



# Specimen non-audit services policy

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

## Introduction

[Note: This is a specimen policy for a EU 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 (2016). 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.

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 prohibited services (see above) are not purchased from the external auditor.

When reviewing requests for non-audit services that are not in the 'prohibited non-audit services' list (see below), 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.

## Permitted audit and audit related services

- Statutory audit of the Group's consolidated financial statements.
- Statutory audits of the financial statements of subsidiary companies.
- Review of the group's half-year report and interim financial statements.
- Reporting required by law or regulation to be performed by the auditor.
- Reporting on internal financial controls where required by law or regulation.
- Reports on regulatory returns, including those required by [...].
- Reports on government grants.

Audit related services (which are the services listed above other than the audit of the financial statements of the Group, parent company and subsidiaries), are still considered non-audit services and are subject to the approval requirements set out in this policy. Where these services are not approved by the audit committee as part of the review of the external audit plan, they will need to be specifically approved by the audit committee in line with this policy (see above). In addition, other non-audit services may be engaged where:

- they are closely related to the work performed in the external audit process and are largely carried out by members of the audit team; or
- for reasons of effectiveness or efficiency, it is advantageous to use the external auditors because of their knowledge and expertise.

## Permitted other non-audit services

- Due diligence related to mergers and acquisitions.
- Accounting consultations and audits in connection with acquisitions and disposals of businesses or in relation to proposed transactions.
- Investment circular reporting accountant engagements, including comfort letters and consents in relation to documents issued in connection with securities offerings.
- Employee benefit plan audits.
- Attestation in relation to matters not required by statute or law (e.g. controls reports).
- Consultations concerning financial accounting and reporting standards not relating to the audit of the group, parent or subsidiary undertakings.
- Other reports required by regulators or assurance services relating to regulatory developments.
- Sustainability audits.
- IT security audits (where this does not extend to designing and implementing internal control or risk management procedures).
- [Other non-audit services not prohibited by the Ethical Standard].

## Prohibited non-audit services

The following non-audit services cannot be provided by the external auditor.

- a) Tax services relating to:
  - i. preparation of tax forms<sup>(a)</sup>.
  - ii. payroll tax.
  - iii. customs duties.
  - iv. identification of public subsidies and tax incentives unless support from the audit firm in respect of such services is required by law<sup>(a)</sup>.
  - v. 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<sup>(a)</sup>.
  - vi. calculation of direct and indirect tax and deferred tax<sup>(a)</sup>.
  - vii. provision of tax advice<sup>(a)</sup>.
- b) Services that involve playing a part in the management or decision-making of the audited entity.
- 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<sup>(b)</sup>.
- f) Valuation services, including valuations performed in connection with actuarial services or litigation support services<sup>(a)</sup>.
- g) Legal services, with respect to:
  - i. the provision of general counsel
  - ii. negotiating on behalf of the audit entity
  - iii. acting in an advocacy role in the resolution of litigation;
- h) Services related to the audit entity's internal audit function.
- i) 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.
- j) Promoting, dealing in, or underwriting shares in the audited entity.
- 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:
    - a) searching for or seeking out candidates for such positions; or
    - b) undertaking reference checks of candidates for such positions.
  - ii. Structuring the organisation design
  - iii. Cost control.

The services marked '(b)' are prohibited in the financial year prior to the year subject to audit (the 'cooling in' period).

The services marked '(a)' are permitted where approved by the audit committee and where:

- they have no direct or, in the view of an objective, reasonable and informed third party, would have an inconsequential effect, separately or in aggregate, on the audited financial statements;
- the estimation of the effect on the financial statements is comprehensively documented and explained in a report to the audit committee (including consideration of the principles of independence set out in the Ethical Standard); and;
- for the purposes of the statutory audit of the financial statements the audit firm would not place significant reliance on the work performed by the audit firm in performing these services.

In considering whether or non-audit services have a direct or not inconsequential effect on the financial statements the audit committee will have regard to the level of uncorrected misstatement that is not reported to the audit committee by the external auditors (currently £[...] million) and whether the potential impact on the financial statements would influence the economic decisions that users make on the basis of the financial statements. The estimation of the effect on the audited financial statements will be assessed on a prudent basis taking account of the relevant circumstances.

## Fees

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

Also, the total fees for non-audit services provided to the company and its controlled undertakings (by the audit firm and its entire network) shall be limited to no more than 70% of the average of the fees paid (to the audit firm and its entire network) in the last three consecutive financial years for the audit of the company and of its controlled undertakings and of the consolidated financial statements of that group of undertakings;

In addition, the total fees for non-audit services provided by the audit firm shall be limited to no more than 70% of the average of the fees paid to the audit firm in the last three consecutive financial years for the audit of the company, its parent undertaking, its controlled undertakings and the consolidated financial statements of that group.

## 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.

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## Contact us



**Timothy Copnell**

Audit Committee Institute

T: +44 (0)20 7694 8082

E: [tim.copnell@kpmg.co.uk](mailto:tim.copnell@kpmg.co.uk)

[kpmg.co.uk/aci](https://kpmg.co.uk/aci)

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