

Auditor non-audit fee policy

Authorization policy for the provision of audit and non-audit services and their associated fees

Non-audit fee policy

Introduction

Over the years, the Group's external auditor has been contracted to carry out or support a number of projects for the Group. It is important that the independent role of external auditors in reporting to shareholders is not compromised. Equally, however, the Group should not be deprived of expertise where it is needed. The Group's policy on audit independence is currently disclosed in the annual report as follows:

"Auditor's independence

The Company also operates a rigorous policy designed to ensure that the auditor's independence. Is not compromised by their under-taking inappropriate non-audit work. The Audit Committee's approval is therefore required for any fees for non-audit work paid to the auditors in excess of £10,000 (ten thousand pounds) in any financial year. However, the Company recognizes that it can receive particular benefit from certain non-audit services provided by the external auditors due to their technical skills and detailed understanding of the Company's business.

All significant pieces of non-audit work are put to informal tender to suitable parties, this includes if appropriate the auditors. Upon review as to suitability and price the work will then be placed to the provider recommended after approval by the Audit Committee, if such approval is necessary, in accordance with the rules set out above."

Potential threats to the independence of auditors are set out by the Institute of Chartered Accountants in England and Wales as follows:

- self interest, where an interest in the outcome of their work, or in a depth of relationship with the Group, might conflict with their objectivity;
- self review, where the auditors may be checking their own colleagues' work (constraining them from identifying risks or shortcomings);
- advocacy, which is present in many engagements but becomes a threat if the auditor becomes an advocate for an extreme position;
- over-familiarity or intimidation.

This policy discusses the impact on auditor independence of the use of external auditors for non-audit assignments. It also recommends the type of work that can be performed by external auditors and procedures for assigning such work.

Types of non-audit work and procedure for approval

The Audit Committee is responsible for approving non-audit work. The proposed categories of non-audit work along with the related approval level are set out below. More detail on each type of work is set out in the Appendix.

(a) Statutory and audit related

There are certain projects where the external auditors are best placed to perform the work as it is clearly audit related (eg regulatory work and acting as reporting accountants to banks). It is proposed that such assignments do not require Audit Committee approval by their nature. However, recognising that the level of non-audit fees may also be a threat to independence, Audit Committee approval is required for engagements of **£20k and above**.

Non-audit fee policy

(b) Audit and assurance related

There are a significant number of projects and engagements where the external auditors are best placed to perform the work due to their existing network and knowledge of the NCC business (e.g. due diligence and advice on accounting). Audit Committee approval is required for engagements of **£10k and above**.

(c) Non-audit advisory services

There may also be other assignments not included in the categories above, where the external auditors are in a position to provide the best service to the Group due to their previous experience or unique expertise (e.g. advice on Executive Remuneration, recruitment services in overseas territories). Audit Committee approval is required for engagements of **£10k and above**. With all such work management should fully understand the advice they receive to provide an additional safeguard.

(d) 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. For example, if they could lead to the external auditors being in a position of auditing their own work such as performing valuation services on properties or other assets. Contingent fee arrangements are not permitted for the Auditors.

Gaining Audit Committee Approval

To seek approval from the Audit Committee, the project sponsor should obtain a proposed scope and fee estimate from the auditors **before** work commences (this may involve a competitive tender process which would be complex for a large piece of work and more simple for a smaller piece of work). If the fee estimate exceeds the relevant limit set out in this policy, details of the scope and fee proposal should be submitted to the Audit Committee Chairman via the Chief Financial Officer.

From a practical perspective, it may not be possible to convene an Audit Committee meeting each time a project involving the external auditors requires approval. Accordingly, the Audit Committee Chairman and Chief Financial Officer should use their own discretion as to the level of consultation required with the rest of the Audit Committee and the Board.

Once approved, the project should be logged by the Company Secretary to be raised at the next Audit Committee meeting and the Group Financial Controller informed in order to track fees. If the fees for the project are likely to significantly exceed the original estimates further approval should be sought in the manner noted above.

Non-audit fee policy

Appendix - examples of the application of Group policy to different potential engagements

	Statutory and audit related	Other assurance related	Non-audit services advisory	Not permitted
Category of work	Requiring audit committee approval subject to £20k limit	Requiring audit committee approval subject to £10k limit	Requiring audit committee approval subject to £10k limit	Not permitted
Characterised by	Advice on areas core to the financial statements and audit.	Engagements requiring an independent, objective assessment of information or procedures. Staff secondments.	Other advisory services.	Participation in management, joint ventures or other financial arrangements.
External reports	Reporting accountants' reports and comfort letters in connection with shareholder circulars, listing particulars or bond issues.	N/A	N/A	N/A
Acquisitions	Accountants' reports. Reporting on financial assistance.	Due diligence and related advice. Review of completion accounts. Review of price adjustments and associated completion accounts.	Lead broker/dealer services. Advice on post deal integration. Preparation of forecasts or investment proposals.	Valuation services
Disposals	Audit of stand alone or carve-out financial statements.	Vendor due diligence.	Advice on negotiations and sales memoranda. Preparation of sale memorandum. Lead broker/dealer services.	Valuation services

Non-audit fee policy

	Statutory and audit related	Other assurance related	Non-audit services	advisory	Not permitted
Taxation	N/A	N/A	N/A		The Group's preferred operating model is not to use the External Auditors for any tax work other than advice in relation to disclosures in the Annual Report and Accounts.
General accounting	N/A	<p>Advice on preparation of NCC financial information and application of GAAP.</p> <p>Training support for accounting and risk management projects.</p> <p>Preparation of local statutory accounts which do not form the basis for Group reporting.</p>	<p>Advice on bookkeeping services</p> <p>Advice on processing payrolls.</p>		<p>Preparation of accounting entries.</p> <p>Preparation of financial information.</p>
Support to Internal Audit	N/A	<p>Provision of specialist skills.</p> <p>Training support.</p>	<p>Advice on methodology and systems.</p> <p>Co-sourcing.</p>		Full outsourcing.
Risk management services	N/A	IT and other controls reviews.	Advice on design and implementation of policies, controls and security arrangements.		Systems implementation.