

# Policy for the provision of non-audit services by the external auditors

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## **1. Executive Summary**

This policy defines the non-audit services that can be provided by the group auditors subject to pre-approval by the Audit Committee. The policy seeks to ensure compliance with:

- The Corporate Governance Code 2018;
- The FRC's Ethical Standard 2019; and
- EU Audit Regulations.

Only services that are included on the list of permitted services set out in the appendix to this policy may be provided by the auditors. The provision of any such services must be approved by the Audit Committee (or in exceptional and urgent circumstances the Audit Committee Chair) before delivery of the service commences.

Services that are expected to be provided on a recurring basis must be pre-approved annually by the Audit Committee.

Fees for non-audit services must not exceed 70% of the average audit fee for the previous three financial years.

### **Operational control**

The Policy sets out how it will operate in practice and the criteria that will be applied in determining what constitutes exceptional circumstances. In summary proposals for non-audit services will be coordinated by Group Financial Control and submitted to the Audit Committee for approval in line with its normal cycle. Urgent requests might require ad-hoc meetings for approval.

### **Non-audit fee reporting**

Full analyses of all services undertaken by the auditors will be provided bi-annually to the Audit Committee.

## **2. Summary of regulatory and other guidance**

This policy takes account of the following regulations and guidance:

### **Corporate Governance Code 2018**

The Corporate Governance Code 2018 includes the following matters in the role and responsibilities of the Audit Committee:

- reviewing and monitoring the external auditor's independence and objectivity;
- developing and implementing policy on the engagement of the external auditor to supply non-audit services, ensuring there is prior approval of non-audit services, considering the impact this may have on

independence, taking into account the relevant regulations and ethical guidance in this regard, and reporting to the board on any improvement or action required;

This policy seeks to address those requirements.

### **FRC Revised Ethical Standard 2019**

The FRC's Ethical Standard 2019 sets out a list of non-audit services that are permitted to be provided to Public Interest Entities ('PIE's, which includes listed companies and their subsidiaries) by the auditor firm. Services that are not included on this list may be not provided by the auditor firm. The list of permitted services is included as an appendix to this policy.

### **EU Audit Regulations**

The EU Regulations introduced a cap on the level of fees that could be incurred for permitted non-audit services, other than those required by Law or Regulation. The cap restricts such fees in any year to 70% of the average of the previous 3 years' audit fees.

### **Other**

Guidance provided by bodies in the UK with an interest in Corporate Governance such as the Pensions Investment Research Consultants Ltd (PIRC) and Institutional Shareholder Services (ISS), state the importance of monitoring the level of non-audit fees as a percentage of audit fees as a means of assessing independence issues.

### **Companies Act**

The Companies Act requires disclosure of fees paid to the group's auditors. The Act sets out defined categories of services for which separate disclosure of fees must be made, although most of the categories defined in the Act will be prohibited for PIEs under the new Ethical Standard.

## **3. Policy**

The group's auditor must not be engaged to perform any non-audit service unless this has been pre-approved by the Audit Committee.

Only services permitted by the FRC's Ethical Guidance may be procured from the auditor. The list of permitted services is attached at Appendix 1.

The following services are expected to be performed on an annual basis by the auditor. The Audit Committee will provide advance approval for such services at the meeting at which it reviews the fees for non-audit services for the previous year (e.g. the services for 2020/21 are approved at the Audit Committee meeting in March 2020):

<b>Service</b>	<b>Category in the Ethical Standard</b>
Audit of sections 1&2 of the STW and HD Annual Performance Reports	1
Review of ST Plc interim report	7
Covenant reporting	12
EMTN update agreed upon procedures	8

The pre-approved services above will not result in a breach of the 70% cap on non-audit services.

All other services must be approved by the Audit Committee before the audit firm is engaged to perform the service. In exceptional circumstances, where urgent approval is required and the fee for the service is less than £100,000, the Chair of the Audit Committee may provide approval but this must be ratified by the full Committee at its next meeting. Before approving such services the Audit Committee will confirm that the 70% cap would not be breached.

#### **4. Operational control**

The following controls are in place in order to ensure compliance with this policy.

Where group companies wish to engage the auditors for a non-audit service, a request for pre-approval, must be sent to Group Financial Control who will review the request and confirm whether:

- the service is a permitted service;
- the fee for the service will not result in the fees for non-audit services for the year exceeding 70% of the average of the previous three years' audit fees.

If these criteria are met a request for pre-approval will be submitted to the next Audit Committee meeting. If it is essential that the service starts before the next Audit Committee meeting is scheduled to take place then Company Secretariat will convene an ad-hoc meeting of the Audit Committee to consider the request.

Each request for approval must set out:

- The nature of the service to be performed;
- The reason why the auditor should be appointed to perform the service;
- Which category of permitted service the proposed work falls under;
- The proposed fee for the service; and
- Confirmation that the service will not result in a breach of the 70 % cap.

In exceptional circumstances i.e. if:

- the provision of the service is urgent;
- no other firm can realistically provide the service;

- the proposed fee for the service is less than £100,000; and
- a quorate Audit Committee meeting cannot be convened before the service is required,

then the Audit Committee Chair may approve the provision of the service. Any such approval must be ratified at the next Audit Committee meeting.

The Audit Partner will be informed that the service has been approved and work may commence.

## **5. Non-audit fee reporting**

Management will submit a full analysis of non-audit services and fees to the Audit Committee bi-annually. The analysis will set out each non-audit engagement approved since the previous report, the fee for the service and confirmation that the 70% cap has not been breached.

The purpose of this report is to facilitate the Audit Committee's monitoring of the level of non-audit services. All services detailed on the report will have been previously approved by the Audit Committee.

## Appendix 1 – Services that may be provided

Category	Type of non-audit service	Counts towards cap
1	Reporting required by a competent authority or regulator under UK law or regulation E.g. Reporting to Ofwat on regulatory financial statements;	No
2	In the case of overseas subsidiaries, reporting required by law or regulation in that jurisdiction where the auditor is required to undertake that engagement.	No
3	Reporting on internal financial controls when required by law or regulation.	No
4	Reporting on the iXBRL tagging of financial statements in accordance with the European Single Electronic Format for annual financial reports.	No
5	Reports, required by or supplied to competent authorities/regulators supervising the audited entity, where the authority/regulator has either specified the auditor to provide the service or identified to the entity that the auditor would be an appropriate choice for service provider.	No
6	Services which support the entity in fulfilling an obligation required by UK law or regulation, including listing requirements where: <ul style="list-style-type: none"> <li>• the provision of such services is time critical;</li> <li>• the subject matter of the engagement is price sensitive; and</li> <li>• it is probable that an objective, reasonable and informed third party would conclude that the understanding of the entity obtained by the auditor for the audit of the financial statements is relevant to the service, and where the nature of the service would not compromise independence.</li> </ul>	Yes
7	Reviews of interim financial information; and providing verification of interim profits not otherwise required by law or regulation.	Yes

Category	Type of non-audit service	Counts towards cap
8	Where not otherwise required by law or regulation, non-audit and additional services, as defined in the Ethical Standard provided as auditor of the entity, or as reporting accountant, in relation to information of the audited entity for which it is probable that an objective, reasonable and informed third party would conclude that the understanding of the entity obtained by the auditor is relevant to the service, and where the nature of the service would not compromise independence.	Yes
9	Extended audit or assurance work that is authorised by those charged with governance performed on financial or performance information and/or financial or operational controls, in the audited entity or a third-party service provider, where this work is closely linked with the audit work.	Yes
10	Additional assurance work or agreed upon procedures authorised by those charged with governance performed on material included within or referenced from the annual report.	Yes
11	Reporting on government grants.	Yes
12	Reporting on covenant or loan agreements which require independent verification and other reporting to third parties with whom the audited entity has a business relationship in accordance with Appendix C of this Ethical Standard****.	Yes
13	Services which have been the subject of an application to the Competent Authority.	Yes
14	Generic subscriptions providing factual updates of changes to applicable law, regulation or accounting and auditing standards.	Yes