

KINGFISHER PLC

USE OF EXTERNAL AUDITORS FOR NON-AUDIT SERVICES

(Applicable from 1 February 2017)

APPROVED BY:	AUDIT COMMITTEE OF THE BOARD OF KINGFISHER PLC January 2017
LAST UPDATED:	January 2017
VERSION:	2017/01

Contents

Principles 1.1

Scope 1.2

Prohibited Non Audit Work 1.3

Permitted Non Audit Work 1.4

Recruitment of staff directly from the external auditors..... 1.5

Reporting to the Kingfisher Audit Committee..... 1.6

Appendix.....

Use of External Auditors

1.1. Principles

Over the years, the Kingfisher Group external audit firms have been contracted to carry out or support a number of projects in the Group or Operating Companies and at the corporate centre.

It is important that the independent role of our external auditors in reporting to shareholders is not, and does not appear to be, compromised but equally, the Group should not be deprived of their expertise where it is needed, standards permit their use and adequate safeguards can be implemented to address any threat.

In general, Kingfisher Group and Operating Companies should seek the most competent and competitive external service provider available in their market.

Regarding the use of external auditors we will be mindful of the criteria set by the Financial Reporting Council in its Revised Ethical Standard 2016 (ES), which replaces Ethical Standard 5 on Non-Audit services provided to audit clients.

ES states that “...where it is probable that an objective, reasonable and informed third party would conclude that the proposed non-audit... service would impair integrity or objectivity and compromise the independence of the firm or covered persons, the firm shall either:

- a) not undertake the non-audit... service; or
- b) not accept or shall withdraw from the [audit] engagement as appropriate”.

Appendix 1 sets out the types of work that can be performed and the types of work that cannot be performed by our external auditors.

Non-audit services will also be restricted by any local regulations (e.g. French Independence rules).

There is currently no absolute or relative upper limit to the amount of non-audit work done by the external auditors as a matter of professional standards. The “70% cap” will apply for the year ended 31 January 2021 – from that point:

- Fees to Deloitte LLP (the UK firm) for non-audit services (other than for services required by EU or national law – which are uncapped) should not exceed 70% of average audit fees for Kingfisher plc and its worldwide subsidiaries for the preceding three years paid to Deloitte LLP; and
- Fees to Deloitte LLP and other members of Deloitte Touche Tohmatsu Limited (‘DTTL’, the Deloitte global network of firms) for non-audit services (other than for services required by EU or national law – which are uncapped) should not exceed 70% of average audit fees for Kingfisher plc and its worldwide subsidiaries paid to Deloitte LLP and other members of DTTL.

This means that the cap will first apply to 2020/21, based on average audit fees for 2017/18, 2018/19 and 2019/20.

In the event of a change of auditor, the clock would start again – so the cap would apply in the fourth year of a new auditor’s appointment. New auditors, in addition to ceasing prohibited services before the start of the first audited financial year,

would need to have ceased providing the following services 12 months earlier: designing or implementing internal control or risk management procedures relating to the preparation and/or control of financial information.

Whilst there is no statutory or regulatory cap at present, we should nevertheless be able to ensure the fairness with which non-audit services are awarded and that the level of fees could not impact the independence, or appearance of independence, of the statutory auditor. For that reason, should the aggregate value of non-audit fees in a financial year to average audit fees for the previous three financial years (both for Deloitte LLP and DTTL) reach the ratio cap of 0.5:1, any further engagement must be approved by the Chairman of the Kingfisher Audit Committee, with subsequent notification to the Kingfisher Audit Committee, after review by the Group Financial Controller and by the Group Finance Director, regardless of whether it requires pre-approval for another reason (see below).

Note that non-audit services include audit-related services (see Appendix 1), other than those services required by EU or national law. For example, an interim review is not normally required by law, although audit-related, and is therefore subject to the 50% cap.

This policy sets out the scope of work which is permissible and how that work should be awarded and monitored.

1.2. **Scope**

This policy applies to the Group's appointed external auditors for all Kingfisher Group or Operating Companies. For other firms involved in the external audit work of one specific Group or Operating Company, this policy applies to the sole scope of the operating company, its subsidiaries, minority interests and partnerships.

1.3. **Prohibited Non-Audit Work**

Details of prohibited services can be found in Appendix 1 to this policy.

In other situations where it is unclear whether there is a direct conflict with their role as external auditors, external auditors must consult directly with the Group Financial Controller, and where applicable, seek Kingfisher Audit Committee approval, before accepting the assignment. The auditor will confirm that the work is not prohibited, and provide an analysis of threats and appropriate safeguards, and where applicable confirm that the impact of the services is inconsequential to the financial statements.

1.4. Permitted Non-Audit Work

Pre-Approved services

The Kingfisher Audit Committee has pre-approved the provision of the following services by the external auditor:

a) Statutory audit services and audit-related services (see Appendix 1) for the Group and Operating companies

b) Other services

(i) Project below £25,000

The Group or Operating Company should consider the guidance in section 1.3 to ensure that possible conflicts as set out therein do not arise and also refer to Appendix 1. The Group Financial Controller should also be notified.

(ii) Project above £25,000 and below £100,000

The decision and reason for using the external auditors should be documented and submitted to the Group Financial Controller. They will review the nature of work which needs to be undertaken and assess whether, if performed by the audit firm, it would result in a conflict of interest. Note that the approval of the Group Financial Controller must be received before the work is committed to or started – see Appendix 2.

(iii) Project above £100,000 and below £250,000

The decision and reason for using the external auditors should be documented and submitted to the Group Financial Controller. He will review the nature of work which needs to be undertaken and assess whether, if performed by the external audit firm, it would result in a conflict of interest. A recommendation sheet will be established and submitted to the Group Finance Director for approval with notification to the Chairman of the Kingfisher Audit Committee. Note that the approval of the Group Finance Director must be received before the work is committed to or started – see Appendix 3.

(iv) Project above £250,000

The Group or the Operating Company should wherever possible conduct a tender process with at least three different firms. If the external auditors are the preferred firm, documentation explaining the reason for selecting the external auditors as being better than the alternatives should be established. The Group Financial Controller will review the nature of work which needs to be undertaken and assess whether, if performed by the external audit firm, it would result in a conflict of interest. A recommendation sheet will be established and submitted to the Group Finance Director and the Chairman of the Kingfisher Audit Committee for approval with subsequent notification to the Kingfisher Audit Committee – see Appendix 4.

If a tender process is not possible and therefore the external auditors are the selected firm (e.g. where issues of confidentiality or conflict of interest may arise), specific pieces of work may be exceptionally approved. In such cases, the reason for not going through the tender process must be clearly set out.

1.5. **Recruitment of staff directly from the external auditors**

A potential conflict of interest arises if an individual is recruited directly from the external auditors who holds a position of influence or authority within the external audit engagement team. The FRC's Ethical Standard requires that no Audit Engagement Partner (or Engagement Quality Control Review Partner, Key Audit Partner or Partner in the Chain of Command) is employed by an audit client as a director, as a member of an audit committee or to a Key Management Position (each as defined in the FRC's standards) for a period of two years from the conclusion of the audit.

To mitigate this risk, the following provisions apply, which are more extensive than the FRC provisions:

(i) **Audit partner or director**

Kingfisher Group and Operating Companies should not offer employment to any individual who is (a) an audit partner, (b) is an audit director approved as a Responsible Individual for audit purposes or (c) is an audit director not approved as a Responsible Individual but involved in the audit of a Kingfisher Group or Operating Company for a period of two years after they cease to act in that role.

(ii) **Audit engagement senior manager or manager**

Kingfisher Group and Operating Companies should not offer employment to any individual who is currently acting or has acted as an audit engagement senior manager or manager for a period of one year after they cease to act in that role.

(iii) **Other audit engagement personnel**

Kingfisher Group and Operating Companies may offer employment to other, more junior, individuals who are currently members of the audit engagement team with the written consent of the Group Financial Controller.

(iv) **Other employees of the external auditors**

Kingfisher Group and Operating Companies may offer employment to other employees of the external auditors (i.e. those not meeting (i) to (iii) above) with the written consent of the Group Finance Director (in the case of partners, directors or their equivalents) or the Group Financial Controller (for senior managers, managers or their equivalents). No approval is required for more junior individuals.

For the avoidance of doubt, reference to individuals who have worked on the "audit engagement" refers to any part of the Group's external audit, whether at Group or Operating Company level and includes personnel working in other service lines

(for example tax or actuarial specialists) in equivalent roles that contribute to the external audit.

In all cases above, as a courtesy the external auditors should be informed of any proposed offer of employment. Unless otherwise advised this will be managed by the Group Financial Controller.

1.6. **Reporting to the Kingfisher Audit Committee**

Group and Operating companies must retain details of all services provided by the external auditors and be in a position to submit such details as part of the annual financial reporting process to the Group Financial Controller.

As a cross-check for the completeness of this data, the external auditors will prepare for each Kingfisher Audit Committee a summary of the projects invoiced, highlighting the accumulated expenditures, and the projects committed to.

The Group Financial Controller will prepare an annual report to the Kingfisher Audit Committee summarising the reports from the various external audit firms and highlighting more specifically for projects above £250k the benefits both expected and achieved in selecting the external auditors.

Appendix

Framework for Distinction between service offerings.....	Appendix 1
Submission for Projects above £25k and below £100k.....	Appendix 2
Submission for Projects above £100k and below £250k.....	Appendix 3
Submission for Projects above £250k.....	Appendix 4

Audit related services include:

- 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

Other Services

	Work that CAN be performed by our external auditors	Work that CANNOT be performed by our external auditors
General	<ul style="list-style-type: none"> • Assistance to the Kingfisher Audit Committee in fulfilling its responsibilities in connection with the financial reporting process, providing the auditor does not take on the role of advocate • Services required under local regulations to be provided by the external auditors (or by an independent accounting firm where it is expected that only the audit firm will meet the independence requirement) 	<ul style="list-style-type: none"> • Provision of management functions / taking of management decisions • Staff secondments • Recruitment of senior management • JVs or other financial arrangements between the external auditor and Kingfisher which create a self-interest threat • Advocacy of a position adopted by Kingfisher on any issue of accounting principles, taxation or other matter of professional judgement. Accounting treatments must be appropriate and in line with well-established interpretations (not just a “house view”). • Performance improvement through cost reduction and effectiveness
General accounting	<ul style="list-style-type: none"> • Support for accounting training • Advice on accounting re-statements 	<ul style="list-style-type: none"> • Bookkeeping services • Preparation of accounting records • Preparation of financial statements • Preparation of Kingfisher financial information • Processing payrolls • Support in preparing manuals and instructions
Acquisitions	<ul style="list-style-type: none"> • Due diligence for acquisitions (including tax due diligence but not tax structuring advice) • Audit of completion accounts • Advice on methodology for Kingfisher to prepare purchase price allocations • Audit of opening balance sheet • Advice on post-acquisition synergies where this does not impact capital allocation or investment strategy • Agreement of price adjustment calculations 	<ul style="list-style-type: none"> • Lead broker/dealer services, investment advisor or investment banking service • Preparation of forecasts or investment proposals • Valuations for purchase price allocation in accounts • Fairness opinions except where the valuation is inconsequential to the financial statements • Pre-transaction post merger integration services • Due diligence where the external auditor advises the vendor on the transaction
Disposals	<ul style="list-style-type: none"> • Assistance with Bid Support and Defence, including defence planning and work on prospective targets/predators. • Audit of carve out financials • Preparation of vendor due diligence reports for disposals • Agreement of price adjustment calculations 	<ul style="list-style-type: none"> • Advice on negotiations and sales memoranda • Preparation of sales memoranda • Lead broker / dealer services

	Work that CAN be performed by our external auditors	Work that CANNOT be performed by our external auditors
Valuation services, Fairness opinions and contribution-in-kind reports (in addition to those detailed within the acquisitions, disposals and taxation sections)	<ul style="list-style-type: none"> • Valuation services for non-financial reporting purposes, including cost segregation studies 	<ul style="list-style-type: none"> • Review by the audit firms' valuation expert of the work of a Kingfisher specialist (except as part of the audit, where the Kingfisher specialist provides the technical expertise that we use in determining the required amounts recorded in our financial statements) • Appraisal and valuation services including any process of valuing assets, both tangible and intangible, or liabilities, including valuing: <ul style="list-style-type: none"> - financial instruments; - assets and liabilities in a merger; - property; and - preparation of Black-Scholes valuations • Fairness and contribution in kind reports (in which the external auditors provide an opinion on the adequacy of consideration in the transaction), unless the consideration is eliminated on consolidation or the external auditors are required by law to give the opinion • Transfer pricing
Broker-Dealer, Investment Advisor or Investment Banking Services		<ul style="list-style-type: none"> • Broker-Dealer, Investment Advisor or Investment Banking Services, including: <ul style="list-style-type: none"> - serving as an unregistered or registered broker-dealer; - serving as a promoter or underwriter; - making investment decisions; - having discretionary authority over investments; - executing a transaction to buy or sell a Kingfisher investment; - having custody of assets of Kingfisher; - performing analyst functions with respect to Kingfisher stock.
Taxation		<ul style="list-style-type: none"> • Advice on tax matters (including those which are complex or high risk) and recent developments • Calculation of direct and indirect tax and deferred tax • Identification of public subsidies and tax incentives • Preparation and submission of tax forms and dealing with correspondence from tax authorities in respect of those returns that does not constitute advocacy • Preparation of tax accounting entries • Handling Kingfisher tax payments • Appearing for Kingfisher in material judicial or tribunal proceedings or acting as an advocate once HMRC have indicated disagreement • Tax related software licences • Extension of functionality of income tax software to generate some or all of information needed to prepare the income tax accrual and disclosures in the financial statements • Tax opinions used by Kingfisher to induce a third party to enter into a business transaction

	Work that CAN be performed by our external auditors	Work that CANNOT be performed by our external auditors
		<ul style="list-style-type: none"> • Promotion of tax structures/products or provision of tax advice where there is reasonable doubt as to the appropriateness of the accounting treatment • Tax services wholly or partly on a contingent fee basis where the outcome of those tax services (and, therefore, the amount of the fee) is dependent on the proposed application of tax law which is uncertain or has not been established. • Expatriate tax work that has a potential impact on the financial statements. • Advice in relation to customs • Advice in relation to payroll taxes
Corporate Governance	<ul style="list-style-type: none"> • Advice on the implications and interpretation of new corporate governance rules and pronouncements 	
Systems and Processes	<ul style="list-style-type: none"> • Non-audit specific IT and other control reviews (where the external auditor are not the system designers) provided that this constitutes external advice that is not design or implementation or external assurance – internal audit is prohibited, even if not subject to audit • Assessment of and advice on security infrastructure, systems and processes that does not constitute taking a management role 	<ul style="list-style-type: none"> • 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. This ban extends worldwide, irrespective of (a) materiality or (b) whether the system is subject to audit or not.;
Risk Management	<ul style="list-style-type: none"> • Risk management training 	<ul style="list-style-type: none"> • Implementation of methodologies/processes/systems
Corporate Audit		<ul style="list-style-type: none"> • All internal audit work
Corp. secretarial admin.	<ul style="list-style-type: none"> • Advice on secretarial and regulatory requirements provided this does not involve any management functions 	<ul style="list-style-type: none"> • Holding company / dormant company liquidations
Actuarial services		<ul style="list-style-type: none"> • Actuarial valuations of items including pension or other post-retirement obligations to be recorded in the financial statements
Legal	<ul style="list-style-type: none"> • The auditor is permitted to testify as a fact to its audit work e.g. provision of an explanation in a tax court of how tax returns were prepared. 	<ul style="list-style-type: none"> • Legal services including services in connection with litigation, administrative or regulatory proceedings e.g. expert witness, forensic accounting services, opinions unless related to the audit.
Environmental	<ul style="list-style-type: none"> • Software licence provided there is no impact on the financial statements • Advice on environmental reporting as part of any assurance engagement 	
Corporate Responsibility	<ul style="list-style-type: none"> • Advice on corporate social responsibility reporting as part of any assurance engagement 	

Appendix 2

Submission for Projects Above £25,000 and Below £100,000

Company:	Date:	Reference:
<p>Purpose of the project:</p> <p>Scope:</p> <p>Cost:</p> <p>What are the specific benefits expected from the project?</p> <p>What are the reasons for selecting the External Audit firm?</p> <p>Group Financial Controller Review:</p> <p>Date:</p> <p>Signature:</p>		

Appendix 3

Submission for Projects Above £100,000 and Below £250,000

Company:	Date:	Reference:
<p>Purpose of the project:</p> <p>Scope:</p> <p>Cost/Milestones:</p> <p>What are the specific benefits expected from the project?</p> <p>What are the reasons for selecting the External Audit firm?</p>		
<p>Group Financial Controller review and recommendation:</p> <p>Date: Signature:</p>		
<p>Group Finance Director Approval:</p> <p>Date: Signature:</p>		

Appendix 4

Submission for Projects Above £250,000

Company:	Date:	Reference:
<p>Purpose of the project:</p> <p>Scope:</p> <p>Cost/Milestones:</p> <p>What are the specific benefits expected from the project?</p> <p>What are the reasons for selecting the External Audit firm?</p>		
<p>Group Financial Controller review and recommendation:</p> <p>Date: Signature:</p>		
<p>Group Finance Director Approval:</p> <p>Date: Signature:</p>	<p>Chairman of the Kingfisher Audit Committee approval:</p> <p>Date: Signature:</p>	