

2014 Auditor Engagement Policy including Auditor Independence and Cap on Non-Audit Fees

It is important that the independent role of the external auditor in reporting to shareholders is not compromised. Equally the Group should not be deprived of expertise where it is needed and therefore Deloitte LLP has been and may continue to be contracted to carry out or support a number of projects for Spirax-Sarco Engineering plc (the “Group”).

The Group’s policy on audit independence is as follows:

The Audit Committee (“Committee”) with the approval of the Board, has put in place policies that restrict the types and the amount of non-audit work that can be carried out by the external auditor. The Committee is provided with a report of all non-audit work carried out by the external auditor and a full breakdown of fees related to non-audit work. These policies, restrictions and reporting requirements allow the Committee to ensure that auditor objectivity and independence is maintained.

In accordance with the International Standard on Auditing (UK and Ireland) 260 and the Ethical Statement issued by the Auditing Practices Board, the external auditor shall confirm, in writing to the Directors, its independence as auditor of the Company.

The Institute of Chartered Accountants in England and Wales sets out threats to the independence of the auditor as:

- self interest, where an interest in the outcome of their work, or in a depth of relationship with the Group, might conflict with the auditor’s objectivity;
- self review, where the auditor may be checking their own colleagues’ work and might feel constrained from identifying risks or shortcomings;
- advocacy, which is present in many engagements but becomes a threat if the auditor becomes an advocate for an extreme position in adversarial proceedings;
- over-familiarity or intimidation.

This policy discusses the impact on auditor independence of the use of an external auditor for non-audit assignments. It also recommends the type of work that can be performed by an external auditor and procedures for assigning such work.

Finally, this policy sets out a cap on the aggregate of non-audit fees paid to the auditor in any year of seventy per cent (70%) of the average of the audit fees charged in the last three years, which is compliant with proposed EU audit legislation.

Types of non-audit work and procedure for approval

The Committee is responsible for approving non-audit work. The proposed categories of non-audit work along with the related approval level are set out below. More detail on each type of work is set out in the Appendix. This work is subject to the cap set out below.

(a) Statutory and audit related

There are certain projects where the external auditor is best placed to perform the work as it is clearly audit related (e.g regulatory work and acting as reporting accountants to share and bond issues). It is proposed that such assignments do not require Committee approval. However, recognising that the level of non-audit fees may also be a threat to independence, Committee approval is required for engagements of **£100k and above**.

(b) Audit and assurance related

There are a significant number of projects and engagements where the external auditor is best placed to perform the work due to their network within and knowledge of the business (e.g taxation advice including compliance, due diligence and advice on accounting). Committee approval is required for engagements of **£50k and above**.

(c) Non-audit advisory services

There may also be other assignments not included in the categories above, where the external auditor is in a position to provide the best service to the Group due to their previous experience or market leadership in a particular area (e.g. certain advisory projects). Committee approval is required for engagements of **£50k and above**.

(d) Not permitted

There are some projects that are not to be performed by the external auditor. These projects represent a real threat to the independence of the audit team, for example, as it could lead to the external auditor being in a position of auditing their own work, such as systems implementations.

To seek approval from the Committee, the project sponsor should obtain a proposed scope and fee estimate from the auditor before work commences - this may involve a competitive tender process. If the fee estimate exceeds the relevant limit set out in this policy, details of the scope and fee proposal should be submitted to the Committee Chairman and the Finance Director.

From a practical perspective, it is unlikely to be possible to convene a Committee meeting each time a project involving an external auditor requires approval. Accordingly, the Committee Chairman and the Finance Director should use their own discretion as to the level of consultation required with the rest of the Committee and the Board.

(e) Cap on Non-Audit Fees

The Committee has set a cap on the aggregate of non-audit fees paid to the auditor in any year of seventy per cent (70%) of the average of the audit fees charged in the last three years.

(f) Mandatory Rotation of Auditor

The maximum period of an audit engagement shall be ten (10) years calculated from the date of the first financial year covered by the Audit Engagement Letter. On the expiry of the maximum period the Company shall select a new audit firm by way of a tender process.

Appendix 1 - Examples of engagements that may or may not be awarded to the auditor

	Statutory and audit related	Audit and assurance related	Non-audit advisory services	Not permitted
Category of work	Engagements requiring Committee approval subject to £100k limit	Engagements requiring Committee approval subject to £50k limit	Engagements requiring Committee approval subject to £50k limit	Engagements that are not permitted to be performed by the auditor
Characterised by	<ul style="list-style-type: none"> Advice on areas core to the financial statements and audit 	<ul style="list-style-type: none"> Engagements requiring an independent, objective assessment of information or procedures Staff secondments 	<ul style="list-style-type: none"> Other advisory services 	<ul style="list-style-type: none"> Participation in management, joint ventures or other financial arrangements
External reports	<ul style="list-style-type: none"> Reporting accountants' reports and comfort letters in connection with shareholder circulars, listing particulars or bond issues 			
Acquisitions	<ul style="list-style-type: none"> Accountants' reports 	<ul style="list-style-type: none"> Due diligence and related advice Audit of completion accounts Agreement of price adjustments arising from completion accounts 	<ul style="list-style-type: none"> Lead broker/dealer services Advice on post deal integration Preparation of forecasts or investment proposals 	
Disposals	<ul style="list-style-type: none"> Audit of carve-out financial statements 	<ul style="list-style-type: none"> Vendor due diligence 	<ul style="list-style-type: none"> Advice on negotiations and sale memorandum Preparation of sale memorandum Lead broker/dealer services 	

	Statutory and audit related	Audit and assurance related	Non-audit advisory services	Not permitted
Category of work	Engagements requiring Committee approval subject to £100k limit	Engagements requiring Committee approval subject to £50k limit	Engagements requiring Committee approval subject to £50k limit	Engagements that are not permitted to be performed by the auditor
Taxation		<ul style="list-style-type: none"> • Preparation of draft tax returns • Regular advice on tax matters and recent developments • Ex-patriate tax work • Transfer pricing studies, preparation of comparables data and documentation 	<ul style="list-style-type: none"> • Advice on complex or high risk tax matters • Submission of returns and correspondence with tax authorities • Valuations which are solely for tax purposes 	<ul style="list-style-type: none"> • Preparation of accounting entries for tax
General accounting		<ul style="list-style-type: none"> • Advice on preparation of financial information and application of GAAP • Training support for accounting and risk management projects • Preparation of local statutory accounts which do not form the basis for Group reporting 	<ul style="list-style-type: none"> • Advice on bookkeeping services • Advice on processing payrolls 	<ul style="list-style-type: none"> • Preparation of accounting entries • Preparation of financial information
Support to Internal Audit		<ul style="list-style-type: none"> • Training support 	<ul style="list-style-type: none"> • Advice on methodology and systems 	<ul style="list-style-type: none"> • Full outsourcing
Risk management services		<ul style="list-style-type: none"> • IT and other controls reviews 	<ul style="list-style-type: none"> • Advice on design and implementation of policies, controls and security arrangements 	<ul style="list-style-type: none"> • Systems implementation