

## 1.0 Introduction and standard rationale

Harbour Energy Plc is a UK listed entity, defined as a Public Interest Entity (PIE) under relevant legislation, and is required to comply with relevant legislation with regard to the engagement of its external auditors for non-audit services and regulatory requirements from the Financial Reporting Council, primarily the audit and assurance Revised Ethical Standard 2019.

The Audit and Risk Committee (ARC) is responsible for approving non-audit services. The purpose of this Standard is to ensure that the provision of non-audit services by external auditors does not impair, and is not perceived to impair, the external auditors' independence or objectivity. In the context of non-audit services that are not prohibited by law, the ARC will apply judgement concerning the provision of such services, including an assessment of:

- 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 external auditors' 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 (for example contingent fee arrangements).
- The criteria which govern the compensation of the individuals performing the audit

A proposal to engage external auditors to provide a non-audit service that could give rise to a threat of any significance to the external auditors' independence and objectivity must be approved by the ARC regardless of the proposed fee.

In line with the recommendations set out in the Financial Reporting Council's (FRC) Guidance on Audit Committees (2016) and the requirements of the FRC's Revised Ethical Standard (2019), before proceeding, the external auditors will also be required to confirm to ARC that they can provide the service without any threat to their independence.

## 2.0 General requirements

Schedule 1 sets out the categories of services that may be provided by external auditors under this Standard. The categories have been prepared in accordance with relevant legislation, and in considering services that may impact on the external auditors' independence or objectivity.

### 2.1 Permitted non-audit services (Schedule 1, Categories 1 and 2)

Services set out in Schedule 1, Categories 1 and 2, may be provided by external auditors subject to approvals as laid out in 3.1. A request to engage external auditors for permitted non-audit services must be submitted, in the first instance, to the Corporate Controller and Company Secretary. If appropriate (see 3.1) the request will then be submitted to the Chair of the ARC, advising the category of the engagement and including the proposed engagement fee alongside an update on expenditure on non-audit fees during the year to date, relative to average of the last three years' audit fees.

For any service falling within Schedule 1, Category 2, the Chair of the ARC will consider this Standard and the following prior to approval of the engagement being provided:

- Whether the non-audit services have a direct or material effect on the audited financial

statements

- How the ARC will assess and explain the estimation of the effect on the financial statements
- How it will consider the external auditors' independence and objectivity

The external auditors may not be engaged to provide a non-audit service when the objectives of the service 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 service would have a material effect on the preparation or presentation of the financial statements.

In addition, the external auditors may not be remunerated on a contingent fee basis.

## 2.2 Prohibited non-audit services (Schedule 1, Category 3)

The external auditors shall not be used to provide the services outlined in Schedule 1, Category 3. In addition, it may not be in the interests of Harbour to engage its external auditors to carry out other services where there is a conflict of interest due to a relationship with another client of the external auditors.

## 3.0 Cap and reporting

A report on cumulative annual non-audit related expenditure will be provided as per 3.2 below or more frequently as required at each meeting of the ARC for ratification by the ARC. The report will include the engagements entered into thus far during the year, the category of work (by reference to Schedule 1), the fee incurred or to be incurred and the current ratio of non-audit work fees relative to the expected annual audit fee.

The cap on non-audit service fees is set at 70% of the average of the audit fees for the preceding three-year period (*Revised Ethical Standard 2019 para 4.15*).

### 3.1 Audit & Risk Committee Approval

Following assessment by the Corporate Controller and Company Secretary for compliance with this Standard, non-audit services considered to be immaterial do not require approval from the ARC prior to work commencing.

Services will be subject to the following levels of review and approval:

- Less than \$10k - all services with an estimated fee of less than \$10k are considered to be immaterial due to the value of the service and hence regarded as pre-approved by the ARC provided the Corporate Controller assures the service is not in Category 3.
- Between \$10k and \$500k - requires the Chief Financial Officer's assurance and hence approval that the non-audit services are compliant with this Standard together with approval from the Chair of the ARC, and
- Above \$500k – requires approval from the ARC

### 3.2 Reporting to Audit Committee

At each half-year, the external auditor will present a report to the ARC which states:

- Fees charged for non-audit services year-to-date;
- Fees approved but not yet charged for non-audit services year-to-date;
- The nature of each piece of non-audit work performed or services provided;

- An analysis showing that the non-audit fees paid to the external auditor year-to-date (including services approved but not yet billed) does not / is not forecast to exceed the 70% threshold(s) at year-end.

The Chair of the ARC will review this report to confirm that all services charged and those approved but not yet charged align with the company's records. The purpose of this is to ensure that all services were reviewed and approved for compliance with this Standard.

**SCHEDULE 1 - REVISED ETHICAL STANDARD 2019, PARA 5.40 AND APPENDIX B****Category 1 - Services required by law or regulation and 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;
- Reporting on internal financial controls when required by law or regulation;
- Reporting on the iXBRL tagging of financial statements in accordance with the European Single Electronic Format for annual financial reports;
- 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 an 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.

**Category 2 - Services subject to the 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;<sup>1</sup>

- 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;
- 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.

### Category 3 - Prohibited Non-Audit Services

- Tax services relating to:
  - Preparation of tax forms;
  - Payroll tax;
  - Customs duties;
  - Identification of public subsidies and tax incentives unless support from the audit firm in respect of such services is required by law;
  - Support regarding tax inspections by tax authorities unless support from the audit firm in respect of such inspections is required by law;
  - Calculation of direct and indirect tax and deferred tax; or
  - Provision of tax advice;
- Services that involve playing any part in management or decision-making of the audited entity;
- Bookkeeping and preparing accounting records and financial statements;
- Payroll services;
- 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;
- Valuation services, including valuations performed in connection with actuarial services or litigation support services;
- Legal services, with respect to:
  - Provision of general counsel;
  - Negotiating on behalf of the audited entity; or
  - Acting in an advocacy role in the resolution of litigation.
- Services related to the audited entity's internal audit function;

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<sup>1</sup> This does not include accounting services.

- 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;
- Promoting, dealing in, or underwriting shares in the audited entity;
- Human resources services with respect to:
  - Management in a position to exert significant influence over the preparation of accounting records or financial statements which are the subject of the audit, where such services involve:
    - Searching for or seeking out candidates for such positions; or
    - Undertaking reference checks of candidates for such positions;
  - Structuring the organisation design; or
  - Cost control.