



Dated 1<sup>st</sup> January 2023

LSL PROPERTY SERVICES PLC

AUDITOR INDEPENDENCE POLICY (including the provision of non-audit services)

## **1. Introduction:**

- 1.1 The policy is to establish procedures and guidance under which LSL Property Services plc's (**Company**) and its subsidiaries' (**Group**) relationship with its external auditor will be governed so that the Company's Audit & Risk Committee (**Audit & Risk Committee**) is able to satisfy itself that there are no factors which may, or may be seen to, impinge upon the independence and objectivity of the audit process (**Policy**).
- 1.2 This Policy has been prepared pursuant to the Committee's Terms of Reference and incorporates, by reference, relevant ethical guidance regarding the provision of non-audit services by the external audit firm (including the Ethical Standards for Auditors (**Ethical Standards**) and the threats to auditor objectivity identified therein) and the Financial Reporting Councils' (**FRC**) Guidance on Audit Committees (together the **Guidance**). A copy of the Committees Terms of Reference can be found at [www.lslps.co.uk](http://www.lslps.co.uk).
- 1.3 In addition, the UK Corporate Governance Code issued in July 2018 (**Code**) states that:  
*"The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements."* (Principle M)
- 1.4 The Audit & Risk Committee has primary responsibility for the appointment of the external auditor. This includes negotiating the fee and scope of audit, initiating a tender process, influencing the appointment of an engagement partner and making formal recommendations to the Board on the appointment, reappointment and removal of the external auditor.
- 1.5 The Audit & Risk Committee is also responsible for the selection procedure for the appointment of audit firms. When considering the selection of possible new appointees as external auditor, it will 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.
- 1.6 The Audit & Risk Committee will annually assess, and report to the Board on, the qualification, expertise, resources, and independence of the external auditor and the effectiveness of the audit process, with a recommendation on whether to propose to the shareholders that the external auditor be reappointed. The assessment will cover all aspects of the audit service provided by the audit firm, and includes obtaining a report on the audit firm's own internal quality control procedures and consideration of the audit firm's annual transparency reports.
- 1.7 This Policy clarifies the means by which, following the appointment of the external auditor, the Audit & Risk Committee will ensure and maintain the independence and objectivity of the external auditor.

## **2. Terms and Remuneration:**

- 2.1 The Audit & Risk Committee will approve the terms of engagement and the remuneration to be paid to the external auditor in respect of audit services. It will also ensure that the level of fee payable in respect of the audit services provided is appropriate and that an effective, high quality, audit can be conducted for such a fee.
- 2.2 The Audit & Risk Committee shall review and agree the engagement letter issued by the external auditor at the start of each audit, ensuring that it has been updated to reflect changes in circumstances arising since the previous year. The scope of the external audit shall be reviewed by the Audit & Risk Committee with the auditor. If the Audit & Risk Committee is not satisfied as to its adequacy it will arrange for additional work to be undertaken.

## **3. Appointment of the Auditor:**

- 3.1 As stated above, the Audit & Risk Committee will make recommendations to the Board on the appointment, reappointment or removal of the external auditor, approve the terms of remuneration and engagement of the external auditor, and deal with any questions relating to the resignation or dismissal of the external auditor. In addition, it will review the quality and cost effectiveness of the audit, and the independence and objectivity of the external auditor. As part of this review, the Audit & Risk Committee will annually consider the reappointment of the auditor and in making any recommendation to the Board will consider all aspects of the audit services provided by the external audit firm, including the following:-

- a report on the audit firm's own internal quality control procedures;

- consideration of the audit firm's annual transparency reports (where available);
- whether the external auditor has performed to the required standard;
- whether the audit fee is reasonable taking into account the process by which the proposed fee has been agreed by management; and
- the benefit of seeking tenders for the audit, taking into account the quality and cost of the audit, and the cost and management time required to conduct a tender exercise.

3.2 In carrying out its annual review, the Audit & Risk Committee shall require the external auditor to:-

- disclose all relationships which may affect the firm's independence and the objectivity of the audit partner and staff;
- disclose the safeguards and steps taken by the auditor in order to ensure its independence and objectivity;
- confirm in writing to the Audit & Risk Committee that in its judgement, it is independent within the meaning of the relevant regulations and professional requirements;
- disclose any gifts or hospitality which have been provided or exchanged between the Company or its subsidiary companies and the auditor, unless in the case of gifts, the value is clearly insignificant, and in the case of hospitality, it is reasonable in terms of its frequency, nature and cost and is in line with the Company's hospitality policy.

#### **4. Accountability and Access:**

4.1 The external auditor is accountable to the Audit & Risk Committee. Accordingly, the lead audit partner, together with other key members of the audit team as may be appropriate, are able to have unfettered access to the chairman of the Audit & Risk Committee.

4.2 The membership of the Audit & Risk Committee is established by its Terms of Reference and comprises entirely of independent non-executive directors. The Terms of Reference also establish the normal attendance at Audit & Risk Committee meetings and state that at least once a year the Audit & Risk Committee will meet with the external auditor and internal auditor without executive directors present, and these meetings usually take place at the end of each meeting of the Audit & Risk Committee. This practice does not preclude separate meetings being arranged between the Audit & Risk Committee or its chairman, and the external auditor.

4.3 The Company has a policy on independent professional advice (which is contained in the Audit & Risk Committee Terms of Reference). In accordance with this policy, members of the Audit & Risk Committee, either individually or collectively, are able to obtain independent professional advice at the Company's expense, in furtherance of their duties.

#### **5. Audit Personnel:**

5.1 The normal rotation period for an audit engagement partner and key audit partners is five years, but a degree of flexibility over the timing of rotation is possible for instance: where the Audit & Risk Committee decides that it is necessary to safeguard the quality of the audit without compromising the independence and objectivity of the external auditor. In such circumstances, the audit engagement partner may continue in this position for an additional period of up to two years, so that no longer than seven years in total is spent in this position. The Audit & Risk Committee will disclose this fact and the reasons for it to the shareholders as early as practicable.

5.2 The Audit & Risk Committee will recommend to the Board the Company's policy for the employment of former employees of the external auditor, taking into account the Ethical Standard and legal requirements, and paying particular attention to the policy regarding former employees of the audit firm who were part of the audit team and moved directly to the Company. At the date of this Policy, the Company's Policy is that the Audit & Risk Committee chairman will be consulted before the appointment by any members of the LSL Group of anyone who has been employed by the auditor during the previous three years, to a senior management or board position.

5.3 The external auditor shall not enter into an agreement to provide a partner or employee to work on a temporary basis for the Company or any affiliate of the Company without the prior consent of the Audit & Risk Committee.

#### **6. Auditor Independence:**

- 6.1 The Audit & Risk Committee will assess the independence and objectivity of the external auditor annually, taking into consideration relevant UK law, regulation, the Ethical Standard and other professional requirements. The Audit & Risk Committee will consider the annual disclosure from the statutory auditor and discuss with the auditor the threats to their independence and the safeguards applied to mitigate those threats. This assessment will involve a consideration of all relationships between the Company and the audit firm, including throughout the Group and with the audit firm's network firms, and any safeguards established by the external auditor.
- 6.2 In carrying out its assessment, the Audit & Risk Committee will consider whether, taken as a whole and having regard to the views, as appropriate, of the external auditor, management and internal audit, those relationships appear to impair the auditor's independence and objectivity.
- 6.3 The Audit & Risk Committee will monitor the external audit firm's compliance with the Ethical Standard, the level of fees that the Company pays in proportion to the overall fee income of the firm, or relevant part of it, and other related regulatory requirements.
- 6.4 The Audit & Risk Committee will seek annually from the audit firm information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including those regarding the rotation of audit partners and staff.
- 6.5 The Audit & Risk Committee is responsible for developing and recommending to the Board the Company's policy for the employment of former employees of the external auditor, taking into account the Ethical Standards and legal requirements and paying particular attention to the policy regarding former employees of the audit firm who were part of the audit team and moved directly to the Company.
- 6.6 The Audit & Risk Committee will monitor the application of the Company's policy relating to the employment of former employees of the external auditor, including the number of former employees of the external auditor currently employed in senior positions in the Company, and consider whether, in the light of this, there has been any impairment, or appearance of impairment, of the auditor's independence and objectivity in respect of the audit, and consider the Audit & Risk Committee's own safeguards around independence in its review of effectiveness.
- 7. Allocation of Non-Audit Work:**
- 7.1 The Company wishes to have available to it the best provider of professional services where it is necessary to engage external advisers. It would therefore not wish to debar its external auditor from providing such services so long as they are not prohibited by code or regulation, or where they do not appear to affect the independence and objectivity of the external auditor.
- 7.2 The Audit & Risk Committee is responsible for developing and recommending to the Board the Company's policy in relation to the provision of non-audit services by the auditor, taking into account the Ethical Standard and legal requirements, and to keep the policy under review.
- 7.3 The Audit & Risk Committee is also responsible for approving non-audit services. Its objective is to ensure that the provision of such services does not impair the external auditor's independence or objectivity. In the context of non-audit services that are not prohibited by law, the Audit & Risk Committee will apply judgement concerning the provision of such services, including assessing:
- threats to independence and objectivity resulting from the provision of such services and any safeguards in place to eliminate or reduce these threats to a level where they would not compromise the auditor's independence and objectivity;
  - the nature of the non-audit services;
  - whether the skills and experience of the audit firm make it the most suitable supplier of the non-audit service;
  - the fees incurred, or to be incurred, for non-audit services both for individual services and in aggregate, relative to the audit fee, including special terms and conditions; and
  - the criteria which govern the compensation of the individuals performing the audit.
- 7.4 The Audit & Risk Committee will set and apply a policy on the types of non-audit service for which use of the external auditor is pre-approved. Such approval should only be in place for matters that are clearly trivial. Reporting of the use of non-audit services will include those subject to pre-approval.

- 7.5 The Audit & Risk Committee will set and apply a policy for how it will assess whether non-audit services have a direct or material effect on the audited financial statements, how it will assess and explain the estimation of the effect on the financial statements and how it will consider the external auditor's independence.
- 7.6 It is the policy of the Audit & Risk Committee that only the following non-audit services may be provided, subject to approval by the Audit & Risk Committee after it has properly assessed threats to independence and safeguards applied in accordance with the Ethical Standards:
- 7.6.1 Services required by law or regulation and exempt from the non-audit services cap:
- 7.6.1.1 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.
- 7.6.1.2 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;
- 7.6.1.3 Reporting on internal financial controls when required by law or regulation;
- 7.6.1.4 Reporting on the iXBRL tagging of financial statements in accordance with the European Single Electronic Format for annual financial reports;
- 7.6.1.5 Reports, required or supplied to competent authorities/regulators supervising the 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;
- 7.6.1.6 Services which support the entity in fulfilling an obligation required by UK law or regulation, including listing requirement where: the provision of such services is time critical; the subject matter of the engagement is price sensitive; and 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.
- 7.6.2 Services subject to the non-audit services cap:
- 7.6.2.1 Review of interim financial information; and providing verification of interim profits not otherwise required by law or regulation;
- 7.6.2.2 Where not otherwise required by law or regulation, non-audit and additional services, as defined by the Ethical Standards 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;
- 7.6.2.3 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 to audit work;
- 7.6.2.4 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;
- 7.6.2.5 Reporting on government grants;
- 7.6.2.6 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 according with the Ethical Standards;
- 7.6.2.7 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; and
- 7.6.2.8 Generic subscriptions providing factual updates of changes to applicable law, regulation or account and auditing standards.

- 7.6.3 The total annual fees for non-audit work that is subject to the non-audit services cap (section 7.6.2) allocated to the external auditor shall not exceed 70% of the average audit fee paid during the preceding three years (consecutive).
- 7.6.4 Any non-audit work where the fee is likely to be greater than £25,000 must be approved in advance by the Audit & Risk Committee.
- 7.6.5 Contingent fees are not permitted.
- 7.6.6 At each meeting the Audit & Risk Committee shall receive a report of the fees paid to the external auditor in all capacities, and the amounts of any future services which have been contracted, or where a written proposal has been submitted.

**Reviewed by the Audit & Risk Committee and adopted by the Board on 28<sup>th</sup> November 2022 with effect from 1<sup>st</sup> January 2023.**