



Leicester  
City Council

WARDS AFFECTED  
All

## FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:

Audit & Risk Committee

25 July 2018

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### Annual Approval of the Policy for Engagement of the External Auditor for Non-Audit Work

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#### Report of the Director of Finance

##### 1. Purpose of Report

- 1.1. To seek the Audit and Risk Committee's approval of the *Policy for Engagement of External Auditors for Non-Audit Work*.

##### 2. Recommendations

- 2.1. The Committee is recommended to approve the attached *Policy for Engagement of External Auditors for Non-Audit Work*.

##### 3. Summary

- 3.1. At its meeting, on 28 June 2017, the Audit and Risk Committee approved the *Policy for Engagement of External Auditors for Non-Audit Work*.
- 3.2. The Audit and Risk Committee's Terms of Reference (and this policy itself) require this policy to be reviewed and approved annually.

##### 4. Report

- 4.1 The policy for Engagement of External Auditors for Non-Audit Work is attached at **Appendix 1**. The purpose of this is to protect the:
  - Council's interests by ensuring that any such work is properly arranged and approved
  - External Auditor's independence and objectivity.
- 4.2 This policy does not replace the Council's existing Procurement processes, but adds an extra layer of security into that process where the external auditors are concerned. The Policy outlines the approval processes and corporate reporting mechanisms that will be put in place for any non-audit work that the external auditor is asked to perform.

- 4.3 The role of the Committee in the approval process for non-audit work by the external auditor is included in the Terms of Reference for the Committee. These are also reviewed and approved annually.
- 4.4 The policy has been reviewed and no substantive changes are proposed.
- 4.5 The Committee is advised that no work was undertaken by KPMG in the past Financial Year (2017-18) that was not directly linked to their audit. However for clarity, it should be noted that KPMG undertakes audit related services for which an additional fee is levied, such as auditing / certifying the pooling of housing capital receipts return, the Housing Benefit Grant Claim and the Teachers' Pensions Agency return. Similar services will be undertaken for the 2018/19 accounts by the incoming external auditor, Grant Thornton.

**5. FINANCIAL, LEGAL AND OTHER IMPLICATIONS**

**5.1. Financial Implications**

There are no significant financial implications arising directly from this report – Colin Sharpe, Head of Finance, ext. 37 4081.

**5.2. Legal Implications**

The external auditor's responsibilities and powers are set out in the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice. The Council's requirements for preparing and publishing its financial statements and annual governance statement, which are subject to external audit, are set out in the Accounts and Audit Regulations 2015. - Emma Horton, Head of Law (Commercial, Property & Planning), ext .37 1426

**6. Other Implications**

Other Implications	Yes/No	Paragraph or references within the report
Equal Opportunities	No	
Climate Change	No	
Policy	No	
Sustainable and Environmental	No	
Crime and Disorder	No	
Human Rights Act	No	
Elderly/People on Low Income	No	
Corporate Parenting	No	
Health Inequalities Impact	No	

Other Implications	Yes/No	Paragraph or references within the report
Risk Management	Yes	The report concerns the Council's governance and assurance processes, a purpose of which is to give assurance that risks are being managed appropriately by the business.

**7. Report Author**

Colin Sharpe, Head of Finance, x37 4081

## Policy for Engagement of External Auditors for Non-audit Work

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### 1. Introduction and purpose of this policy

It is important that the independence of our external auditor in reporting to those charged with governance and to management of Leicester City Council (the Council), does not appear to be compromised, but equally the Council should not be deprived of expertise where it is needed and can be leveraged from the auditor 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 the auditor. It then seeks to establish the approval processes and corporate reporting mechanisms that will be put in place for any non-audit work that the auditor is asked to perform.

### 2. 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	May be present in an engagement but could become a threat if an auditor becomes an advocate for an extreme position in an adversarial matter
Familiarity	Where the level of constructive challenge provided by the auditor is diminished as a result of assumed knowledge or relationships that exist

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

In order to provide the Council with 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 the auditor:

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**Policy for Engagement of External Auditors for Non-audit Work**

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**3.1. *Statutory and audit related work not requiring Audit and Risk Committee approval***

Certain projects are clearly audit related and the external auditor is best placed to do the work, e.g. for grant certification work.

It is proposed that such assignments do not necessarily require Audit and Risk Committee approval. However, recognising that the level of non-audit fees may also be a threat to independence, a limit on individual fees of £20,000 is set, above which prior Audit and Risk Committee approval should be sought for such work.

The Housing Benefits Grant Claim and Teachers' Pensions audits are expected to be undertaken as an additional task by the external auditor as a matter of course, and hence will not require separate approval.

**3.2 *Audit related and advisory services requiring prior Audit and Risk 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 and Risk Committee approval is sought for projects of this nature, with no de-minimis.

**3.3 *Projects that are not permitted***

Some projects 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 of auditing their own work (for example, systems implementation).

More detail on each type of work is set out in Appendix A.

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**Policy for Engagement of External Auditors for Non-audit Work**

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The Audit and Risk Committee is responsible for approving any instances of non-audit work by the external auditors in accordance with this policy and to report any such instances to the Council.

For the avoidance of doubt, seeking approval from the Audit and Risk Committee involves the business sponsor of the proposed work obtaining a proposed scope and fee estimate from the auditor 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 Director of Finance and then to the Audit and Risk Committee Chair. If approved, the project should be logged by Democratic Services to be noted at the next Audit and Risk Committee meeting in order that a schedule of non-audit fees can be maintained and Council updated.

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

**4. Reviewing and updating this policy**

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

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

## Examples of Work Types

The table below sets out examples of the different work types that could be requested from the external auditor. As it would not be practical to consider all the services, the table below documents 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 the auditor.

	Statutory and audit related (Not requiring Audit and Risk Committee approval, unless fee is in excess of £20,000)	Audit and assurance related and non-audit advisory services (Sensitive projects requiring referral without de minimis)	Projects that are not permitted
<b>Characteristics</b>	<ul style="list-style-type: none"> <li>Advice on areas core to the financial statements audit</li> </ul>	<ul style="list-style-type: none"> <li>Requiring independent objective assessment of information or procedures</li> <li>Staff secondments</li> <li>Other advisory services</li> </ul>	<ul style="list-style-type: none"> <li>Participation in management</li> </ul>
<b>Acquisitions / Disposals</b>	<ul style="list-style-type: none"> <li>Accountants' reports</li> <li>Reporting on financial assistance</li> <li>Audit of carve out financial statements</li> </ul>	<ul style="list-style-type: none"> <li>Due diligence and related advice</li> <li>Completion accounts audit</li> <li>Agreement of price adjustment as a result of completion accounts</li> <li>Advice on integration activities</li> <li>Preparation of forecast of investment proposals</li> </ul>	
<b>Internal Audit and Risk Management Services</b>	<ul style="list-style-type: none"> <li>None</li> </ul>	<ul style="list-style-type: none"> <li>Provision of specialist skills / training</li> <li>Advice on methodology and systems</li> <li>Co-sourcing</li> <li>Advice and design of policies, systems or procedures.</li> </ul>	<ul style="list-style-type: none"> <li>Full outsourcing</li> <li>Systems implementation</li> </ul>
<b>Taxation</b>	<ul style="list-style-type: none"> <li>None</li> </ul>	<ul style="list-style-type: none"> <li>Preparation of draft returns</li> <li>Submission of returns and correspondence with tax authorities</li> <li>Advice on tax matters</li> <li>Transfer pricing</li> <li>Valuation for the purposes of taxation</li> </ul>	<ul style="list-style-type: none"> <li>Preparation of accounting entries for tax</li> <li>Handling taxation payments</li> </ul>

**Examples of Work Types**

	<b>Statutory and audit related (Not requiring Audit and Risk Committee approval, unless fee is in excess of £20,000)</b>	<b>Audit and assurance related and non-audit advisory services (Sensitive projects requiring referral without de minimis)</b>	<b>Projects that are not permitted</b>
<b>General Accounting</b>	<ul style="list-style-type: none"><li>• None</li></ul>	<ul style="list-style-type: none"><li>• Advice on accounts preparation and application of accounting standards</li><li>• Training for accounting and risk management projects</li><li>• Booking keeping services</li></ul>	<ul style="list-style-type: none"><li>• Preparation of accounting entries</li><li>• Preparation of financial information</li></ul>