

Provision of Non-Audit Related Services by External Auditor

Introduction

The Federal Government's release of *Corporate Law Economic Reform Program*, issue paper No 9 sets out the government's recommendations regarding corporate governance.

CLERP 9 focuses heavily on auditor independence. This document sets out the JB Hi-Fi's auditor independence policy in relation to the provision of non-audit related services by its External Auditor and reflects the independence requirements contained in the Institute of Chartered Accountants in Australia - Professional Statement F.1 - Professional Independence, issued March 2002.

This document includes examples of services that JB Hi-Fi considers can be provided and services that cannot be provided. However, it is not an exhaustive list of all services that can be provided by an External Audit firm. The rules relating to independence are generally more prescriptive for services that cannot be provided and less defined for services that can be provided without impairing independence. Consequently, services not covered by this statement will need to be evaluated on a case-by-case basis to determine whether they can be rendered to JB Hi-Fi without impairing the independence of JB's External Audit firm.

JB Hi-Fi notes that for a company of the size and complexity of JB Hi-Fi, it is often in the interests of the company to engage the services of its external auditor to assist in a range of related projects.

However, the Board and management are aware of the issues relating to auditor independence and have in place policies and procedures to address actual, potential and perceived conflicts in relation to the provision of non-audit related services by its External Auditor.

PROVISION OF TAXATION SERVICES

Services that can be provided:

Taxation services comprise a broad range of services, including compliance, planning, provision of formal taxation opinions and assistance in the resolution of tax disputes. Such assignments are generally not seen to create threats to independence.

PREPARATION OF ACCOUNTING RECORDS AND FINANCIAL REPORTS

Services that can be provided:

The preparation of financial statements for JB Hi-Fi *provided that*:

- the financial statements are prepared from financial information originating from final trial balances and other source documents prepared by JB Hi-Fi; and
- the preparation of the financial statements is subject to an independent detailed review by a member or members of External Audit firm who do not participate in the Audit team.

Services that cannot be provided:

Bookkeeping services encompassing the recording of financial information forming the basis for the preparation of the financial statements of JB Hi-Fi, its subsidiaries, or associated companies, which are equity-accounted.

FINANCIAL SYSTEMS DEVELOPMENT AND IMPLEMENTATION SERVICES**Services that can be provided:**

None.

Services involving the design and implementation of information technology systems (hardware or software) which aggregate source data underlying the financial statements or generate information that is significant to the financial statements of JB Hi-Fi cannot be performed.

INTERNAL AUDIT ACTIVITIES**Services that can be provided:**

1. Internal audit services relating to internal accounting controls, financial systems and financial statements:
2. Any internal audit services, or any operational internal audit services unrelated to the internal accounting controls, financial systems, or financial statements, *provided that*:

JB Hi-Fi management -

- acknowledges to the Audit Committee and External Audit firm in writing their responsibility to establish, maintain and monitor the system of internal controls,
- designates a competent employee or employees, preferably within senior management, to be responsible for the internal audit function,
- determines the scope, risk, and frequency of internal audit activities, including those performed by External Audit firm,
- evaluates the adequacy of the audit procedures performed and the findings resulting from the performance of those procedures by, among other things, obtaining reports from External Audit firm, and
- does not rely on the work of the External Audit firm as the primary basis for determining the adequacy of internal controls.

Services that cannot be provided:

Total outsourcing of the internal audit function.

PREPARATION OF PROSPECTIVE FINANCIAL INFORMATION**Services that can be provided:**

Assist with identifying relevant matters to be considered in the development of forward-looking information.

Services that cannot be provided:

Preparing prospective financial information, including formulating assumptions, gathering of information and the processing of data.

DUE DILIGENCE**Services that can be provided:**

Performing due diligence on behalf of JB Hi-Fi during the negotiation of a proposed transaction such as an acquisition or joint venture. This can include identifying key issues that are likely to arise from the acquisition of the target company, advice in relation to the accounting treatment of the acquisition and assisting with a valuation process involving a review of assumptions to support a value that is used in the negotiation process, *provided that* the valuation is used solely for negotiation purposes and not recorded in the financial statements of JB Hi-Fi.

Services that cannot be provided:

Accepting an engagement to conduct a due diligence for JB Hi-Fi for an acquisition in which External Auditor firm is the appointed auditor of the target company.

ASSET OR LIABILITY VALUATIONS**Services that can provided**

1. Assisting with a valuation process involving a review of assumptions to support a value that is used in the negotiation process of an acquisition or joint venture, *provided that* the valuation is not recorded in the financial statements.
2. Valuations associated with the filing of a return to a tax authority or computing the amount of tax payable by JB Hi-Fi or for use in tax planning as such valuations are generally subject to external review by the relevant tax authority.
3. Valuations comprising the making of assumptions with regard to future developments and/or the application of certain methodologies and techniques used to compute a certain value, or range of values, for an asset (tangible or intangible), liability or business as a whole *provided that*:
 - the results, individually or in aggregate, are not material to the financial statements of JB Hi-Fi;
 - the appraisal, valuation or fairness opinion are not subject to audit by External Audit firm;
 - members of the audit team do not perform the valuation;
 - JB Hi-Fi confirms their understanding of the underlying assumptions and methodology used for the valuation and approves their use; and
 - JB Hi-Fi acknowledges its responsibility for the valuation.

Services that cannot be provided:

Providing appraisals, valuations or services involving a fairness opinion where it is reasonably likely that the results, individually or in aggregate, would be material to the financial statements of JB Hi-Fi.

ACTUARIAL SERVICES**Services that can be provided:**

1. Any actuarially oriented advisory service involving:

The determination of insurance company policy reserves and related accounts,

Analysis of actuarial considerations and alternatives in tax planning, and

Assisting management to develop appropriate methods, assumptions, and amounts for policy and loss reserves and other actuarial items presented in financial reports based on the JB Hi-Fi historical experience, current practice, and future plans, *provided that*:

- JB Hi-Fi uses its own actuaries or third party actuaries to provide the primary actuarial capabilities,
 - management accepts responsibility for any significant actuarial methods and assumptions, and
 - External Audit firm's involvement is not continuous.
2. Assisting with product design and pricing, distribution channel management, experience investigations, strategic planning or stakeholder value.

Services that cannot be provided:

Actuarial services involving matters, including those referred to above, that are material to the financial report.

EXECUTIVE RECRUITMENT, CONTRACTING SERVICES AND TEMPORARY STAFF ASSIGNMENTS**Services that can be provided:**

Provision of contractors who operate under their own corporate business structure and in respect of whom External Audit firm is not responsible for deducting or remitting any employment-related taxes on behalf of the contractors. These contractors are not employees of External Audit firm and can be made available *provided that* JB Hi-Fi acknowledges its responsibility for directing and supervising the activities of the contractor and they will not be involved in:

- management decisions on behalf of JB Hi-Fi;
- approving or signing agreements or other similar documents for JB Hi-Fi; or
- exercising discretionary authority to commit JB Hi-Fi.

Services that cannot be provided:

1. Secondment or lending of any External Audit firm partners or employees to JB Hi-Fi.
2. Executive recruitment services.

ACTING AS AN OFFICER OR EMPLOYEE OF JB HI-FI

A partner or employee of External Audit Firm will not act temporarily or permanently as a director, officer or employee of JB Hi-Fi.

STRUCTURING ADVICE AND ASSISTANCE**Services that can be provided:**

Structuring advice or assistance (such as developing corporate strategies, introducing JB Hi-Fi to possible sources of capital that meet JB Hi-Fi's requirements and analysing the accounting effects or other financial effects of proposed transactions) *provided that* the services do not involve:

- External Audit firm personnel making management decisions on behalf of JB Hi-Fi;
- members of the Audit team or the Audit business unit providing the services; and
- external Audit firm committing JB Hi-Fi to the terms of any transaction or consummating a transaction on behalf of JB Hi-Fi.

LEGAL SERVICES**Services that cannot be provided:**

Acting for JB Hi-Fi in the resolution of a dispute or litigation when amounts involved are material in relation to the financial statements. This includes litigation support services that involve the estimation of possible outcomes which affect material amounts or disclosures in the financial statements or activities concerning the calculation of estimated damages or other amounts that might become a receivable or payable as a result of litigation or other legal dispute.

BROKER-DEALER, INVESTMENT ADVISER OR INVESTMENT BANKING SERVICES**Services that cannot be provided**

Acting on behalf of JB Hi-Fi as a broker, dealer, investment adviser or providing investment banking services to the JB Hi-Fi Group.