

**AUDIT COMMITTEE  
TERMS OF REFERENCE**

The following are the terms of reference for the Audit Committee ("the Committee") of Hargreaves Lansdown plc ("the Company") and its subsidiaries ("the Group").

**1. Membership**

- 1.1 The Committee shall comprise at least three members. Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chair of the Audit Committee.
- 1.2 All members of the Committee shall be independent Non-Executive Directors at least one of whom shall have recent and relevant financial experience ideally with a professional qualification from one of the professional accountancy bodies. The Chair of the Board shall not be a member of the Committee.
- 1.3 Only members of the Committee have the right to attend the Committee meetings. However, other individuals such as the Chair of the Board, Chief Executive Officer (CEO), Chief Financial Officer (CFO), other directors, the Heads of Risk, and Internal Audit and representatives from the Finance Function may be invited to attend all or part of any meeting as and when appropriate and necessary.
- 1.4 The External Auditor will be invited to attend meetings of the Committee on a regular basis.
- 1.5 Appointments to the Committee shall be for a period of up to three years, which may be extended for further periods of up to three years, so long as members continue to be independent.
- 1.6 The Board shall appoint the Committee Chair who shall be an independent non-executive director. In the absence of the Committee Chair and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

**2. Secretary**

The Company Secretary or their nominee shall act as the Secretary of the Committee and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.

**3. Quorum**

The quorum necessary for the transaction of business shall be two members.

**4. Frequency of Meetings**

- 4.1 The Committee shall meet at least four times a year at appropriate times in the reporting and audit cycle and otherwise as required.
- 4.2 Outside of the formal meeting programme, the Committee Chair will maintain a dialogue with key individuals involved in the Group's governance, including the Board Chair, the CEO, the CFO, the External Audit lead partner and the Head of Internal Audit.

**5. Notice of Meetings**

- 5.1 Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of any of its members or at the request of External Audit lead partner or Head of Internal Audit if they consider it necessary.
- 5.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend and all other non-executive directors, no later than five working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

**6. Minutes of Meetings**

- 6.1 The Secretary shall minute the proceedings of all meetings of the Committee, including recording the names of those present and in attendance.
- 6.2 The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly. Where there is a conflict of interest and the Chair of the Committee determines that it is material, he/she shall have the power to exclude that Committee member from discussions on that issue.
- 6.3 Draft minutes of Committee meetings shall be circulated promptly to all members of the Committee. Once approved, the minutes should be circulated to all other members of the Board unless it would be inappropriate to do so in the opinion of the Chair.
- 6.4 Final signed copies of the minutes of the meetings of the Committee shall be maintained for the Company's records.

**7. Annual General Meeting**

The Chair should attend the Annual General Meeting ("AGM") to respond to questions from shareholders on the Committee's activities.

**8. Duties**

The Committee should have oversight of the Group as a whole and, unless required otherwise by regulation, carry out the duties below for the parent Company, major subsidiary undertakings and the Group as a whole.

**8.1 Financial Reporting**

- 8.1.1 The Committee shall monitor the integrity of the financial statements of the Group and the Company, including its annual and half-yearly reports, trading updates, preliminary announcements and any other formal announcement relating to its financial performance, and review and report to the Board on significant financial reporting issues and judgements which those announcements contain having regard to matters communicated to it by the External Auditor.
- 8.1.2 In particular the Committee shall review and challenge where necessary:
- 8.1.2.1 the application of significant accounting policies and any changes to them;
  - 8.1.2.2 the methods used to account for significant or unusual transactions where different approaches are possible;
  - 8.1.2.3 whether the Group has followed appropriate accounting standards and made appropriate estimates and judgements on significant matters, taking into account the views of the External Auditor;

8.1.2.4 the clarity of disclosure in the Group's financial reports and the context in which statements are made;

8.1.2.5 all material information presented with the financial statements, including the strategic report and the corporate governance statements relating to the audit and to risk management;

8.1.2.6 the Group's viability statement and making recommendations to the Board;

8.1.2.7 where the Committee is not satisfied with the any aspect of the proposed financial reporting by the Group, it shall report its views to the Board.

8.1.3 The Committee shall review any other statements requiring Board approval which contain financial information where a prior review by the Committee would be practicable with prompt reporting requirements under any law or regulation including the Listing Rules and Disclosure and Transparency Rules.

8.1.4 Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Group or the Company, it shall report its views to the Board.

## 8.2 Narrative reporting

Where requested by the Board, the Committee should review the content of the annual report and accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy and whether it informs the Board's statement in the annual report on these matters that is required under the UK Corporate Governance Code.

## 8.3 Internal controls and risk management systems

8.3.1 The Committee shall keep under review the adequacy and effectiveness of the Company and Group's internal controls where their failure could have an impact of the integrity of financial record-keeping, reporting and disclosure;

8.3.2 The Committee will receive a report annually from the Risk Committee summarising its views of the design and operating effectiveness of the Group's Risk Management Framework, and system of internal controls;

8.3.3 The Committee will commission an annual report from the Head of Internal Audit opining on the design and operating effectiveness of controls covered by the Internal Audit Plan;

8.3.4 The Committee will review and approve the statements to be included in the Company's annual report concerning internal controls.

## 8.4 Whistleblowing

8.4.1 The Committee shall review the adequacy and security of the Group's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrong doing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.

8.4.2 The Committee shall regularly review Compliance Monitoring reports provided by the Compliance Officer and keep under review the adequacy and effectiveness of the Company's Compliance Function.

8.5 Internal Audit

The Committee shall:

- 8.5.1 approve the appointment and removal of the Head of the Internal Audit function;
- 8.5.2 review and approve the Internal Audit Charter of the Internal Audit function, monitor and review the effectiveness of its work ensuring that it is appropriate for in the context of the Group's overall risk management system and the current needs of the organisation;
- 8.5.3 ensure the Internal Auditor has direct access to the Board Chair and to the Committee Chair, providing independence from the Executive and is accountable to the Committee;
- 8.5.4 review and approve the Internal Audit Plan to ensure it is aligned to the key risks of the business, and receive regular reports on work carried out;
- 8.5.5 ensure Internal Audit has unrestricted scope, the necessary resource and access to information to enable it to fulfil its mandate, ensure there is open communication between different functions as part of the Internal Audit plan and ensure that the Internal Audit function is equipped to perform in accordance with appropriate professional standards attributed to that of Internal Auditors;
- 8.5.6 review the actions taken by management to implement the recommendations of Internal Audit;
- 8.5.7 carry out an annual assessment of the effectiveness of the Internal Audit function;
- 8.5.8 meet the Head of Internal Audit at least once a year, without management being present; and

8.6 External Audit

The Committee shall:

- 8.6.1 consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, reappointment and removal of the Group's External Auditor;
- 8.6.2 ensure that, in accordance with the timescales recommended within the UK Corporate Governance Code ("the Code"), the audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms; and in respect of such tender oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process;
- 8.6.3 if an auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 8.6.4 oversee the relationship with the External Auditor including (but not limited to):
  - 8.6.4.1 approve their remuneration, including fees for audit and non-audit services, and ensure that the level of fees is appropriate to enable an effective and high quality audit to be conducted; and
  - 8.6.4.2 approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;

- 8.6.5 assessing annually the External Auditor independence and objectivity taking into account relevant UK law, regulation, the Ethical Standards and other professional requirements and the Group's relationship with the Auditor as a whole, including the provision of any non-audit services;
- 8.6.6 satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the External Auditor and the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
- 8.6.7 agreeing with the Board a policy on the employment of former employees of the Company's Auditor, taking into account the Ethical Standard and monitoring the implementation of this policy;
- 8.6.8 monitoring the Auditor's process for maintaining independence, its compliance with relevant UK regulation, other professional requirements and the Ethical Standard, including guidance on the rotation of audit partners,
- 8.6.9 Monitoring the level of fees paid by the Company to the External Auditor compared to the overall fee income of the firm and assess these in the context of relevant, legal, professional and regulatory requirements, guidance and Ethical Standard;
- 8.6.10 assessing annually the qualifications, expertise and resources of the External Auditor and the effectiveness of the audit process, which shall include a report from the External Auditor on their own internal quality procedures;
- 8.6.11 seeking to ensure co-ordination with the activities of the Internal Audit function;
- 8.6.12 meet regularly with the External Auditor, (including once at the planning stage before the audit and once after the audit at the reporting stage) and at least once a year, without management being present, to discuss the auditor's remit and any issues arising from the audit;
- 8.6.13 evaluate the risks to the quality and effectiveness of the financial reporting process in the light of any External Auditor communications with the Committee in this regard;
- 8.6.14 review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team; and
- 8.6.15 review the findings of the audit with the External Auditor. This shall include but not be limited to, the following:
  - a discussion of any major issues which arose during the audit;
  - views on their interactions with senior management;
  - any key accounting and audit judgments;
  - levels of errors identified during the audit;
  - the effectiveness of the audit process.
- 8.6.16 review any representation letter(s) requested by the External Auditors before they are signed by management;
- 8.6.17 review the management letter and management's response to the External Auditor's findings and recommendations;
- 8.6.18 Review the effectiveness of the audit process, including an assessment of the quality of the audit, the handling of key judgements by the External Auditor's response to questions from the Committee; and
- 8.6.19 Develop and recommend to the Board the Company's formal policy on the provision of non-audit services by the External Auditor, including approval of non-audit service by the Committee and specifying the types of non-audit service to be pre-approved, and assessment of whether non-

audit services have a direct or material effect on the audited financial statements. The policy should include consideration of the following matters:

- threats to the independence and objectivity of the external auditor and any safeguards in place;
- the nature of the non-audit services;
- whether the External Audit firm is the most suitable supplier of non-audit services;
- the fees for non-audit services, both individually and in aggregate, relative to the audit fee; and
- the criteria governing compensation.

## **9. Reporting responsibilities**

- 9.1 The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report to the Board on how it has discharged its Responsibilities. This report shall include:
- 9.1.1 the significant issues that it considered in relation to the financial statements (required under para 8.1.1) and how these were addressed;
- 9.1.2 its assessment of the effectiveness of the External Audit process (required under para 8.6.10) the approach taken to the appointment or reappointment of the External Auditor, length of tenure of the audit firm, when a tender was last conducted and advance notice of any retendering plans; and
- 9.1.3 any other issues on which the Board has requested the Committee's opinion.
- 9.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 9.3 The Committee shall compile a report on its activities to be included in the Company's annual report. Such a report shall include an explanation of how the Committee has addressed the effectiveness of the external audit process; the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to the matters communicated to it by the auditor, and all other information requirements set out in the UK Corporate Governance Code.
- 9.4 In compiling the reports referred to in 9.1 and 9.3, the Committee should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but should include at least those matters that have informed the Board's assessment of whether the Company is a going concern. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.

## **10. Other matters**

- 10.1 The Committee will have access to sufficient resources in order to carry out its duties, including access to the Company Secretary for assistance as required;
- 10.2 The Committee members will be provided with appropriate and timely training, both in the form of an induction programme for new members and on an on-going basis for all members;
- 10.3 give due consideration to relevant laws and regulations, the provisions of the Code and the requirements of the Listing Rules, Prospectus Rules and Disclosure Guidance and Transparency Rules sourcebook and any other applicable rules, as appropriate;
- 10.4 be responsible for coordination of the Internal and External Auditors;

- 10.5 oversee any investigation of activities which are within its terms of reference;
- 10.5 work and liaise as necessary with all other board committees, taking particular account of the impact of risk management and internal controls being delegated to different committees; and
- 10.6 The Committee will arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

**11. Authority**

- 11.1 The Committee is authorised to seek any information it requires from any employee/director of the Company in order to perform its duties.
- 11.2 Any member of the Committee is authorised to obtain, at the Company's expense, external legal or other professional advice on any matter within its terms of reference where required.
- 11.3 The Committee may request the attendance of any employee at a meeting of the Committee as and when required.
- 11.4 The Committee is authorised to oversee any investigation of activities which are within its terms of reference.
- 11.5 To have the right to publish in the Company's annual report details of any issues that cannot be resolved between the Committee and the Board.

**Version Control**

<b><u>Version</u></b>	<b><u>Date approved by the Board</u></b>
V2	11 <sup>th</sup> October 18