



Risk and Audit Committee Provision of audit and other services by the external auditor

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Provision of audit and other services by the external auditor

BHP Billiton Limited and BHP Billiton Plc

Approved by the Risk and Audit Committee on 18 October 2016.

Defines the circumstances within which an External Auditor may provide audit and other services.

1. Intent

BHP Billiton's approach to engaging the external auditor for the performance of audit and other services ensures that those services:

- Are approved by appropriate levels of BHP Billiton management.
- Do not impair the independence of the external auditor.
- Are regularly reported to the BHP Billiton Board Risk and Audit Committee (Board RAC).

Any engagement of the external auditor must satisfy applicable rules and legislation, including regulatory rules and the independence rules of the auditing profession in the countries in which BHP Billiton operates, including but not limited to the United States, United Kingdom and Australia.

The external auditor does not have a preferred supplier status for the provision of other services and is to be appointed only when they must, or are best suited to, undertake the work and do not have a conflict of interest due to a relationship with another entity. The external auditor must not be engaged where there is a potential for regulatory disqualification in the provision of an external audit opinion.

2. Independence statement by the Directors

The Australian Corporations Act 2001 requires a statement by the BHP Billiton Directors that they are satisfied that the services provided by the external auditors do not compromise external auditor independence.

Factors that the BHP Billiton Directors must consider in making this statement include:

- The level of fees paid for the provision of other services as a proportion of total fees paid to the external auditor.
- Whether the compensation of individuals employed by the external auditor who are performing the audit of BHP Billiton is tied to the provision of other services and, if so, whether this impairs or appears to impair the external auditor's judgment or independence.
- Whether the individuals performing the audit would also be involved in providing other services.
- Whether the audit fees are sufficient to adequately compensate the external auditors or whether the audit fees are at a level that could increase the need for the external auditor to perform other services to make the external audit commercially viable.
- The Independence Declaration required to be provided by the external auditor which is required to identify whether there have been any contraventions of external auditor independence requirements.

3. Reporting

- All other services provided by the external auditor must be reported every quarter to the Board RAC by the external auditor.
- Details of fees paid to the external auditor must be disclosed in the Group's financial reports as specified by applicable financial reporting standards, listing rules and laws.
- The pre approval framework must be disclosed in the Group's annual report. BHP Billiton also voluntarily discloses this framework on its website

4. Approval process

BHP Billiton protects the independence of the external auditor by mandating an approval process for engaging the external auditor. BHP Billiton has defined the services that may not be provided by the external auditor; refer to Section 5 *Prohibited external auditor services*. No approval can be given under any authority for the provision of prohibited services. The Board RAC has identified specific types of services that are considered to be pre-approved, refer to Section 6 *Pre-approved audit and other services*. Whether or not pre-approved by the Board RAC, all engagements of the external auditor for the provision of other services are subject to the following approval requirements.

4.1 Approval requirements

- Approval must be obtained before the engagement of the external auditor for other services.
- The external auditor must provide a written statement of independence for all engagements, approved by the appropriate authority within the audit firm (typically the principal engagement partner, or where significant in nature or value, the external auditor's Independence Panel or SEC Practice Division).
- All engagements requiring approval by the Group Financial Controller or the Board RAC must be described in a written recommendation setting out the:
 - Nature and scope of the proposed services.
 - Supplier selection process and criteria.
 - Chosen supplier and rationale as to selection of that supplier.
 - Relationship of individuals within the firm to perform the proposed other services with those within the firm undertaking audit work.
 - Fee estimate, identifying the total cost and the cost expected for the current financial year.
 - Category of pre-approved service where relevant.
- All engagements involving the provision of any tax service must also be accompanied by BHP Billiton documented analysis of the potential effects of the services on the external auditor's independence, and described in an engagement letter from the external auditor stating:
 - The nature and scope of the proposed services.
 - The fee structure.
 - Details of any side letter or other form of amendment to the engagement letter.
 - Any compensation arrangement, or other agreement between the external auditor and any other party with respect to the promoting, marketing or recommending of a transaction covered by the service.

- Where Board RAC approval is required, it must be given by at least two (of four) Board RAC members, communicated by email or phone to the Group Financial Controller and be noted in the minutes of the next RAC meeting.

4.1.1 Approvals

BHP Billiton has established the following thresholds for the approval of services by the external auditor.

		Endorse	Approve	Inform
Hiring of staff from the Group's external auditor				
	Group Financial Controller		✓	
External auditor fee for each financial year				
	Board Risk and Audit Committee		✓	
Variations to agreed external auditor fee				
	Vice President Accounting & Reporting		✓	
or	Vice President Group Reporting & Governance		✓	
Services not specifically pre-approved regardless of fee				
	Group Financial Controller	✓		
	Board Risk and Audit Committee		✓	
Any engagement > US\$100,000				
	Group Financial Controller	✓		
	Board Risk and Audit Committee		✓	
Pre-approved service with fee US\$20,000 - US\$100,000				
	Group Financial Controller		✓	
	Board Risk and Audit Committee			✓
Pre-approved service with fee < US\$20,000				
	Regional Vice President Finance		✓	
or	Vice President Accounting & Reporting		✓	
or	Vice President Group Reporting & Governance		✓	
or	Head of Global Function		✓	
	Board Risk and Audit Committee			✓

Note:

Management approvals can only be given for specific engagements that fall within an existing category of service that has been pre-approved by the Board RAC. Management cannot give pre-approval for types of services.

Fees must be based on the greater of the amount quoted by the external auditor or market value where it is evident that the fee quote is below market value.

Where the nature or scope of an external auditor engagement changes such that the prior approval obtained is insufficient, subsequent approval of the revised engagement must be obtained. For example, if a pre-approved service with a fee estimate of US\$20,000 increases in scope to US\$150,000, the approval of the Board RAC must be obtained.

4.2 Exceptions

No exceptions to other services approval requirements are permitted unless they are necessary to protect the interests of BHP Billiton and appropriate arrangements are put in place to ensure the integrity and independence of the external auditor.

All exceptions must have specific prior approval of the Board RAC and be reported to the BHP Billiton Board.

5. Prohibited external auditor services

The external auditor must not provide services that impair, or appear to impair, their independence as external auditor. Generally, services that are prohibited include those where the external auditor:

- Participates in activities that are normally undertaken by management.
- Is remunerated by way of success fees, contingent fees or commissions.
- Acts in an advocacy role for BHP Billiton.
- May be required to audit their own work.

The following services must not be provided by the external auditor:

- Book-keeping, preparation of, and other services in relation to, accounting records and financial statements;
- Payroll services;
- The design and implementation of financial information systems, risk management procedures or financial controls;
- Appraisals or fairness opinions;
- Outsourced internal audit services;
- Secondments to BHP Billiton where the audit firm secondee acts as a BHP Billiton employee, or performs any decision-making, supervisory or ongoing monitoring functions;
- Human resources and recruitment services;
- Actuarial services;
- Management functions;
- Legal services;
- Broker-dealer, investment advisor or investment banking services;
- Expert services unrelated to the audit (advocacy in litigation proceedings);
- Services linked to the financing, capital structure and allocation, and investment strategy of BHP Billiton, (except providing assurance services in relation to the financial statements);
- Promoting, dealing in, or underwriting shares in BHP Billiton;
- Tax services relating to:
 - payroll tax;
 - customs duties;
 - the marketing, planning or positively opining on the tax treatment of confidential transactions or aggressive tax position transactions;
 - personal income tax services to a person in a financial reporting oversight role.

6. Pre-approved audit and other services

In accordance with the requirements of the Sarbanes-Oxley Act (2002) and PCAOB Release 2004-00, only the Board RAC is permitted to grant pre-approval for specific types of services. All specific pre-approved services are prescribed in Schedules A to D.

The following engagements are not pre-approved and require specific Board RAC approval:

- engagements for services not specifically identified in Schedules A to D; or
- those services listed in Schedule E.

Any engagement that contains an internal control element is not pre-approved. All engagements of the external auditor relating to internal control work require specific prior approval of the RAC. This includes any review of internal controls or assistance with implementing the regulatory requirements of the Sarbanes-Oxley Act, but does not apply to the external audit of the Group financial report.

6.1. Schedule A: Pre-approved audit services by the external auditor

Pre-approved audit services is work that constitutes the agreed scope of the statutory audit (including interim reviews or audits) of the Group consolidated financial report and the financial reports of all subsidiaries and affiliates of the Group.

The Board RAC monitors the audit services engagements, and approves, if necessary, any changes in terms and conditions resulting from changes in audit scope, Group structure or other relevant events.

Services include:

- Statutory audit engagements for the Company, the Group and each subsidiary and affiliate as required by applicable companies and securities legislation.
- Financial statement audit engagements for any Group entity, incremental to the audit work required for the purpose of the consolidated financial statements, where required by applicable laws or regulations, or as requested to meet internal management requirements for audited financial statements of nominated Group entities.
- Audits of selected financial information as required by applicable laws or regulations for the purpose of the Group satisfying self-insurance and workers compensation arrangements.
- Reviews of interim financial reports of the Group as required by applicable companies and securities legislation.
- Audits of management certifications as to the adequacy of internal controls where such audits are mandated by applicable companies and securities legislation.

6.2. Schedule B: Pre-approved audit related and other assurance services by the external auditor

Pre-approved audit related and other assurance services comprise work that is outside the required scope of a statutory audit, but is consistent with the role of the statutory external auditor.

This category includes work that is reasonably related to the performance of an audit or review and is a logical extension of the audit or review scope, is of an assurance or compliance nature and is work that the external auditors must or are best placed to undertake.

- Audits of financial statements of Group entities for the purpose of inclusion in prospectuses and other forms of offering documents relating to the issuance or registration of debt or equity securities of Group entities.
- Conduct of agreed procedures to permit the issuance of comfort letters in connection with prospectuses and other forms of offering documents referred to above.
- Financial statement audits of employee benefit plans as required by applicable legislation.
- Conduct of review procedures to permit the issuance of Working Capital Reports as specified by UK listing rules.
- Conduct of review or audit procedures to permit the issuance of an Independent Accountants Report that BHP Billiton may call for in connection with regulated market transactions, but only where that report addresses historical financial information.
- Agreed-upon procedures, extended audit procedures and regulated attest engagements applied to selected accounting financial and non-financial information or financial statements required to respond to or comply with financial, accounting, or regulatory reporting matters, including procedures over royalty, emissions and similar returns.
- Assurance over reports containing financial or non-financial information prepared to meet Group governance objectives, such as the annual Sustainability Report or the Economic Contribution and Payments to Government Report.
- The audit of selected financial information of Group entities in support of disposal and borrowing transactions.
- Consultations on the accounting treatment or disclosure requirements of transactions or events including discussions, research consultations and auditing procedures relating to unusual or non-recurring transactions, including assistance in responding to regulatory comment letters on the Group's financial reports.
- Consultations on the accounting treatment or disclosure requirements emanating from new or proposed rules, standards or interpretations by regulatory or standard setting bodies.
- Assistance with financial due diligence investigations pertaining to potential business acquisitions/dispositions and other major transactions and events (excluding valuation services, appraisals or fairness opinions) including the review of financial statements and other financial data and records and discussions with counterparty finance and accounting personnel.
- Translation of audited financial reports into another language for filing with a national regulator, or to satisfy other financial reporting requirements of a Group entity or affiliate.

6.3. Schedule C: Pre-approved tax services by the external auditor

Pre-approved tax services comprise work of a tax nature that does not compromise the independence of the external auditor. Items of such work are typically confined to interpretation of tax legislation and services that support due diligence and assurance engagements and must not extend to services involving tax-related investments or transactions.

None of these services are pre-approved where they would contain elements of assistance or advice on matters of a strategic tax planning or structuring nature.

- The provision of independent opinions containing interpretations of taxation legislation as it applies to specific transactions executed or proposed by Group entities, where those opinions are complementary to the external auditor's examination of the relevant financial statements.
- The provision of tax services described provided in connection with acquisition and disposal due diligence activities undertaken by Group management, or in conjunction with assurance services provided by the external auditor on due diligence engagements (refer to Schedule B Pre-approved audit-related and other assurance services by the external auditors).
- The provision of general news and information regarding statutory, regulatory or administrative taxation developments.

6.4. Schedule D: Pre-approved other services by the external auditor

Pre-approved other services is work of an advisory nature that does not compromise the independence of the external auditor. Items of such work are typically confined to funding or investigative advisory services.

- Reviews of operational effectiveness of Treasury operations relating to cheque clearing and float-management practices and recommendations regarding potential areas of improvement.
- Conducting internal investigations and fact finding in connection with alleged improprieties, other than where they relate to potential accounting irregularities.
- Reviews of actuarial reports and calculations to assist the Group in understanding the various processes surrounding actuarial valuations and the potential impact of plan changes or changes in accounting standards.
- Reviews of compliance by Group companies with local statutory regulations concerning incorporation of entities, constituent documentation (such as constitutions and articles of association) and lodgement of statutory filings with regulatory bodies.
- Assistance in the registration of pension plans as and when required by country specific regulations.
- General training on matters emanating from general industry developments, new or proposed legislation, or changes to accounting standards.

6.5. Schedule E: Potentially permitted services by the external auditor

Potentially permitted services are subject to Board RAC approval and are permissible if the following requirements are met:

- there is no direct or clearly an inconsequential effect from the services, separately or in aggregate, on the financial statements, in the view of an objective, reasonable and informed third party;
- estimation of the effect of the services on the financial statements is comprehensively documented and explained in the additional report to the Board RAC;
- the services are in line with principles of independence; and
- the audit firm would not place significant reliance on the work performed by the audit firm in performing these services.

These services include tax services relating to:

- preparation of tax forms;
- identification of public subsidies and tax incentives unless support from the statutory auditor or the audit firm in respect of such services is required by law;
- support regarding tax inspections by tax authorities unless support from the statutory auditor or the audit firm in respect of such inspections is required by law;
- calculation of direct and indirect tax and deferred tax;
- provision of tax advice; and
- valuation services, including those performed in connection with actuarial services or litigation support services.