



## **ITV PLC POLICY ON THE INDEPENDENCE AND OBJECTIVITY OF EXTERNAL AUDITORS**

### **INTRODUCTION**

The Financial Reporting Council's ("FRC") Revised Ethical Standard 2019 (the "Ethical Standard") was issued in December 2019. The revision includes tougher ethical standards to strengthen auditor independence, further restricts the type of non-audit services that external auditors can provide and seeks to prohibit/avoid conflicts of interest. The revision only allows external auditors to provide non-audit services which are closely linked to the audit or required by law or regulation.

### **PART A: USE OF EXTERNAL AUDITORS FOR NON-AUDIT SERVICES POLICY**

#### **1. Principles**

The Board is committed to ensuring that the independent role provided by the Company's external auditors in reporting to shareholders is not compromised. However, where it is necessary to engage external advisers, the Company must be able to access the best provider of professional services to the extent permitted by regulation and legislation.

#### **2. Purpose of Policy**

The purpose of this Policy is to ensure that the independence or objectivity of the external auditor of ITV plc (the **external auditor** or **auditor**) is neither impaired, nor is perceived as being impaired, by the conduct of the external auditor or ITV and to ensure it is aligned with the Ethical Standard. This Policy covers: (i) the external auditor's provision of non-audit services; and (ii) ITV's hiring of former external auditor employees. Please also refer to the Audit and Risk Committee (the **Committee**) Terms of Reference for the Committee's duties and responsibilities in relation to ensuring external auditor independence and objectivity, as well as the relevant ethical and professional guidance on the rotation of audit partners.

#### **3. Scope of Policy**

The Ethical Standard is applicable to audits of financial years beginning on or after 15th March 2020. All proposed non-audit services must be assessed by the Group CFO & COO, Director of Finance or the Committee, prior to any work commencing, all as appropriate for compliance with this Policy (in particular, with the Authorisation Requirements within Section 7 below). Proposed services should only be submitted to the Group CFO & COO or Director of Finance once they have been reviewed and approved by the external auditor in accordance with its internal non-audit services policy.

#### **4. Restricted Non-Audit Services**

The provision of non-audit services by the external auditor will be restricted if it:

- 4.1 does not appear on the list of “permitted non-audit services”; and/or
- 4.2 exceeds the cap on the level of permitted non-audit service fees which can be billed.

#### **5. Permitted Non-audit/Additional Services**

The non-audit services listed in Appendix A are permitted by para 5.40 of the Ethical Standard to be performed by the external auditor subject to the Authorisation Requirements within Section 7 below.

#### **6. Fee Cap on Non-Audit/Additional Services**

The cap on permitted non-audit service fees is based on a three-year history of audit fees and is 70% of the average of the statutory audit fees for the preceding three financial years. For a new Group auditor commencing its engagement for the 31st December 2021 year end, the first year the fee cap will be measured will be 31st December 2024. Fees will be monitored on an ongoing basis to ensure compliance with this Policy.

This Policy, including the restrictions and the fee cap, applies to all ITV group companies, audited or non-audited (i.e. majority owned by the ITV group).

No service provided by the external auditor shall be the subject of a contingent fee.

#### **7. Authorisation Requirements**

Prior to any work commencing, all proposed non-audit services must be:

- 7.1 reviewed and approved by the external auditor in accordance with its internal non-audit services policy; and
- 7.2 assessed by the Group CFO & COO and/or Director of Finance for compliance with this Policy.

Following assessment by the Group CFO & COO and/or Director of Finance, the Committee requires that:

- 7.3 in cases where (i) the estimated fee is less than £10,000 (which is considered trivial for the purposes of this Policy), (ii) the services are included within the permitted services list (please refer to Appendix A), and (iii) the cumulative non-audit fees do not breach the fee cap noted above, the Group CFO & COO or Director of Finance can approve the services (effectively these services are pre-approved by the Committee).

The Group CFO & COO or Director of Finance may, at their discretion, discuss the work with the Committee Chair if they have reason to believe the services are more than ‘clearly trivial’, and seek Committee approval; and

7.4 in cases where the estimated fee is greater than or equal to £10,000, the Group CFO & COO and/or Director of Finance must seek the approval of the Committee<sup>1</sup> that the services are compliant with this Policy prior to work commencing. In discharging its responsibilities for approving permitted non-audit services, the Committee will assess the following:

- whether the services are included in the permitted services list (refer to Appendix A);
- threats to independence and objectivity resulting from the provision of the 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 auditor make it the most suitable supplier of the 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;
- whether the non-audit services have a direct or material effect on the audited financial statements;
- how the Committee will assess and explain the estimation of the effect on the financial statements; and
- that the non-audit services fee cap will not be breached by the proposed services.

The external auditor may not be engaged to provide permitted non-audit services when, in the Committee's view, the objectives of the services would be regarded by a reasonable and informed third party as conflicting with the objectives of the audit. This would be the case in particular when the outcome of the services would have a material effect on the preparation or presentation of the financial statements.

A proposal to engage the auditor to provide non-audit services that could give rise to a threat of any significance to the auditor's objectivity and independence requires the approval of the Committee regardless of the proposed fee. The auditor will also be required to confirm to the Committee that it can provide the service without threat to its independence, in accordance with the Ethical Standard, before proceeding.

## **8. Reporting to the Committee and disclosure in the Annual Report**

In order to provide safeguards to auditor independence (particularly the self-interest threat) in the provision of non-audit services the following requirements are in place:

### **Responsibility of the external auditor for provision of services, fees and reporting as follows:**

- maintaining detailed records of all non-audit services undertaken and ensuring that only those services prescribed in Appendix A may be undertaken;
- providing the Committee with a summary relating to all non-audit services, when presenting the half year and full year auditor's report, as a standing agenda item. The summary should include the engagements entered into thus far during the year, the category of service, the fee incurred or to

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<sup>1</sup> Approval by Committee: The Committee Chair has been delegated authority to approve any non-audit services which need approval prior to the next scheduled Committee meeting. Any interim approval must be notified at the next meeting of the Committee.

be incurred, the current ratio of non-audit work fees relative to the expected annual audit fee, with additional commentary on work carried out or to be done relating to independence safeguards;

- confirming auditor independence in writing at the meeting where the auditor presents the external audit plan, and at the meeting where the audit results are reported prior to the audit opinion being finalised; and
- ensuring that all audit and non-audit services provided to the Company have either been approved by the Group CFO & COO, Director of Finance or the Committee, as appropriate.

**Review:** The Committee, in accordance with its Terms of Reference, will annually review the independence and objectivity of the auditor, taking into account UK professional and regulatory requirements and taking into consideration relationships between the Company and auditor as a whole.

**Disclosure:** The Company will report annually on the Group’s annual expenditure with the auditor on non-audit services and will explain how, when the auditor provides non-audit services, auditor independence and objectivity is safeguarded. The disclosure in the Annual Report will summarise the nature of non-audit services rendered by the auditor and why the auditor had to be the provider of those services (rather than another provider).

## **PART B: THE HIRING OF FORMER EXTERNAL AUDITOR EMPLOYEES**

To ensure that the Company’s hiring practices do not impair the independence of the external auditor or the Company and to avoid any conflict of interest, actual or apparent, or breach of another prohibition under any applicable laws or regulations, the Company has adopted the following policy in relation to the hiring of former external auditor employees.

The table below sets out the specified ‘cooling off’ period which external auditor former employees must have had prior to starting a role with ITV. This also applies to previous external auditors during the two-year period following the expiry of their tenure as auditor. Individuals will not be offered employment, secondment or a consultancy role by the Company or any of its subsidiaries, unless the start date of the role is after the end of the specified cooling off period.

<b>Role at ITV</b>	<b>Key ITV audit partner<sup>2</sup></b>	<b>Other key ITV audit team member<sup>3</sup></b>	<b>Other partner not working on ITV audit, or other employee</b>
<ul style="list-style-type: none"> <li>• Key Management Position (ELT or above)</li> </ul>	Two year cooling off period*	One year cooling off period*	One year cooling off period
Any offer made to a former employee of the auditor or former auditor at this level within two years after the employee (or five years in the case of a			

<sup>2</sup> **Key audit partners** shall be the audit partners working on any aspect of the annual audit of the Company, Group or any subsidiary’s financial statements, including but not limited to the statutory audit partner, the risk and controls partner, treasury and any tax partners. The Committee may widen the scope of this definition from time to time.

<sup>3</sup> **Other key team members** shall be any associate partners, directors or senior managers associated with the auditor working on any aspect of the annual audit of the Company, Group or any subsidiary’s financial statements.

<ul style="list-style-type: none"> <li>• Non-Executive Director</li> </ul>	key ITV audit partner) leaving the audit firm must be pre-approved by the Committee <sup>4</sup> .		
Any other role	Two year cooling off period	Three months cooling off period	Must cease activity on the audit (if they are an employee working on this) immediately on tendering resignation to firm. No cooling off period required

*\* The time periods shaded in blue are the minimum cooling off periods required for key audit partners and other key team members engaged on the ITV audit under the Ethical Standard.*

In addition:

- the Company shall not hire the spouse, spousal equivalent, parent, dependant, non-dependant child or sibling of any key audit partner for a position with the Company in an accounting role or a financial reporting oversight role, within the same time period as specified in the table for the key audit partner;
- the Group CFO & COO shall report annually to the Committee on the profile of the preceding year’s hires from the external auditor; and
- the Company shall notify a key audit partner prior to making a formal offer of employment to a member of the audit team.

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<sup>4</sup> **Pre-approval of employment by Committee:** The Committee Chair has been delegated authority to deal with these appointments at their discretion. Any interim approval must be notified at the next Committee meeting.

## **APPENDIX A – PERMITTED NON-AUDIT SERVICES**

### **Services required by law or regulation and exempt from the non-audit services fee 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 under the Financial Services and Market 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 the 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 it is probable that an objective, reasonable and informed third party would conclude that the understanding of the entity obtained by the auditor from 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 fee cap (see Section 6):**

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 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 possible 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 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.
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.