

# Renold plc

## Auditor and Non-Audit Fee Policy

### Introduction

From July 2015, Deloitte is contracted to carry out the role of external auditor for the Group. To ensure auditor independence, the Group restricts the level of non-audit work that the auditor can provide. It is important that the independent role of external auditors in reporting to shareholders is not compromised. Equally, however, the Group should not be deprived of expertise where it is needed. The Group's policy on audit independence is disclosed in the annual report as follows:

#### **“Auditor independence and objectivity**

The independence of the external auditors is essential to the provision of an objective opinion on the true and fair view presented in the financial statements. Auditor independence and objectivity is safeguarded by limiting the nature and value of non-audit services performed by the external auditors. The Group has a policy of not recruiting senior employees of the external auditors who have worked on the audit in the past two years to senior financial positions within the Company, and the rotation of the lead engagement partner at least every five years. The current lead engagement partner has held the position for one/two years.

#### **Non-audit services provided by the external auditors**

The Audit Committee is responsible for ensuring that an appropriate relationship is maintained between the Group and the external auditor. Non-audit services can only be provided by the external auditors if there is no potential conflict of interest or material risk of values being included in the financial statements that have both been advised on and audited by the external auditors.”

Potential threats to the independence of auditors is set out by the Institute of Chartered Accountants in England and Wales as follows:

- self interest, where an interest in the outcome of their work, or in a depth of relationship with the Group, might conflict with their objectivity;
- self review, where the auditors may be checking their own colleagues' work (constraining them 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;
- over-familiarity or intimidation.

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

### **Types of non-audit work and procedure for approval**

The Audit 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.

#### **(a) Statutory and audit related**

There are certain projects where the external auditors are best placed to perform the work as it is clearly audit related (eg regulatory work and acting as reporting accountants to banks). It is proposed that such assignments do not require Audit Committee approval. However, recognising that the level of non-audit fees may also be a threat to independence, Audit Committee approval is required for engagements of **£20k and above**.

#### **(b) Audit and assurance related**

There are a significant number of projects and engagements where the external auditors are best placed to perform the work due to their existing network and knowledge of the Renold business

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(e.g. due diligence and advice on accounting). Audit Committee approval is required for engagements of **£20k and above**.

#### (c) Non-audit advisory services

There may also be other assignments not included in the categories above, where the external auditors are in a position to provide the best service to the Group due to their previous experience or unique expertise (e.g. advice on Executive Remuneration, recruitment services in overseas territories). Audit Committee approval is required for engagements of **£20k and above**. With all such work management should fully understand the advice they receive to provide an additional safeguard.

#### (d) Not permitted

##### - Tax compliance and advisory work

PwC were appointed to provide the Group's tax compliance and advisory work. As a result the Group auditor (Deloitte) cannot provide tax compliance or advisory work. Only taxation work performed in the course of the audit should be provided by the Group's auditors.

##### - Other advisory work

There are some projects that are not to be performed by the external auditors. These projects represent a real threat to the independence of the audit team. For example, if they could lead to the external auditors being in a position of auditing their own work such as calculating pension deficits or performing valuation services on properties or other assets. Contingent fee arrangements are not permitted for the Auditors.

To seek approval from the Audit Committee, the project sponsor should obtain a proposed scope and fee estimate from the auditors **before** work commences (this may involve a competitive tender process which would be complex for a large piece of work and more simple for a smaller piece of work). 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 Audit Committee Chairman via the Group Finance Director.

From a practical perspective, it may not be possible to convene an Audit Committee meeting each time a project involving the external auditors requires approval. Accordingly, the Audit Committee Chairman and Group Finance Director should use their own discretion as to the level of consultation required with the rest of the Audit Committee and the Board.

Once approved, the project should be logged by the Company Secretary to be raised at the next Audit Committee meeting and the Group Chief Accountant informed in order to track fees. If the fees for the project are likely to significantly exceed the original estimates further approval should be sought in the manner noted above.

Note: The FRC Ethical Standards have incorporated an absolute cap on non-audit fees paid to the auditor which was established in European legislation. This requirement places a cap on non-audit fees of 70% of the average annual fee paid for audit services over the last 3 years. In order to ensure this position is not inadvertently breached, all submissions to the Audit Committee for approval of the types of work covered in parts (a) to (d) above should be supported by a calculation of the cap applicable to the current year and the aggregate value of all work already approved in the year which would fall within the cap (including any amounts that fall below the value requiring Audit Committee approval).

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#### Appendix - Examples of engagements that may or may not be awarded to the auditors

|                     | Permitted<br>Statutory and<br>audit related   | Permitted<br>Audit and<br>assurance<br>related  | Permitted<br>Non-audit<br>advisory services  | Not permitted  |
|---------------------|---|---|--|--|
| Category of<br>work | Requiring<br>audit<br>committee<br>approval<br>subject to<br>£25k limit   | Requiring audit<br>committee<br>approval subject<br>to £20k limit   | Requiring audit<br>committee<br>approval subject<br>to £15k limit  | Not permitted  |
| Characterised by    | Advice on<br>areas core to<br>the financial<br>statements and<br>audit.   | Engagements<br>requiring an<br>independent,<br>objective<br>assessment of<br>information or<br>procedures.<br><br>Staff<br>secondments.                             | Other advisory<br>services.  | Participation in<br>management, joint<br>ventures or other<br>financial<br>arrangements. |
| External reports    | Reporting<br>accountants'<br>reports and<br>comfort letters<br>in connection<br>with<br>shareholder<br>circulars, listing<br>particulars or<br>bond issues. |   |  |  |
| Acquisitions        | Accountants'<br>reports.<br><br>Reporting on<br>financial<br>assistance.  | Due diligence and<br>related advice.<br><br>Audit of<br>completion<br>accounts.<br><br>Agreement of price<br>adjustments<br>arising from<br>completion<br>accounts. | Lead broker/dealer<br>services.<br><br>Advice on post<br>deal integration.<br><br>Preparation of<br>forecasts or<br>investment<br>proposals. |  |
| Disposals           | Audit of carve-<br>out financial<br>statements.   | Vendor due<br>diligence.  | Advice on<br>negotiations and<br>sale<br>memorandum.<br><br>Preparation of sale<br>memorandum.<br><br>Lead broker/dealer<br>services.        |  |

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|----------|--|--|--|--|
| Taxation | Review of tax provisions as part of Audit work       |  |  | <p>Preparation of draft tax returns.</p> <p>Regular advice on tax matters and recent developments.</p> <p>Ex-patriate tax work.</p> <p>Transfer pricing studies, preparation of comparables data and documentation.</p> <p>Advice on complex or high risk tax matters.</p> <p>Submission of returns and correspondence with tax authorities.</p> <p>Valuations which are solely for tax purposes.</p> <p>Appearing for RENOLD in material judicial proceedings.</p> <p>Preparation of accounting entries for tax.</p> <p>Handling RENOLD tax payments.</p> |

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|--------------------------------|--|--|---|--|
| General<br>accounting          |  | <p>Advice on preparation of RENOLD financial information and application of GAAP.</p> <p>Training support for accounting and risk management projects.</p> <p>Preparation of local statutory accounts which do not form the basis for Group reporting.</p> | <p>Advice on bookkeeping services</p> <p>Advice on processing payrolls.</p>                 | <p>Preparation of accounting entries.</p> <p>Preparation of financial information.</p> |
| Support to<br>Internal Audit   |  | <p>Provision of specialist skills.</p> <p>Training support.</p>  | <p>Advice on methodology and systems.</p> <p>Co-sourcing.</p>                               | <p>Full outsourcing.</p>   |
| Risk<br>management<br>services |  | <p>IT and other controls reviews.</p>  | <p>Advice on design and implementation of policies, controls and security arrangements.</p> | <p>Systems implementation.</p>   |