules of that body and meets the independence requirement in [paragraph 5 of schedule 5](#) to the 2014 Act. The Financial Reporting Council (FRC) has recognised the Institute of Chartered Accountants in England and Wales (ICAEW) and the Institute of Chartered Accountants of Scotland (ICAS) as RSBs for the purpose of local audit. This forms part of what is considered the local audit regime, in place for NHS trusts, CCGs and other bodies (but not NHS foundation trusts) under the 2014 Act.

This means the RSBs approve and register audit firms to undertake local audit work and approve individuals in those firms that both meet the statutory qualification requirements and are judged to have the appropriate level of competence to carry out local audits on behalf of the registered firm. The 2014 Act uses the term 'key

² www.gov.uk/government/publications/auditor-panels-for-nhs-trusts-and-clinical-groups

audit partner' (KAP) to mean an individual identified by the firm as being primarily responsible for the audit. Information on the ICAEW's oversight of registered local audit firms and KAPs is available on [the ICAEW website](#).

As part of authorising a KAP, the RSB requires them to demonstrate a certain level of experience of local audit or similar audit work.

Appointment of external auditor: NHS foundation trusts

Paragraph 23(2) of Schedule 7 to the National Health Service Act 2006 (NHS Act 2006) provides that it is for the council of governors to appoint or remove the external auditor at a general meeting of the council. Paragraph 23(6) provides that an NHS foundation trust must establish a committee of non-executive directors as an audit committee, to perform monitoring, reviewing and other functions as appropriate. Further guidance is set out in section C3 of the [NHS foundation trust Code of Governance](#).

The council of governors should take the lead in agreeing with the audit committee the criteria for appointing, re-appointing and removing external auditors. They should ensure they have the skills and knowledge to choose the right external auditor and monitor their performance. They should be supported in this task by the audit committee, which provides information to the governors on the external auditor's performance as well as overseeing the NHS foundation trust's internal financial reporting and internal auditing. The audit committee should make recommendations to the council of governors about the appointment, re-appointment and removal of the external auditor and approve the remuneration and terms of engagement of the external auditor. While the council of governors may be supported by the audit committee in running the process to appoint the external auditor, the council of governors must have ultimate oversight of the appointment process.

Eligibility of auditors

The relevant legislation³ states that the external auditor of an NHS foundation trust must be one of the following:

- eligible for appointment as a statutory auditor (the provisions of the Companies Act 2006 relating to the appointment of auditors would apply)

³ Paragraph 23 of Schedule 7 to the NHS Act 2006 as amended by the Local Audit and Accountability Act 2014

- eligible for appointment as a local auditor (ie the regime in place for NHS trusts and CCGs) or
- a member of a body of accountants approved by Monitor (part of NHS Improvement).⁴

In appointing the auditor, the council of governors should ensure that the audit firm and audit engagement leader have an established and demonstrable standing and are able to show a high level of experience and expertise. Often an auditor that is proposing to be appointed at an NHS foundation trust will also be a ‘local auditor’ under the regime that applies for NHS trusts and CCGs. As explained in the section above, the recognised supervisory bodies consider an engagement leader’s experience in awarding KAP status under the local audit regime. It would be reasonable for an NHS foundation trust’s council of governors to use an engagement leader’s KAP status as evidence of their suitability to undertake the audit at an NHS foundation trust.

KAP status is not a formal requirement to undertake an NHS foundation trust audit: the trust could perform other procedures to assure itself of the suitability and experience of the proposed appointment. But if the NHS foundation trust appoints an external auditor outside the local audit regime, the trust must ensure the auditor is eligible for appointment under the requirements of the Companies Act and has the necessary experience.

Additional guidance for an NHS foundation trust in its first period of operation after authorisation of predecessor NHS trust

When an NHS trust is authorised as an NHS foundation trust, the incumbent external auditor will continue to be appointed until the council of governors has had an opportunity to discuss the matter. An engagement letter must therefore be agreed between the NHS foundation trust and the incumbent auditor for that interim period so that there is not a period during which the NHS foundation trust has no auditor in place.

The council of governors must discuss at their first meeting after authorisation whether they wish to extend the appointment of the incumbent auditor or undertake a competitive tender exercise to appoint their auditor. When considering the time period for market testing of the audit (covered below), this must include the time that

⁴ Such a list has not been issued and there is no current intention to create one.

the auditor was appointed by the predecessor NHS trust as well as the length of the appointment by the council of governors of the NHS foundation trust. Further, the change of status of the NHS foundation trust and the different mechanism for appointing auditors does not override ethical standards in relation to rotation of individuals.

Procurement of external audit

A professional procurement process is important. There are procurement rules to adhere to, but the process also reflects on the organisation's credibility and its relationship with its external auditors. Some of the examples audit firms reported to us when NHS trusts and CCGs first appointed external auditors, suggested that audit chairs and senior finance team members were not always sufficiently involved in the procurement process to ensure a high-quality exercise.

DHSC issued guidance for NHS trusts and CCGs on the [procurement of external audit](#) in 2016.⁵ Its list of frameworks are now out of date: your local procurement team will be able to advise. NHS foundation trusts should note that the wider references to the 2014 Act (such as the role of the RSBs and auditor panels) do not apply to them but they may find Chapter 4 and Appendices A, B, C and E of the DHSC procurement guidance useful. Guidance on the equivalent matters for NHS foundation trusts is provided above.

In applying this guidance from DHSC, we add these notes on specific paragraphs:

- Paragraph 2 sets out the potential procurement routes, but please note that these are not necessarily in the order in which they should be considered. Framework agreements are in place through which it may be appropriate to appoint external auditors. NHS bodies should ensure that any given framework fits with the services being procured – ie external audit rather than consultancy services for example. Consideration should also be given to whether all potential suppliers are included on the proposed framework.
- Paragraph 4.17 implies that audit services will be provided based on agreed rates under the framework agreement. We believe in many cases this will not be the case. External audit services are not always allocated to individual

⁵ www.gov.uk/government/publications/procurement-of-external-auditors-for-nhs-trusts-and-ccgs

rates in this way, but if they are the 'rates' are likely to be lower than the maximum permissible rates under the framework agreement.

- Paragraph 4.18 onwards gives guidance on contract award without competition. NHS bodies must ensure proper procurement standards and internal standing financial instructions are followed. The Public Contract Regulations (2015) permit⁶ awards without a call for competition being made for contracts up to a total value of £25,000 (excluding VAT), and local standing financial instructions might expect appropriate competition to be invited at a lower spend level. Note that the Public Contract Regulations recognise that a 'direct award' based on a framework is a valid route for contract award, where this is permitted by the framework and the direct award procedure laid out in that framework is followed.

An award without competition may be considered in some circumstances above £25,000, for example where there is uncertainty over the medium-term future of the organisational form. NHS bodies should note this is generally contrary to the provisions of the Public Contract Regulations; [section 32 of the Regulations](#) sets out cases where this award without competition may be appropriate. Public contracts awarded without competition can be subject to legal challenge from suppliers not afforded a reasonable opportunity to bid, so bodies should exercise extreme care if they take this route and do at their own risk. Any appointments under this route should be time limited and, in most cases, no longer than 12 months long. Repeat direct awards below £25,000 to the same firm could also be challenged as intentional disaggregation of requirements to avoid the thresholds for competition. A suitable lawyer or public procurement professional should be consulted before awards in excess of £25,000 (excluding VAT) where competition is absent.

The ICAEW has also issued guidance to support local bodies (NHS trusts, CCGs and local authorities) in [tendering for external audit](#).⁷ NHS foundation trusts should again note the elements of the guidance (including that on the auditor panel) which

⁶ This is as applicable to NHS trusts, NHS foundation trusts and CCGs (but not all entities covered by the Public Contract Regulations)

⁷ www.icaew.com/about-icaew/regulation-and-the-public-interest/policy/public-sector-finances/tendering-for-local-audit

do not apply to them. Please also be advised that pre-qualification questionnaires as referenced in this document have since been replaced with selection questionnaires.

Based on feedback provided to us by audit firms, consider the following when conducting a procurement exercise for external audit.

- Ensure that the procurement exercise – and subsequent contracting – reflects the specific nature of external audit services. Audit firms report to us they often see generic services terms and conditions, or specifications that relate to internal audit rather than external audit.
- Ensure that an appropriate length of time is given for potential bidders to respond. If this is too short, it may reduce the number of bids received.
- Think about what information you are providing to potential bidders to enable them to make an informed bid – this will help both the procurement process and subsequent managing of the contract.
- Carefully consider the balance of weighting given to different considerations when scoring bids.

Managing the contract

The auditor must be able to carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors. At the same time, NHS bodies will need to operate suitable contract management. NHS providers and CCGs are reminded it is the organisation's responsibility to ensure that audited accounts are submitted by the deadlines set out by DHSC, NHS England and NHS Improvement. Achieving this will require the organisation to work with its external auditor, including holding the auditor to account for delivery. Organisations should consider whether the engagement letter in place with the auditor is adequate in these respects and clear enough on how any disputes, should they arise, would be resolved.

Rotation and re-appointment of auditors

NHS bodies should appoint an external auditor for a period of time that allows the auditor to develop a strong understanding of the finances, operations and forward plans of the organisation. The current best practice is for a three-to-five-year period of appointment.

For NHS trusts and CCGs

Section 7 of the 2014 Act⁸ states that if a body appoints an external ('local') auditor for more than one financial year, it must make a further appointment of a local auditor at least once every five years. This does not preclude re-appointment of the same external auditor.

The current requirement on public interest entities in the corporate sector is to change audit firm at least every twenty years. This should be mirrored by NHS bodies.

For NHS foundation trusts

The audit committee should periodically report to the council of governors on the performance of the external auditor, including details such as the quality and value of the work, the timeliness of reporting and fees. As a minimum this should be in advance of any retendering but may be more frequent at the foundation trust's discretion. Within the period of an external audit contract, an external auditor is automatically re-appointed each year unless either party terminates the agreement.

We recommend that the NHS foundation trust undertake a market-testing exercise for the appointment of an auditor at least once every five years. This does not preclude re-appointment of the same external auditor. The external audit must be subject to a tender process at least every ten years, and in most cases more frequently than this. This policy is based on a Competition and Markets Authority Order relating to companies issued in 2014.

The current requirement on public interest entities in the corporate sector is to change audit firm at least every twenty years. This should be mirrored by NHS bodies.

Non-audit services provided by the external auditor

In this section, 'non-audit services' means services provided by the external auditor outside those covered by the National Audit Office's Code of Audit Practice. The other assurance arrangements outlined in [Chapter 4](#) of this document therefore

⁸ www.legislation.gov.uk/ukpga/2014/2/section/7/enacted

count as non-audit services so should be covered in the policy that the organisation puts in place.

Amounts payable to the external auditor for non-audit services will be disclosed in the entity's annual report and accounts, and International Standards on Auditing require the auditor to report non-audit fees and other details about them to those charged with governance (ie the audit committee) each year. The audit committee should review and monitor the external auditor's independence and objectivity.

For NHS trusts and CCGs

The organisation must have a policy on the circumstances or manner in which it may or may not purchase non-audit services from its external auditor. [Regulations](#)⁹ state that the auditor panel must advise on the contents of the organisation's policy on the purchase of non-audit services from the external auditor and must approve the policy. The organisation's policy should also extend to non-audit services provided by the organisation's external auditor to any entities it controls, ie a subsidiary, regardless of whether the subsidiary has appointed the same external auditor as the parent organisation.

Additional requirements that relate to all bodies are covered separately below.

For NHS foundation trusts

The audit committee should develop and implement a policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance. The organisation's policy should also extend to non-audit services provided by the organisation's external auditor to any entities it controls, ie a subsidiary, regardless of whether the subsidiary has appointed the same external auditor as the parent organisation.

The council of governors should receive a report at least annually of non-audit services that have been approved for the auditors to provide under the policy (on the basis of services approved, regardless of whether they have started or finished) and the expected fee for each service.

Additional requirements that relate to all bodies are covered separately below.

⁹ These requirements are specified in regulation 4 of the Local Audit (Health Service Bodies Auditor Panel and Independence) Regulations 2015: www.legislation.gov.uk/uksi/2015/18/contents/made

For all NHS bodies: prohibited services and cap on non-audit fees

The FRC's [Ethical Standard](#)¹⁰ was revised in 2016 and places limitations on the non-audit services that can be provided by an entity's external auditor. These principles were reflected in expectations set by the National Audit Office (NAO) in an Auditor Guidance Note to accompany its [Code of Audit Practice](#)¹¹, to which auditors at NHS bodies must have regard. The requirements set by the NAO are also adopted by NHS England and NHS Improvement in setting our expectations for CCGs and NHS providers.

A list of services which **cannot be provided** to an organisation by its external auditor is contained in [Annex 1](#) of this document.

When the audit firm or a member of its network provides non-audit services to the audited body or its controlled undertakings, then the total fees for such services by the audit firm to the NHS body and its controlled entities in any one year should not exceed 70% of the total for that year of (i) the fee for all audit work carried out at the NHS body by the audit firm under the NAO's Code of Audit Practice and (ii) the fee for statutory audit services by the audit firm for the controlled entities.

However, the following services, which can be provided by the auditor, are excluded for the purposes of applying the 70% cap:

- a) audits or examinations of controlled entities, including charities, consolidated into the accounts of the NHS body
- b) services to DHSC, NHS England or NHS Improvement where such services are inconsequential to, and remote from, the decision-making of the local audited body
- c) other assurance (such as quality accounts and quality reports assurance detailed in [Chapter 4](#)) where such assurance is required by legislation or by a relevant national body or regulator to be performed by the external auditor and
- d) any other services required by the European Union or national legislation to be performed by the auditor.

¹⁰ www.frc.org.uk/auditors/audit-assurance/standards-and-guidance

¹¹ www.nao.org.uk/code-audit-practice/

3. External audit findings and reporting

Auditors' reporting powers

External auditors at NHS providers and CCGs have several reporting powers. These are summarised in [Auditor Guidance Note 07](#)¹² issued by the NAO to accompany its Code of Audit Practice. Mandatory outputs include report(s) to those charged with governance, the audit report containing the audit opinion (which for some bodies may take an extended form) and for some bodies an annual audit letter. Auditors' **additional** powers of reporting are summarised below:

Power	NHS trusts and CCGs	NHS foundation trusts	Description
Public interest report	✓	✓	External auditors must consider whether there are any matters they need to draw explicitly to the public's attention via a Public Interest Report, such as failure to manage a major project. There are additional requirements for the local body, including holding a public meeting to consider the report and publishing a formal response.
Statutory recommendation	✓		These formal recommendations have a similar purpose to Public Interest Reports, but they are addressed to the local body rather than the public.
Section 30 referral	✓		The 2014 Act requires external auditors to make a referral to the Secretary of State where the body is about to take a decision or enter into a transaction that the auditor believes would be unlawful, or where this has happened. Examples include a CCG exceeding the expenditure limit set by NHS England or an NHS trust failing to achieve the breakeven duty.
Schedule 10 referral		✓	In the case of NHS foundation trusts, external auditors make a referral to NHS Improvement where the trust is about to take a decision or enter into a transaction that the auditor believes would be unlawful, or where this has happened.

¹² www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/

Responding to findings

Context: Code of Audit Practice

This guidance has been prepared with reference to the NAO's Code of Audit Practice currently in force. The NAO is currently consulting on changes to its Code of Audit Practice to take effect from April 2020 and apply to audits of the financial year 2020/21 onwards. If these proposed changes are made, this guidance will be revised as necessary.

Use of resources arrangements conclusion and/or material uncertainty on going concern

External auditors are required to satisfy themselves that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is commonly referred to as the 'use of resources arrangements' conclusion or 'value for money arrangements' conclusion. Importantly the auditor is forming a judgement on the arrangements that are in place, not on whether the body has delivered value for money in itself. The auditor reports on this by exception in the audit report, alongside the audit opinion. More guidance to auditors is provided in the NAO's [Auditor Guidance Notes](#).¹²

If the auditor is not satisfied that the audited body has made proper arrangements, they will say so in their audit report. This can take several forms but here we will use the term 'qualified' to refer to all such modifications to the audit report.

A qualified use of resources arrangements conclusion is an important matter. Where qualified, the auditor's conclusion will often be accompanied by recommendations for improvement and it is important that the NHS body develops an action plan both to address underlying issues and where applicable implement the recommendations. Relevant actions should be combined with actions arising from other sources of assurance as appropriate, and the resulting plans should be scrutinised by the body's audit committee with management held to account for delivery.

While an NHS body will almost always be a going concern under the definition used in the public sector, local bodies are required to disclose if there are any material uncertainties around going concern, for example where the organisation is dependent on financing that has not yet been approved. Such a disclosure is likely

to be referenced in the audit report as a 'material uncertainty relating to going concern' to draw the reader's attention to the audited body's disclosure. Where this is the case, the NHS body should examine the circumstances giving rise to it and ensure that action plans are in place to address the underlying issues. These issues are often highly correlated with those arising from other areas, such as the auditor's use of resources conclusion and/or findings from inspectorates and national bodies.

Reports to those charged with governance

The external auditor is required by auditing standards to communicate with those charged with governance, ie the audit committee. This involves reporting on significant findings from the audit. The report may include findings that need to be addressed, for example in relation to the process to produce the accounts, errors identified, or significant duties in internal control (although auditors do not have a duty to identify all such weaknesses). It is important that the NHS body takes action to address any such recommendations, and the audit committee should scrutinise management's response and hold them to account.

Auditor's use of 'additional' reporting powers

Referral relating to breach of statutory breakeven or expenditure limit

An auditor will issue a 'Section 30' referral where an organisation is in breach of a statutory target. This may relate to an NHS trust not meeting its breakeven duty or a CCG spending beyond its expenditure limit. NHS bodies should assess whether the underlying issue(s) are consistent with other auditor reporting or other issues for which the body has an action plan. If the issues are different, the body should ensure it develops a plan to address the findings.

Other forms of 'additional' reporting

In this section we consider:

- a 'Section 30'/'Schedule 10' referral **for something other than a breach of statutory breakeven or expenditure target/limit**
- a public interest report or
- a statutory recommendation.

Reports like these from local auditors are rare and will require a specific response. Bodies should consider:

- Is the auditor making a retrospective report on something that has already happened, or raising concerns on an action the body is planning to take or is currently doing?
- Where does accountability rest in the organisation for the matter in question? We expect that an auditor report of this nature should be escalated to the board.
- Was the audit committee already aware of the full extent of the matter reported by the auditors? What view has it taken on the matter?
- What is the nature and cause of the issues reports by the auditor? For example, do they relate to control weaknesses or a concern over arrangements such as decision making, or both?
- Does the report require a public response? For NHS trusts and CCGs, a statutory recommendation issued under Schedule 7 of the 2014 Act does not require a public response, but such a response may still be appropriate.
- Does the organisation have the capacity, capability and necessary independence of perspective to investigate and identify necessary actions in response to the auditor's report?

An organisation that receives an audit report of this nature should bring it to the attention of its NHS England and NHS Improvement regional team as soon as it is issued.

Work of national bodies

All forms of external auditor findings and recommendations are important and require a response. When considering these matters, NHS England and NHS Improvement read the auditor's report to identify if the underlying issues are consistent with other sources of information, such as oversight work being undertaken by the national bodies and/or matters reported by the body in its governance statement. Where the auditor reporting comprises a qualified use of resources conclusion, material uncertainty for going concern, or referral relating to a breach of a statutory target, this consistency is almost always the case.

The response by national bodies to these findings will therefore focus on providing support to resolve the underlying issues giving rise to the auditor's reporting. Issues can often be complex and take time to resolve, with NHS England and NHS

Improvement's regional teams already working with the body and/or the wider health economy.

NHS England and NHS Improvement have oversight in place to help local bodies to improve. Our work can range from offering support, to taking formal action to achieve change. More information on this can be found in the [NHS Oversight Framework](#).

Where more exceptional auditor reporting applies, such as a Public Interest Report, again the national bodies will consider the information provided in the report as part of applying its broader oversight frameworks. In these cases it is likely the national bodies would require a specific response from the body on the matters being raised, but the precise nature of the national bodies' work would depend on the individual circumstances of the case.

Publication of results

NHS bodies are reminded that the auditor's report on the annual report and accounts and the annual audit letter, if applicable, must be made available to the public. More information on this is provided in the [DHSC Group Accounting Manual](#) and in [NHS Improvement's NHS foundation trust annual reporting manual](#).

4. Other assurance provided by external auditors

There are further areas where external auditors provide assurance to the audited body that fall outside the scope of the NAO's Code of Audit Practice. Examples of these are explained below.

NHS trusts: external assurance on quality accounts

DHSC requests that acute and mental health NHS trusts obtain external assurance on their quality account each year. More information is available at [on the NHS website](#).¹³

NHS Improvement recommends, but does not require, that NHS trusts may instead commission external assurance like the arrangements in place for NHS foundation trusts, explained below. This would require an NHS trust to disclose performance for indicators in its quality account which go beyond the requirements of the quality accounts regulations. More information on this is provided in the guidance on assurance for quality reports detailed below.

NHS foundation trusts: external assurance on quality reports

NHS foundation trusts are required to obtain external assurance on aspects of their quality report and include a limited assurance opinion in the quality report in the annual report. This is under Monitor's power to determine the form of NHS foundation trusts' annual reports. The external assurance should be provided by the NHS foundation trust's external auditor: this policy was determined following a consultation in 2016.

Further information is provided each year on the [quality reports page of the NHS Improvement website](#).¹⁴

¹³ www.nhs.uk/quality-accounts/

¹⁴ <https://improvement.nhs.uk/resources/nhs-foundation-trust-quality-reports-requirements/>

CCGs: Mental Health Investment Standard

All CCGs are required to obtain assurance on the Mental Health Investment Standard compliance statement. The statement is on whether the CCG has met the obligation to increase investment in mental health for the financial year by a greater percentage than their overall published programme allocation.

Each CCG's governing body will agree a separate engagement with an appropriately qualified reporting accountant.

Further information can be found [on the shared planning page of the NHS England website](#).¹⁵

¹⁵ www.england.nhs.uk/operational-planning-and-contracting/

Annex 1: Prohibited non-audit services

This annex sets out our expectations of local NHS bodies. It is designed to replicate the guidance issued to auditors through Auditor Guidance Note (AGN) 01¹⁶ (version dated 21 December 2017) by the NAO to accompany its Code of Audit Practice.

The following services **cannot be provided** by the organisation's current or proposed external auditor:

- a) tax services relating to
 - i) preparation of tax forms
 - ii) payroll tax
 - iii) customs duties
 - iv) identification of public subsidies and tax incentives unless support from the auditor in respect of such services is required by law
 - v) support regarding tax inspections by tax authorities unless support from the auditor in respect of such inspections is required by law
 - vi) calculation of direct and indirect tax and deferred tax or
 - vii) provision of tax advice
- b) services that involve playing any part in the management or decision making of the audited body
- c) bookkeeping and preparing accounting records and financial statements
- d) payroll services
- e) designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems
- f) valuation services, including valuations performed in connection with actuarial services or litigation support services
- g) legal services, with respect to
 - i) the provision of general counsel
 - ii) negotiating on behalf of the audited body or
 - iii) acting in an advocacy role in the resolution of litigation

¹⁶ www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/

- h) services relating to the audited body's internal audit function
- i) services linked to the financing, capital structure and allocation, and investment strategy of the audited body, except providing assurance services in relation to the financial statements, such as the issuing of comfort letters in connection with prospectuses issued by the audited body
- j) promoting, dealing in, or underwriting shares in an entity controlled by the audited body
- k) human resources services, with respect to
 - i) management in a position to exert significant influence over the preparation of the accounting records or financial statements which are the subject of the statutory audit where such services involve searching for or seeking out candidates for such positions or undertaking reference checks for such positions
 - ii) structuring the organisation design and
 - iii) cost control.

However, the services referred to in points (a)(i), (a)(iv) to (a)(vii) and (f), may be provided (but would be included for the purposes of applying the 70% cap) if the following requirements are complied with:

- a) they have an inconsequential effect, separately or in aggregate, on the financial statements or on the organisation's arrangements to secure value for money
- b) the estimation of the effect on the financial statements, or on the organisation's arrangements to secure value for money, is comprehensively documented and explained to those charged with governance
- c) the principles of independence laid down in section 1 of the FRC's Ethical Standard are complied with and
- d) for the purposes of giving an opinion on the financial statements and/or, where appropriate, reaching a conclusion on arrangements to secure value for money, the auditor would not place significant reliance on the work performed in carrying out these services.

Where there are doubts about whether a service would have an inconsequential effect on the financial statements or arrangements to secure value for money in the view of an objective, reasonable and informed third party, then the effect is not regarded as inconsequential.

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