

Applies to: All staff	Non-Audit Services Procedure	PR-COR-087
Classification : Internal	Uncontrolled if printed	Rev:3.00

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Peter Lawns on behalf of the Audit Committee	SSE Plc Board	May 2022	May 2024

1. INTRODUCTION

This procedure aims to assist the Audit Committee discharge its responsibility for monitoring and reviewing the independence and objectivity of the External Auditor by outlining the work that can be performed by the External Auditor and related procedures for assigning such work. Recognising that the external audit contract is subject to mandatory rotation from time-to-time, together with the lead time to ensure that potential audit firms are not restricted in their ability to tender for the external audit contract, this Procedure also describes the approval process for non-audit services delivered by any other audit firm. A shorter list of Permitted Non-Audit Services is set out in **Appendix 1**.

2. CATEGORIES OF AUDIT-RELATED AND NON-AUDIT SERVICES AND APPROVAL REQUIREMENTS

The FRC's whitelist of Permitted Audit-Related and Non-Audit services set out in **Appendix 1** describes the nature of all services that can be provided by the external auditor if approved by the Audit Committee. Any Audit-Related Service or Non-Audit Service which is not on the list can not be provided by the external auditor.

- **Audit related services** are those non-audit services that are largely carried out by members of the audit engagement team. The work involved is closely related to the work performed in the audit and the threats to auditor independence are 'clearly insignificant'. As a consequence, safeguards need not be applied. Such engagements do not routinely require Audit Committee approval as the type of work is usually pre-approved by the Audit Committee as part of their approval for the total annual audit fee. Before engaging in any work of this type, approval is required from the Finance Director.
- **Non-Audit Services** are services other than 'audit related services' for which the external auditor is an appropriate provider, particularly where those services are required by UK law or regulation. However, the threats to independence arising from such services are not necessarily 'clearly insignificant'. As a consequence, consideration should be given to whether such services give rise to threats to independence and whether safeguards need to be applied. For the avoidance of doubt, tax, consulting, valuation or corporate finance services (other than reporting accountant engagements) are not permitted. For services appearing on the whitelist, the external auditor must still consider the threats to their independence. In the absence of any apparent threat to auditor independence, approval for the provision of any non-audit service must be obtained from the Audit Committee. The Audit Committee has pre-approved the use of the External Auditor for whitelist non-audit services subject to the following limits: The Finance Director up to £50,000 and Audit Committee Chairman up to £100,000.

3. ADDITIONAL REQUIREMENTS

In addition to the approval requirements set out in section 2, the following additional considerations must also be taken into account prior to the award of any non-audit services to the External Auditor.

2.1 70% cap on non-audit services

There is a 70% cap on non-audit services provided by the External Auditor. The cap is based on comparing the average of three consecutive years of statutory audit fees to the non-audit services in the fourth year. The FRC's whitelist of non-audit services set out in **Appendix 1** indicates where a type of service is expected by the FRC to fall within or outside the 70% cap

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on non-audit services. In circumstances where the approval of an individual engagement for services above would mean that the cumulative level of non-audit fees would exceed 70% of the statutory audit fee paid in the last three consecutive financial years; pre-approval of the engagement along with any others in the financial year is required from the Audit Committee.

2.2 Services provided by other audit firms

SSE's external audit contract is subject to mandatory rotation from time-to-time. Audit firms wishing to tender for the external audit contract would be restricted if they provide services relating to 'designing and implementing internal controls related to financial information or designing and implementing financial information technology systems or the provision of an internal audit function' in the 12 months before the first period of the external audit. Pre-approval of such services from any audit firm must be obtained from the Finance Director Any firm appointed for reporting accountant services will have to assess their independence to broadly the same standard as if they were the external auditor of the company

4. APPROVAL PROCESS

To seek approval for a particular engagement in accordance with this procedure, the sponsor should obtain a proposed scope and fee estimate from the External Auditor before any work commences. This may involve a competitive tender process. An authorisation request must be submitted to the Finance Director¹ for initial consideration before approval is sought in accordance with this procedure.

Once approved, the project should be logged by the Audit Committee Secretary and raised at the next Audit Committee meeting. The Group Financial Controller will also be informed in order to track fees.

5. REPORTING

The Audit Committee will receive a quarterly report on the services being provided by the External Auditor. The Audit Committee will report to shareholders as a minimum on:

- The Company's annual expenditure with the External Auditor on Audit, Audit Related Services and Permitted Non-Audit Services.
- Whether it is satisfied that the integrity of the audit has not been compromised by the provision of Audit Related Services and Permitted Non-Audit Services.
- How the policy on the engagement of the External Auditor to supply non-audit services provides adequate protection to auditor objectivity and independence.

6. AUTHORITY AND REVIEW CYCLE

The Audit Committee is responsible for the implementation of this procedure, which is subject to regular review.

¹ Copying in the Group Financial Controller and Deputy Company Secretary.

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APPENDIX 1

Whitelist of Permitted Non-Audit Services (including Audit Related and Non-Audit Services)	Outside cap	Counts towards cap
Reporting required by a competent authority or regulator under UK law or regulation* for example: <ul style="list-style-type: none"> 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. 	Yes	
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 required to undertake that engagement.	Yes	
Reporting on internal financial controls when required by law or regulation.**	Yes	
Reporting on the iXBRL tagging of financial statements in accordance with the European Single Electronic Format for annual financial reports.	Yes	
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.	Yes	
Services which support the entity in fulfilling an obligation required by UK law or regulation, including listing requirements where: <ul style="list-style-type: none"> 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. 	Yes	
Reviews of interim financial information; and providing verification of interim profits not otherwise required by law or regulation.		Yes
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.		Yes
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 the audited entity or a third-party service provider, where this work is closely linked with the audit work.		Yes
Additional assurance work or agreed upon procedures authorised by those charged with governance performed on material included within or referenced from the annual report		Yes

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Reporting on government grants.		Yes
Reporting on covenant or loan agreements which require independent verification and other reporting to third parties with whom the audited entity has a business relationship in accordance with Appendix C of this Ethical Standard.		Yes
Additional assurance work or agreed upon procedures authorised by those charged with governance performed on material included within or referenced from the annual report.		Yes
Services which have been the subject of an application to the Competent Authority.		Yes
Generic subscriptions providing factual updates of changes to applicable law, regulation or accounting and auditing standards.		Yes
<p>* It is not always clear which services fall within the exemption for services required by EU or national law. It is worth bearing in mind that simply because work may be advised or required by an industry regulator does not mean it is pursuant to legislation – it will depend whether the industry regulator has statutory rights to require the work. Early discussion with the external auditor is recommended for such services in order to avoid potential problems.</p> <p>** This will permit any new requirements for auditors under the future BEIS consultation on internal controls to be outwith the fee cap.</p>		

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