

Morgan Sindall Group plc

Non-audit services policy

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Introduction

Morgan Sindall Group plc is committed to ensuring that the provision of non-audit services by the external auditor does not impair the external auditor's independence or objectivity.

The purpose of this paper is to provide a mandatory policy which sets out the type of non-audit services that the external auditor (incumbent or incoming) can be engaged to undertake for the Morgan Sindall Group, and to set out the process which must be followed prior to work commencing.

This policy applies to the Company and its subsidiaries and to all joint venture companies in which the Group has a shareholding.

This policy is in place to mitigate any risks threatening, or appearing to threaten, the external auditor's integrity, independence and objectivity arising through the provision of non-audit services – namely services which:

- create conflicts of interest between the external audit firm and the Group;
- result in the external audit firm functioning in the role of management;
- result in a fee which is material, relative to the audit fee;
- result in a fee that drives the performance evaluation or remuneration of the individuals performing the audit;
- place the external audit firm in the position of auditing its own work; or
- place the external audit firm in the position of being an advocate for the Group.

This policy is in line with the recommendations and requirements set out in the Revised Ethical Standard ('Ethical Standard'). In line with the Ethical Standard, an external audit firm should only be appointed to perform a non-audit service when doing so would be consistent with both the requirements and overarching principles of the Ethical Standard, and when its skills and experience make it the most reasonable supplier.

It is the responsibility of the Chief Financial Officer, Group Financial Controller and Divisional Finance Directors to ensure that this policy is followed.

Approval of services

The approval of the Audit Committee must be obtained before the external auditor is engaged to provide any permitted non-audit service regardless of size. 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 Permitted Audit-Related and Non-Audit services, which describes the nature of all services that can be provided by the external auditor if approved by the Audit Committee including those that are expected by the FRC to fall within or outside the cap, is included in **Appendix 1**. For the avoidance of doubt, where such services are provided, they shall not include any elements of those services that are subject to outright prohibition in Regulation 80 of The Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019 (SI 2019/177) – see **Appendix 2**.

To seek approval for a particular engagement in accordance with this policy, 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 Chief Financial Officer for initial consideration before formal approval is sought from the Audit Committee.

The nature of all non-audit services proposed to be provided by the external auditor and the fee to be incurred, both for individual non-audit services and in aggregate, relative to the Group audit fee, will be assessed by the Audit Committee and only approved if it concludes in its assessment that:

- the provision of such services will not impair the auditor's independence or objectivity and that there are appropriate safeguards in place to eliminate or reduce such risks;
- the skills and experience required for the provision of the non-audit service makes the external auditor the most suitable supplier of the non-audit service;
- an objective, reasonable and informed third party would conclude that the integrity or objectivity (and therefore independence) of the external auditor will not be compromised through the provision of the non-audit service.

The Audit Committee may give pre-approval to Audit related services as part of their approval for the total annual audit fee and has the discretion to provide ongoing approval for any recurring non-audit services that may be provided by the external auditor.

Where urgent matters arise, the committee has delegated its authority to the chair of the Audit Committee between meetings. Such pre-approval should be ratified at the next meeting of the Audit Committee.

Fees

No service provided by the external auditors should be the subject of a contingent fee.

The total fees for non-audit services provided by the auditor to the Group shall be limited to no more than 70% of the average of the statutory audit fee for the Company, of its controlled undertakings and of the consolidated financial statements paid to the auditor in the last three consecutive financial years.

The Company will report annually on the Group's annual expenditure with the external auditor on the annual audit, audit related services and non-audit services.

Confirmation of independence

The audit committee should seek annually from the external auditor information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including those regarding the rotation of audit partners and staff.

Appendix 1

Permitted services

Audit related services

Audit related services are those non-audit services specified in the Ethical Standard that are largely carried out by members of the audit engagement team, and where the work involved is closely related to the work performed in the audit and the threats to auditor independence may be clearly insignificant. As a consequence, safeguards may not need to be applied. Such engagements may not routinely require separate 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. However, such services provided to the Group, other than those required by law or regulation, are still subject to the 70% cap and require approval by the audit committee. Audit related services are:

- Reporting required by law or regulation to be provided by the auditor;
- Reviews of interim financial information;
- Reporting on regulatory returns;
- Reporting to a regulator on client assets;
- Reporting on government grants;
- Reporting on internal financial controls when required by law or regulation;
- 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.

Permitted Non audit / additional services

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 permitted non-audit / additional services give rise to threats to independence and whether safeguards need to be applied. The approval for the provision of any non-audit service appearing on the list below must be obtained from the Audit Committee:

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

- 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.
- 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.
- 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.
- 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 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 not required by law or regulation - subject to the 70% non-audit services cap

- Reviews of interim financial information; and providing verification of interim profits not otherwise required by law or regulation.
- Where not otherwise required by law or regulation, non-audit and additional services, as defined in the 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.
- 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.
- Reporting on the iXBRL tagging of financial statements in accordance with the European Single Electronic Format for annual financial reports.
- 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.
- Reporting on government grants.
- 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 Ethical Standard.
- 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).
- Generic subscriptions providing factual updates of changes to applicable law, regulation or accounting and auditing standards.

Appendix 2

Prohibited services

The following services cannot be provided to the Group or the Group's wholly owned subsidiaries by the external auditor*:

1. Bookkeeping and preparing accounting records and financial statements
2. Payroll services
3. 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
4. Valuation services, including valuations performed in connection with actuarial services or litigation support services
5. Tax services relating to
 - a) preparation of tax forms
 - b) payroll tax
 - c) customs duties
 - d) identification of public subsidies and tax incentives unless support from the audit firm in respect of such services is required by law
 - e) support regarding tax inspections by tax authorities unless support from the external auditor or audit firm in respect of such investigations is required by law
 - f) calculation of direct and indirect tax and deferred tax
 - g) Provision of tax advice
6. Services that involve playing any part in the management or decision-making of the audited entity
7. Legal services with respect to
 - a) the provision of general counsel
 - b) negotiating on behalf of the audit entity
 - c) acting in an advocacy role in the resolution of litigation
8. Services related to the audited entity's internal audit function
9. 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
10. Promoting, dealing in or underwriting shares in the audited entity
11. Human resources services with respect to
 - a) management in a position to exert significant influence over the preparation of the accounting records or financial statements that are the subject of the statutory audit, where such services involve
 - I. searching for or seeking out candidates for such positions
 - II. undertaking reference checks of candidates for such positions
12. Structuring the Group design
13. Cost control
14. Any other work that is prohibited by the Ethical Guidance

*Services to members of staff

If any of the following individuals or their immediate family members plan to engage the external auditor to provide any prohibited service, for example, personal tax services, they should inform the Chief Financial Officer and the Group Financial Controller prior to engagement:

- Directors / officers of Group companies
- Individuals with a financial reporting oversight role
- Individuals with a significant accounting role