

HARGREAVES
LANSDOWN

NON-AUDIT POLICY

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Policy Author: Head of Finance

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3.0	Updated for Revised FRC Ethical Standard	05.2020	12.2020
4.0	General update including impact of Brexit	12.2020	12.2021
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NON-AUDIT POLICY

1. Introduction

According to the CMA Statutory audit markets services study, audit committees have a vital role in selecting and managing the performance of auditors to ensure that auditors maintain professional scepticism, challenge management, and thus deliver high quality audits.

The auditors are bound by the Financial Reporting Council's (FRC) Revised Ethical Standard 2019 which became effective on 15 March 2020.

The FRC's '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.

2. Purpose

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.

3. Who the policy applies to

The Policy applies to all employees who may engage the company's external auditors at any time. The policy applies in respect of all HL subsidiaries, including those overseas.

4. Definitions

Within this document Hargreaves Lansdown plc may be referred to as the 'Group' or the 'Company'.

5. The policy

This policy is in place to ensure that the auditors are only used for audit related services as set out within the policy (and in accordance with the FRC Ethical Standard) and subject to the approval of the audit committee after it has properly assessed threats to independence and the safeguards applied in accordance with the Revised Ethical Standard. The auditor will only be engaged to perform audit related services where 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.

The policy is in place to mitigate any risks threatening, or appearing to threaten, the external audit firm's independence and objectivity arising through the provision of non-audit services.

6. Cap on non-audit services

Under the Revised Ethical Standard, the maximum non-audit fees that the external audit firm can receive from a public interest entity (PIE) such as Hargreaves Lansdown, is set at 70% of the average of the audit fees incurred in the previous three years.

In the UK, the FRC Revised Ethical Standard 4.15R requires the cap to be calculated at two levels' Firstly the fee cap is measured at the level of the UK firm (the UK cap) and secondly at the level of the network, including the UK firm (the network cap). Current year fees for non-audit services cannot exceed either of these caps.

Audit fees to be included for UK calculation: fees for audits provided by PwC UK to the Parent of the UK EU PIE (wherever it may be in the world), the UK EU PIE and any controlled undertakings worldwide for the previous 3 years.

Audit fees to be included for network calculation: fees for audits provided by PwC UK and any PwC network firm to the UK EU PIE (i.e. HL plc) and any controlled undertakings worldwide for the previous 3 years.

7. Audit and audit related 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.

The Revised Ethical Standard details what non-audit services auditors are permitted to carry out and distinguishes which of these are exempt, and which are subject, to the non-audit services cap.

The permissible non-audit services currently carried out by the auditor for HL are detailed below and a full list of the permitted non-audit services included in the Revised Ethical Standard 5.40 can be found in Appendix 1.

The Standard also provides details of those non-audit services that auditors are prohibited from carrying out for PIEs and these can be found in Appendix 2.

Services required by law or regulation and exempt from the non-audit services cap

- a) Reporting required by law or regulation to be provided by an auditor;
- b) Reporting to a regulator on regulatory returns;
- c) Reporting to a regulator on client assets;
- d) Reporting on internal financial controls when required by law or regulation;

Services subject to the non-audit services cap

- a) Reviews of interim financial information;
- b) 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.

8. Approval

The approval of the Group Audit Committee must be obtained before the external auditor is engaged to provide any permitted non-audit services.

Permitted non-audit services are those listed in Appendix 1.

9. Review arrangements

The Audit Committee shall receive reports annually detailing the fees agreed to be 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.

10. Appendix 1

Financial Reporting Council- Revised Ethical Standard 2019

Permitted Non-audit / Additional Services for Public Interest Entities.

An audit firm carrying out statutory audits of public interest entities and, where the audit firm belongs to a network, any member of such network, shall not provide to the audited entity, to its UK parent undertaking or to its worldwide controlled undertakings, services other than those set out in the rest of this paragraph, subject to the approval of the audit committee after it has properly assessed threats to independence and the safeguards applied in accordance with this Ethical Standard:

Services required by law or regulation and exempt from the non-audit services cap:

- 1) Reporting required by a competent authority or regulator under law or regulation for example;
 - reporting to a regulator on client assets;
 - in relation to entities regulated under the Financial Services and Markets Act 2000 (FSMA), reports under s166 and s340 of FSMA;
 - reporting to a regulator on regulatory financial statements;
 - reporting on a Solvency and Financial Condition Report under Solvency II.
- 2) In the case of a controlled undertaking incorporated and based in a third country, reporting required by law or regulation in that jurisdiction where the auditor is permitted to undertake that engagement;
- 3) Reporting on internal financial controls when required by law or regulation;

- 4) Reporting on the iXBRL tagging of financial statements in accordance with the European Single Electronic Format for annual financial reports;
- 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;
- 6) Services which support the entity in fulfilling an obligation required by UK law or regulation, including listing requirements where: the provision of such services is time critical; the subject matter of the engagement is price sensitive; and an 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.

Services subject to the non-audit services cap:

- 1) Reviews of interim financial information; and providing verification of interim profits not otherwise required by law or regulation;
- 2) Where not otherwise required by law or regulation, non-audit and additional services, as defined in this 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;
- 3) 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 an entity relevant to an engagement or a third-party service provider, where this work is closely linked with the audit work;
- 4) Additional assurance work or agreed upon procedures, authorised by those charged with governance performed on material included within or referenced from the annual report of an entity relevant to an engagement;
- 5) Reporting on government grants;
- 6) Reporting on covenant or loan agreements, which require independent verification, and other reporting to third parties with whom the entity relevant to an engagement has a business relationship in accordance with Appendix C of the Revised Ethical Standard;
- 7) Services which have been the subject of an application to the Competent Authority in accordance with Regulation 79 of The Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019 (SI 2019/177);
- 8) Generic subscriptions providing factual updates of changes to applicable law, regulation or accounting and auditing standards. Where such services are provided, they shall not include any element.

11. Appendix 2

Prohibited Non-audit Services for Public Interest Entities

An audit firm carrying out the statutory audit of a public interest entity, or any member of the network to which the audit firm belongs, shall not directly or indirectly provide to the audited entity, to its UK or EU parent undertaking or to its controlled undertakings any prohibited non-audit services in:

- (a) the period between the beginning of the period audited and the issuing of the audit report; and
- (b) the financial year (or period if longer than one year) immediately preceding the period referred to in point (a) in relation to the services listed in points (e) and (h) of the second subparagraph.

For these purposes, prohibited non-audit services shall mean:

- (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 audit firm in respect of such services is required by law;
 - (v) support regarding tax inspections by tax authorities unless support from 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:

- searching for or seeking out candidates for such position; or
- undertaking reference checks of candidates for such positions;

(ii) structuring the organisation design; and

(iii) cost control.