



# Specimen non-audit services policy

**Audit Committee Institute** part of the KPMG Board Leadership Centre



## Introduction

[Note: This is a specimen policy for a UK Public Interest Entity (PIE) and its controlled undertakings.]

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

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 – namely services which:

- create conflicts of interest between the external audit firm and the Group;
- result in the external audit firm functioning in the role of management;
- result in a fee which is material relative to the audit fee;
- result in a fee that drives the performance evaluation or remuneration of the individuals performing the audit;
- place the external audit firm in the position of auditing its own work; or
- place the external audit firm in the position of being an advocate for the Group.

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.

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.

## Approval

The approval of the Group Audit Committee must be obtained before the external auditor is engaged to provide any permitted non-audit services.

Permitted non-audit services are those listed in **Appendix 1**. For the avoidance of doubt, where such services are provided, they shall not include any elements of those those services subject to outright prohibition in Regulation 80 of The Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019 (SI 2019/177) – see **Appendix 2**.

For permitted non-audit services that are clearly trivial,\* the audit committee has pre approved the use of the external auditor subject to the following limits.

Value of service requested	Approval required prior to engagement of the external auditor
Up to £25,000	Group Financial Controller and Treasurer or Head of Group Reporting
£25,001 to £50,000	Chair of the Group Audit Committee (or delegate)
£50,001 and above	Group Audit Committee

For permitted non-audit services, business units must implement procedures to identify where there is a proposal to engage the external auditors and ensure the correct approval process is followed prior entering into any formal engagement with the external auditor.

Business units should ensure the appropriate justification is provided that the external auditors are the most appropriate supplier.

Business units must put in place communication plans to ensure all non-audit services purchased from the external auditor are reported to both the Chief Financial Officer and the Audit Committee.

Business units must put in place procedures and communication plans to ensure that only permitted services (see below) are purchased from the external auditor.

\*This could be either the full list of permitted services or a specified sub-set of that list.

When reviewing requests for permitted non-audit services, the audit committee 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; and
- the criteria which govern the compensation of the individuals performing the audit.

## **Fees**

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

In addition, the total fees for non-audit services provided by the auditor to the Group shall be limited to no more than 70% of the average of the statutory audit fee for the Company, of its controlled undertakings and of the consolidated financial statements paid to the auditor in the last three consecutive financial years.

## **Confirmation of independence**

The audit committee should 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.

## Appendix 1

### Permitted Non-audit/Additional Services for Public Interest Entities.

#### Services required by law or regulation and exempt from the non-audit services cap

- Reporting required by a competent authority or regulator under law or regulation for example:
  - Reporting to a regulator on client assets.
  - In relation to entities regulated under the Financial Services and Markets Act 2000 (FSMA), reports under s166 and s340 of FSMA.
  - Reporting to a regulator on regulatory financial statements.
  - Reporting on a Solvency and Financial Condition Report under Solvency II.
- In the case of a controlled undertaking incorporated and based in a third country, reporting required by law or regulation in that jurisdiction where the auditor is permitted to undertake that engagement.
- Reporting on internal financial controls when required by law or regulation.
- Reporting on the iXBRL tagging of financial statements in accordance with the European Single Electronic Format for annual financial reports.
- Reports, required by or supplied to competent authorities/regulators supervising the audited entity, where the authority/regulator has either specified the auditor to provide the service or identified to the entity that the auditor would be an appropriate choice for service provider.
- Services which support the entity in fulfilling an obligation required by UK law or regulation, including listing requirements where: the provision of such services is time critical; the subject matter of the engagement is price sensitive; and an it is probable that an objective, reasonable and informed third party would conclude that the understanding of the entity obtained by the auditor for the audit of the financial statements is relevant to the service, and where the nature of the service would not compromise independence.

#### Services subject to the non-audit services cap

- Reviews of interim financial information; and providing verification of interim profits not otherwise required by law or regulation.
- Where not otherwise required by law or regulation, non-audit and additional services, as defined in the FRC Ethical Standard provided as auditor of the entity, or as reporting accountant, in relation to information of the audited entity for which it is probable that an objective, reasonable and informed third party would conclude that the understanding of the entity obtained by the auditor is relevant to the service, and where the nature of the service would not compromise independence.
- Extended audit or assurance work that is authorised by those charged with governance performed on financial or performance information and/or financial or operational controls, in an entity relevant to an engagement or a third-party service provider, where this work is closely linked with the audit work.
- Additional assurance work or agreed upon procedures, authorised by those charged with governance performed on material included within or referenced from the annual report of an entity relevant to an engagement.
- Reporting on government grants.
- Reporting on covenant or loan agreements, which require independent verification, and other reporting to third parties with whom the entity relevant to an engagement has a business relationship in accordance with Appendix C of the FRC Ethical Standard.
- Services which have been the subject of an application to the Competent Authority in accordance with Regulation 79 of The Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019 (SI 2019/177).
- Generic subscriptions providing factual updates of changes to applicable law, regulation or accounting and auditing standards.

## Appendix 2

### Services subject to outright prohibition in Regulation 80 of The Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019 (SI 2019/177)

- Tax services relating to:
  - preparation of tax forms.
  - payroll tax.
  - customs duties.
  - identification of public subsidies and tax incentives unless support from the audit firm in respect of such services is required by law.
  - support regarding tax inspections by tax authorities unless support from the statutory auditor or audit firm in respect of such inspections is required by law.
  - calculation of direct and indirect tax and deferred tax.
  - provision of tax advice.
- Services that involve playing a part in the management or decision-making of the audited entity.
- Bookkeeping and preparing accounting records and financial statements.
- Payroll services.
- 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.
- Valuation services, including valuations performed in connection with actuarial services or litigation support services.
- Legal services, with respect to:
  - the provision of general counsel;
  - negotiating on behalf of the audit entity;
  - acting in an advocacy role in the resolution of litigation
- Services related to the audit entity's internal audit function.
- Services linked to the financing, capital structure and allocation, and investment strategy of the audited entity, 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 entity.
- Promoting, dealing in, or underwriting shares in the audited entity.
- Human resources services with respect to:
  - 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:
    - a) searching for or seeking out candidates for such positions; or
    - b) undertaking reference checks of candidates for such positions.
  - Structuring the organisation design
  - Cost control.

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