



Non-Audit Services by External Auditor Updated Policy - May 2011

1. In order to ensure that provision of non-audit services does not impair the independence and objectivity of the external auditor, these services will be treated according to which of the following categories they fall into:
 - (i) wholly compatible with independent external audit services
 - (ii) potentially incompatible, requiring case-by-case consideration
 - (iii) wholly incompatible.
2. The split of potential services between categories is set out in the Appendix.

Wholly compatible with external audit services

3. Services that are wholly compatible can be provided by the external auditor subject to the approval of the CFO or CEO up to an aggregate of £100k in any financial year. For services over the £100k annual cap, approval shall be sought from the Chairman of the Audit and Risk Committee, who may refer to the Committee as a whole for approval if they see fit to do so. A summary will be provided to the Audit Committee on an annual basis.

Potentially incompatible services

4. Potentially incompatible services may be provided, subject to case-by-case consideration as follows:
 - services where aggregate fee for the financial year is anticipated to be at or above £50k - subject to prior approval by the Chairman of the Audit Committee. In granting approval, the Chairman of the Audit Committee will consider whether efficiencies can be achieved by using the external auditor and whether any perception of or real conflict of interest can be managed and may refer to the Committee as a whole for approval if they see fit to do so.
 - services where aggregate fee for the service is anticipated to be below £50k - subject to prior approval by CEO or CFO. In granting approval, the CEO and CFO will consider whether efficiencies can be achieved by using the external auditors and whether any perception of or real conflict of interest can be managed. A summary will be provided to the Audit Committee annually.

5. Key factors to be considered in approving services include the following:
- whether, in the judgement of a reasonable and informed third party, the objectivity of the external auditor would be threatened by:
 - the nature of the service; or
 - the significance of the fee to the firm or to the audit partner
 - the safeguards put in place by the external auditor to protect the objectivity and independence of the audit
 - the extent to which business knowledge of the external auditor makes it more effective or cost-efficient to instruct them.

Wholly incompatible with external audit services

6. Services that are incompatible will not be provided by the external auditor. Where a firm has provided these services within the previous two financial years, this will be taken into account in assessing their eligibility for appointment as auditor.

Engagement of audit firms

7. Engagement of any “Big Four” audit firm (PwC, Deloitte, Ernst & Young or KPMG) on any assignment within the Group must be approved in advance by the CFO. Individuals contemplating using any “Big Four” firm should therefore contact the Group Financial Controller who will consider the assignment in the context of appropriate guidance and arrange necessary approval with the CFO. Recurring assignments (eg internal audit work) should be approved annually by the CFO in advance of annual fees being agreed.

Employment of former employees of the external auditor

8. The Group will not employ an individual in the capacity of a Director (including as a non-executive director) of any Group company or in a key management position (defined as member of ExCo or the Leadership Team) where that person has been a partner of the Group’s auditors and acted as audit engagement partner (or as an engagement quality control reviewer, key partner involved in the audit or a partner in the chain of command) at any time in the two years prior to the appointment.

9. The Group may appoint an individual other than a partner in the roles of Director (including as a non-executive director) of any Group company or in a key management position (defined as member of ExCo or the Leadership Team) where that person has been a member of the Group's audit team in the last two years, subject to prior approval of the CFO and CEO, who will be expected to first consult the Chairman of the Audit Committee.
10. Appointments of individuals who are current members of the Group's audit teams to any other role in the Group are subject to prior approval by the CFO and (where above £80,000 base salary threshold) CEO and they will have regard to FRC Guidance.
11. The Audit Committee will annually review the number of former employees of the external auditor currently employed in senior roles to confirm there has been no impairment, or appearance of impairment, of the auditor's independence and objectivity in respect of the audit.

Non-Audit Services by External Auditor

Services that may potentially be purchased from an external auditor have been categorised below.

The analysis of services between three categories (compatible, potentially compatible and incompatible) follows the approach of the Smith report. The specific examples have been drawn from the APB Ethical Standard 5, "Non Audit Services Provided to Audit Clients", ICAEW Guidance for Audit Committees, the EC Recommendation on Statutory Auditors' Independence, and the internal policy of PricewaterhouseCoopers. The analysis below has been reviewed by PwC and incorporates their comments.

Wholly compatible with external audit services

- any independent reporting role in relation to any financial/regulatory report
- any financial reporting related services in relation to merger and acquisition activity (including any takeover attempts)
- taxation services - including compliance, advice and planning
- consultation on financial accounting or reporting
- specific internal control reviews
- services designated by legislation or regulation as being eligible for the external auditor to carry out
- any other independent assurance work.

Potentially incompatible - for case-by-case consideration

- pension and actuarial services
- due diligence reviews
- treasury advisory services
- legal services
- independent "expert work"
- other services which are not otherwise included as wholly compatible or incompatible.

Wholly incompatible

- accounting/bookkeeping services
- provision of internal audit function
- executive recruitment and remuneration services
- valuation services which have a material effect on the financial statements
- actuarial valuation services unless the valuation has no material effect on the financial statements

- any role in which the firm or a partner or employee undertakes any managerial or decision-making function
- services which involve the firm acting as advocate for the Exchange
- services where the outcome involves a future or contemporary audit judgement relating to a material balance
- design, provision or implementation of any systems which are important to any significant part of the accounting system or the production of financial statements (not precluding assurance work on systems designed and implemented by another provider)
- dealing in, underwriting or promoting shares
- any role that involves a mutuality of interest - including any arrangement in which the remuneration depends on the ongoing success of any business venture. One-off success fees will be allowed if the arrangement does not threaten the independence or objectivity of the auditor.