



Policy for Engagement of External Auditors for Non- Audit Work

Introduction and purpose of this policy

It is important that the independence of our external auditors in reporting to members and Northampton Borough Council (the Council) does not appear to be compromised but equally that the Council should not be deprived of expertise where it is needed and can be leveraged from KPMG as a whole. This policy therefore seeks to set out what threats to audit independence theoretically exist and thus provides a definition of non-audit work which can be shared by the Council and KPMG. It then seeks to establish the approval processes and corporate reporting mechanisms that will be put in place for any non-audit work that KPMG is asked to perform.

Threats to independence

The Institute of Chartered Accountants in England and Wales sets out threats to independence as:

self interest	where an interest in the outcome of their work or in a depth of relationship with the Council may conflict with the auditors' objectivity
Self-audit	where the auditors may be checking their own colleagues work and might feel constrained from identifying risks and shortcomings
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 Council	where the level of constructive challenge provided by the auditor is diminished as a result of assumed knowledge or relationships that exist

Defining types of non-audit work and the associated approval process

In order to provide the Council a transparent mechanism by which non-audit work can be reviewed and progressed without too great an administrative burden falling on the Council, the following three categories of work have been agreed as applying to the professional services available from KPMG:

1. Statutory and audit related work not requiring Audit Committee approval

There are certain projects where the work is clearly audit related and the external auditors are best placed to do the work (e.g. providing a certificate on grant claims outside of the Audit Commission regime). It is proposed that such assignments do not require Council or Audit Committee approval. However, recognising that the level of non-audit fees may also be a threat to independence, a limit of £20,000 [to be decided by the Audit Committee] is set, above which prior Audit Committee approval should be sought for such work.

2. Audit related and advisory services requiring prior audit 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);
- Due to their previous experience or market leadership.

It is proposed that prior Audit Committee approval is sought for projects of this nature.

3. *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 they are auditing their own work (for example, systems implementation). The Audit Committee is responsible for approving all non-audit work undertaken by the external auditors and reporting any instances to the Council. These proposed categories of non-audit work along with the related approval levels are set out below. More detail on each type of work is set out in Appendix A.

For the avoidance of doubt, seeking approval from the Audit Committee involves the business sponsor of the proposed work obtaining a proposed scope and fee estimate from KPMG before the work commences. If the fee exceeds the proposed limits or falls into a category of work that requires approval, details of the scope and fee proposal should be submitted to the Audit Committee Chairman and Director of Finance. If approved, the project should be logged by the Audit Committee secretary to be raised at the next Audit Committee meeting and the Council Secretary informed in order that a schedule of non-audit fees can be maintained and Council of Governors updated.

In cases where it is undecided which category services fall into they will default to the category that requires Audit Committee approval and be expected to take that route until such as time as this policy is reviewed and updated by the Audit Committee.

Reviewing and updating this policy

KPMG will include within our annual ISA 260 (report to those charged with governance) an appendix that summarises any additional work that they have performed for the Council and a review of the effectiveness of this policy.

The Audit Committee will formally agree on an annual basis that it is content with the structure, content and operation of this policy.

Appendix A: Examples of work types

The table below sets out examples of the different work types that could be requested from KPMG. As it would not be practical to consider all the services provided by KPMG we have documented the characteristics that drive the classification of services into the different work streams. This table is intended to provide illustrative examples of how the implementation of this policy would be approached should the Council request assistance from KPMG.

	Statutory and audit related (Not requiring audit committee approval, unless in excess of £20k)	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 statements 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 price adjustment as a result of completion accounts Advice on integration activities Preparation of forecast of investment proposals 	
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
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 	<ul style="list-style-type: none"> Preparation of accounting entries for tax Handling taxation payments

		<ul style="list-style-type: none"> Valuation for the purposes of taxation 	
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 Booking keeping services 	<ul style="list-style-type: none"> Preparation of accounting entries Preparation of financial information