

## **Requirements of the UK Corporate Governance Code**

**C.3.2:** The main role and responsibilities of the audit committee.... should include.....

- to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- to develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and to report to the board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

### **Relevant ethical guidance**

The relevant ethical guidance will depend on the country of the audit firm that is to sign the audit opinion. However, the *Code of Ethics for Professional Accountants* (the Code), developed by the International Ethics Standards Board for Accountants (IESBA), establishes ethical requirements for professional accountants and provides a conceptual framework for all professional accountants to ensure compliance with the five fundamental principles of professional ethics: integrity, objectivity, professional competence and due care, confidentiality, and professional behavior. A member body of the International Federation of Accountants (IFAC) or firm conducting an audit using International Standards of Auditing may not apply less stringent standards than those stated in the Code.

### **Threats and safeguards**

The Code notes that threats to independence may be created by a broad range of relationships and circumstances, and fall into one or more of the following categories:

- (a) Self-interest threat – the threat that a financial or other interest will inappropriately influence the auditor's judgment or behaviour;
- (b) Self-review threat – the threat that an auditor will not appropriately evaluate the results of a previous judgment made or service performed by the auditor, or by another individual within the audit firm, on which the auditor will rely;
- (c) Advocacy threat – the threat that an audit firm will promote a client's position to the point that the auditor's objectivity is compromised;
- (d) Familiarity threat – the threat that due to a long or close relationship with a client, an auditor will be too sympathetic to their interests or too accepting of their work; and
- (e) Intimidation threat – the threat that an auditor will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the auditor.

The threats created by the provision of non-audit services are most often self-review, self-interest and advocacy threats.

Where a potential non-audit service engagement poses actual or potential threats (that are not clearly insignificant) to the objectivity and independence of the auditor, safeguards must be identified to reduce the threats to an acceptable level or the auditor should decline the engagement. Certain non-audit services are prohibited on the basis that the threats that arise are too significant to be overcome by any safeguards.

The safeguards may come from the audit firm (firm-wide or engagement-specific) or from the client. The client safeguards for PXP Vietnam Fund include the requirements of the Corporate Governance Code and supporting guidance:

- Audit Committee to set and apply a policy for commissioning of non-audit services
- Audit Committee to assess the objectivity and independence of the auditor annually
- The Annual Report to explain how, if the auditor provides non-audit services, auditor objectivity and independence is safeguarded
- Data about the fees paid to the auditor for non-audit services are disclosed in the Annual Report.

### **Revised UK guidance**

Following a report in 2009 by the House of Commons Treasury Committee which proposed a ban on the auditor providing non-audit services, the UK Financial Reporting Council (FRC) and Auditing Practices Board (APB) initiated a consultation process. The result of the process, as released in July 2010, was that a ban on non-audit services was not required. The APB is proposing limited changes to its Ethical Standards and to the FRC's Guidance on Audit Committees, with a further consultation period for these changes.

Although the limited changes to the Guidance are not expected to be finalised until December 2010, the new advice contained in the consultation document assists in formulating a clear and practical policy, and has been incorporated into the policy for PXPVF.

### **Policy for non-audit services from the external auditor (the Policy)**

The potential non-audit services as set out in the Appendix to this Policy are classified as either:

- Pre-approved – approval for the use of the external auditor is given in advance, rather than the specific approval of an engagement being sought before it is contracted
- Approval required from the Audit Committee before the service is contracted
- Excluded – the service cannot be provided by the external auditor.

Any potential services that have not been identified in the Appendix will require approval from the Audit Committee before the service is contracted.

When considering the approval of these services, the Audit Committee's objective should be to ensure that the provision of such services does not impair the external auditor's independence or objectivity. In this context, the Audit Committee should consider:

- whether the skills and experience of the audit firm make it a suitable supplier of the non-audit service;
- whether there are safeguards in place to eliminate or reduce to an acceptable level any threat to objectivity and independence in the conduct of the audit resulting from the provision of such services by the external auditor;
- the nature of the non-audit services;
- the fees incurred, or to be incurred, for non-audit services both for individual services and in aggregate, relative to the audit fee; and
- the criteria which govern the compensation of the individuals performing the audit.

Although the Policy does not require the tender of non-audit services, the Audit Committee should consider if there are convincing reasons to award the assignment to the auditor without a tender process. The reasons may include the efficiencies from the auditor performing the services, such as would be expected, for example, for the reporting accountants work on a prospectus. This consideration and conclusion should be documented. Ongoing/recurring non-audit services should be similarly reviewed by the Audit Committee on at least an annual basis.

### **Contingent fees**

No non-audit services from the external auditor will be accepted on a contingent or success fee basis.

**Non-audit fees**

The Audit Committee will monitor the total level of assignments awarded to the auditor and the cumulative fees. There will be a report to each Audit Committee meeting on: total services year-to-date, fees paid year-to-date and assignments pending/awaiting approval.

**Related entities**

Under the Code (290.160) an audit firm may provide non-audit services that would otherwise be restricted to an entity, which is not an audit client, with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity

- only if it is reasonable to conclude that (a) the services do not create a self review threat because the results of the services will not be subject to audit procedures and (b) any threats that are created by the provision of such services are eliminated or reduced to an acceptable level by the application of safeguards.

PXP Vietnam Asset Management has a financial interest in PXP Vietnam Fund that is material. It is arguable that PXPVAM has a significant influence over PXPVF in its role as Investment Manager.

Although it appears unlikely that any services that may be provided to PXPVAM could be subject to audit procedures by the auditor of PXPVF, the Investment Manager will inform the Chairman of the PXPVF Audit Committee if it is considering engaging the auditor for any non-audit services, and obtain clearance from the Chairman in advance of contracting for the services.

Category	Pre-approved	Approval required	Excluded
Audit-related services	Reviews of interim financial information.  Reporting required by a regulator.  Financial controls review where this is integrated with the audit work and is performed on the same principal terms and conditions.		
Investment circulars/ prospectus		Public reporting on investment circulars.  Private reporting to sponsors or similar parties in connection with investment circulars (including comfort letters and reporting on working capital statement).	
Prospective financial information (PFI)		Review of PFI and/or giving advice on preparation.	Preparation of PFI.
Taxation		Tax compliance services.  Tax advisory services, including provision of formal tax opinions and assistance in the resolution of tax disputes.	Act in an advocacy role.  Promote tax structures or products or provide tax advice where there may be reasonable doubt on the appropriateness of the related accounting treatment involved.  Preparation of current or deferred tax calculations for the purpose of preparing accounting entries.
Legal		Legal services in support of an execution of a transaction (eg. contract support, legal advice, legal due diligence)	Act in an advocacy role.  Act as General Counsel.  Litigation support services where this could involve the estimation by the audit firm of the likely outcome of a pending legal matter that could be material to the

Category	Pre-approved	Approval required	Excluded
			amounts to be included or the disclosures to be made in the financial statements.
Business advisory services		Business consultancy *	
Internal audit		Internal audit services on control systems as specified by the Audit Committee **	Full internal audit service, including responsibility for determining scope, risk assessment and frequency of review activity.
Staff secondment		Secondment of non-management staff.	Appointment as director.  Secondment of staff with management or operational decision-making responsibility.
Valuation services		Valuation of items that are not material to the financial statements, individually or in aggregate.	Valuation of items that are, individually or in aggregate, material to the financial statements.  Actuarial valuations.
Recruitment and human resources services			Recruitment and head-hunting, including director search.  Advice on director or management remuneration.
Corporate finance services		Acting as sponsor.  Advice on development of corporate strategies.  Introduction to possible sources of capital.  Providing structuring advice.  Advice on accounting effects of proposed transactions.	Promotion, dealing or underwriting of company's securities.  Committing the company to the terms of a transaction.  Taking custody of the assets of the company, such as taking temporary possession of securities purchased by the company.

Category	Pre-approved	Approval required	Excluded
Transaction related services		Due diligence reviews *	
Information technology services		Design and/or implementation of financial information technology systems ***	
Accounting services			Accounting and bookkeeping services. Payroll services.

\* The auditor cannot provide services or undertake assignments that involve decision making for, or on behalf of, the company.

\*\* Internal audit services are not permitted if for the purposes of the audit of the financial statements, the auditor would place significant reliance on the internal audit work; or for the purposes of the internal audit services, the audit firm would undertake part of the role of management.

\*\*\* IT services can only be provided if the company acknowledges responsibility for establishing a system of internal controls, makes all management decisions with respect to the design and implementation of the system, evaluates the adequacy and results of the design and implementation of the system, and is responsible for the operation of the system and the data used or generated by the system.