

Use of External Auditors for non-audit work

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Chapter 1

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 operating companies and at the corporate centre. This work often has been material compared to the statutory audit, tax and due diligence work the external auditors perform.

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.

In general Kingfisher Group companies should seek the most competent and competitive external service provider available on their market.

Regarding the use of external auditors we will be mindful of the criteria set by the Auditing Practices Board in its Ethical Standards – 5 (ES5) on Non Audit service provided to audit clients.

ES5 states that “*Where the audit engagement partner considers that it is probable that a reasonable and informed third party would regard the objectives of the proposed non audit service engagement as being inconsistent with the objectives of the audit of the financial statements. The audit firm should either:*

- a) Not undertake the non-audit service engagement; or*
- b) Not accept or withdraw from the audit engagement”.*

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

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

There is no absolute or relative upper limit to the amount of non audit work done by the external auditors. However, we should be able to ensure the fairness with which it was awarded and that it is not at a level, or of a nature, which could impact the independence of the statutory audit.

Should the value of non-audit fees to audit fees reach the ratio of 1:1 any further engagement must be approved by the Audit Committee after review by the Group Financial Controller and by the Group Finance Director.

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

Use Of External Auditors

1.2. **Scope**

This policy applies to the Group external auditors for all Kingfisher operating companies. For other firms involved in the external audit work of one specific 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**

There are two principal areas which may give rise to a direct conflict with the role of auditor, and therefore in which the use of Group external auditors is not permitted:

- (i) Consulting assignments for the design and implementation of financial systems whose review is an integral part of the statutory audit process.
- (ii) Assignments or secondments of staff directly involving members of the audit team.

In other situations where it is unclear whether there is a direct conflict with their role as auditors, external auditors must consult directly with the Group Financial Controller before accepting the assignment. Such assignments might include, but not be limited to, valuation services, internal audit services, tax advisory services in relation to products or structures or litigation services.

1.4. **Permitted Non Audit Work**

Pre-Approved services

The audit committee has pre-approved the provision of the following services by the external auditor:

- i) Statutory audit services for the group and operating companies

Other services

- (i) Project below £25k

The 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.

- (ii) Project above £25k and below £250k

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 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.

- (ii) Project above £250k

The Group or the operating company should wherever possible conduct a tender process with at least 3 different consulting firms. If the external auditors are the preferred firm, documentation explaining the reason for selecting the external auditors better than the alternatives should be established. The Group Financial

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Controller 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. A recommendation sheet will be established and submitted to the Group Finance Director and the Chairman of the Audit Committee for approval with subsequent notification to the Audit Committee.

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. Reporting to the Kingfisher Audit Committee

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 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.

Chapter 2

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Appendix 1

Audit and audit related services include:

- Annual external audit
- Reporting accountants' reports and comfort letters (including working capital) in connection with Circular or Listing Particulars
- Advice on the preparation of financial information and the application of GAAP (including license of technical material)
- Other regulatory reporting.

Other Services

	Work that CAN be performed by our auditors	Work that CANNOT be performed by our auditors
General	<ul style="list-style-type: none"> • Assistance to the 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 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 PwC and Kingfisher which create a self interest threat • Advocacy of an extreme position adopted by Kingfisher on any issue of accounting principles, taxation or other matter of professional judgement • Performance improvement through cost reduction and effectiveness
General accounting	<ul style="list-style-type: none"> • Support for accounting training • Preparation of local statutory accounts which do not form the basis for Kingfisher reporting (including supply of related software and support) • Advice on accounting re-statements 	<ul style="list-style-type: none"> • Bookkeeping services • Preparation of accounting entries • Preparation of Kingfisher financial information • Processing payrolls • Support in preparing manuals and instructions
Acquisitions	<ul style="list-style-type: none"> • Due diligence for acquisitions • Audit of completion accounts • Advice on methodology for Kingfisher to prepare purchase price allocations • Audit of opening balance sheet • Advice on post-deal integration • 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 result eliminates on consolidation or the auditors are required by law to give the opinion • Due diligence where PwC advise 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
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 transfer pricing and 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 auditors provide an opinion on the adequacy of consideration in the transaction), unless the consideration is eliminated on

	Work that CAN be performed by our auditors	Work that CANNOT be performed by our auditors
		consolidation or the auditors are required by law to give the opinion
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 • Preparation and submission of tax returns and dealing with correspondence from tax authorities in respect of those returns • Income tax software licence • Expatriate tax work other than payroll processing 	<ul style="list-style-type: none"> • Preparation of tax accounting entries • Handling Kingfisher tax payments • Appearing for Kingfisher in material judicial proceedings • 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 3rd party to enter into a business transaction • Promotion of tax structures/products or provision of tax advice where there is reasonable doubt as to the appropriateness of the accounting treatment
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 PwC are not the system designers) • Assessment of and advice on security infrastructure, systems and processes • 	<ul style="list-style-type: none"> • Design and implementation of any system or process
Risk Management	<ul style="list-style-type: none"> • Risk management training • Assessment of and advice on methodologies/processes/systems • Project risk assessment 	<ul style="list-style-type: none"> • Implementation of methodologies/processes/systems
Corporate Audit	<ul style="list-style-type: none"> • Internal audit training • Non-recurring specialist advice on methodologies/processes/systems 	<ul style="list-style-type: none"> • Outsourcing of specialist internal audit work e.g. treasury, pensions
Corp. secretarial admin.	<ul style="list-style-type: none"> • Holding company/ dormant company liquidations that do not require shareholder indemnities or the handling of Kingfisher funds • Advice on secretarial and regulatory requirements provided this does not involve any management functions 	
Actuarial services	<ul style="list-style-type: none"> • Actuarial advisory services 	<ul style="list-style-type: none"> • Valuation of 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 • 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 £25k and Below £250k

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 £250k

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 Audit Committee approval:</p> <p>Date: Signature:</p>	