

NON-AUDIT SERVICES SUPPLIED BY THE EXTERNAL AUDITOR

INTRODUCTION

The Financial Reporting Council's (FRC) document, 'Guidance on Audit Committees', states that the audit committee is responsible for approving non-audit services. The FRC goes on to set out the objective of audit committees, which should be to ensure that the provision of such services does not impair the external auditor's independence or objectivity. In addition, it requires that an audit committee should set and apply a formal policy specifying the types of non-audit service for which use of the external auditor is pre-approved, and that pre-approval beyond the basic scope of audit services for the Company and its Group subsidiaries should only be in place for matters that are 'clearly trivial'.

NON-AUDIT SERVICES POLICY

This policy is designed to ensure that external auditor independence is maintained when considering whether it is appropriate for the external auditor to be appointed by the Company to undertake work outside of the scope of their usual and specific annual audit.

AUDIT RELATED SERVICES AND NON-AUDIT SERVICES

Audit related services are those non-audit services that are largely carried out by members of the audit engagement team where the work involved is closely related to the work performed in the audit and the threats to auditor independence are clearly insignificant and, as a consequence, safeguards need not be applied.

Audit related services are:

- a. Reporting required by law or regulation to be provided by the auditor;
- b. Reporting on regulatory returns;
- c. Reporting to a regulator on client assets;
- d. Reporting on government grants;
- e. Reporting on internal financial controls when required by law or regulation;
- f. Extended audit work that is authorised by those charged with governance performed on financial information and/or financial controls where this work is integrated with the audit work and is performed on the same principal terms and conditions.

CAP ON NON-AUDIT SERVICES

Under the EU Audit Reform Directive, which came into force for financial years after 17 June 2016, the maximum non-audit fees

that the external audit firm can receive from a public interest entity such as Hargreaves Lansdown, is set at 70% of the average of the audit fees incurred in the previous three years.

During the first three years of this policy the 70% cap will be calculated based on the relevant audit for that particular year only. From the fourth year onwards, a three year average will be calculated.

Services provided to the Group which are required by national or EU legislation are not included in the calculation of the 70% cap.

This means that fees incurred on the annual CASS assurance review are excluded from the cap calculation but those incurred on the bi-annual profit verifications and the interim review are.

PROHIBITED SERVICES

The following non-audit services may not be carried out by the external auditor:

- a. tax services relating to:
 - i. preparation of tax forms;
 - ii. payroll tax;
 - iii. customs duties;
 - iv. identification of public subsidies and tax incentives unless support from the statutory auditor or the audit firm in respect of such services is required by law;
 - v. support regarding tax inspections by tax authorities unless support from the statutory auditor or the audit firm in respect of such inspections is required by law;
 - vi. calculation of direct and indirect tax and deferred tax;
 - vii. provision of tax advice;
- b. services that involve playing any part in the management or decision-making of the audited entity;
- c. bookkeeping and preparing accounting records and financial statements;
- d. payroll services;
- e. designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems;
- f. valuation services, including valuations performed in connection with actuarial services or litigation support services;
- g. legal services, with respect to:
 - i. the provision of general counsel;

- ii. negotiating on behalf of the audited entity; and
- iii. acting in an advocacy role in the resolution of litigation.
- h. services related to the audited entity's internal audit function;
- i. services linked to the financing, capital structure and allocation, and investment strategy of the audited entity, except providing assurance services in relation to the financial statements, such as the issuing of comfort letters in connection with prospectuses issued by the audited entity;
- j. promoting, dealing in, or underwriting shares in the audited entity;
- k. human resources services, with respect to:
 - i. management in a position to exert significant influence over the preparation of the accounting records or financial statements which are the subject of the statutory audit, where such services involve:
 - ii. searching for or seeking out candidates for such position; or
 - iii. undertaking reference checks of candidates for such positions;
 - iv. structuring the organisation; and
 - v. cost control.

PRE-APPROVED SERVICES

Use of the external auditor may be appropriate where the threat to auditor independence is considered low, the services provided are not prohibited and the fee is 'clearly trivial' in the context of the audit fee. Such engagements may be signed off by the Chief Financial Officer up to a limit of 10% of the latest annual audit fee or when appropriate, the three year average audit fee.

All other engagements must be pre-approved by the Audit Committee or by the Chairman of the Audit Committee on its behalf.

REPORTING

The Audit Committee shall receive reports twice a year detailing the fees paid to external auditors for the provision of non-audit services or more frequently when deemed appropriate.

In addition, the Committee shall satisfy itself that the external auditor is aware of this policy and has appropriate controls and governance in place to comply with it.