

## External Auditor Independence Policy

### 1. Purpose

The purpose of this policy is to ensure that Heartland Group Holdings Limited's (Heartland) external auditor remains independent and that non-audit services provided by the external auditor do not conflict with their independence, such that Heartland's financial reporting is viewed as being reliable and credible. This policy applies to Heartland Group Holdings Limited and its subsidiaries, including Heartland Bank Limited.

### 2. Appointment of the External Auditor

Oversight of Heartland's external audit arrangements is the responsibility of Heartland's Audit Committee, and the subsidiary audit committees, including Heartland Bank Limited Audit Committee. The Audit Committee will only recommend to the Board the appointment or retention of the external auditor if that audit firm:

- Would be regarded by a reasonable investor with full knowledge of all relevant facts and circumstances, as capable of exercising objective and impartial judgement on all issues encompassed within the external auditor's engagement;
- Monitors its independence and reports to the Heartland Audit Committee biannually that it has remained independent in the previous six months, in accordance with this policy and its firm's policies and professional requirements;
- Ensures that their staff do not work on any reporting engagement for Heartland during, and in the two years after, working in a temporary, permanent or contract position with Heartland;
- Commits to rotate its lead audit partner for Heartland at least every five years.

### 3. Provision of audit-related and non-audit services by the external auditor

The guidelines that follow are designed to ensure that audit-related and non-audit related services provided by the external auditor do not conflict, or be perceived to conflict, with the independent role of the external auditor to ensure that Heartland's financial reporting is viewed as being reliable and credible.

The general principles to be applied in assessing these services are as follows:

- the external auditor should not have any involvement in the production of financial information or preparation of financial statements such that they might be perceived to be auditing their own work - this also includes any cash handling, book keeping, and the provision of valuation services where such valuation forms an input into audited financial information;
- the external auditor should not perform any function of management, or be responsible for making management decisions; and
- the external auditor should not be responsible for the recommendation of supplier, design or implementation of financial information systems.

#### **4. Permitted Services**

Aside from core audit services relating to statutory and regulatory audits, it is appropriate for the external auditor to provide the following types of services:

- audit-related services (e.g. trust deed reporting, securitisation controls assessments);
- other assurance services, including:
  - compliance audits and advisory services;
  - financial due diligence services;
  - independent process and control assessments;
  - independent project quality assurance;
  - data analytics; and
  - data integrity assessments;
- risk management, listing, regulatory and capital adequacy advice; and
- accounting / technical advice training.

#### **5. Prohibited Services**

The external auditor's firm should not provide services that are perceived to be in conflict with the role of auditor. These include investigations and consulting advice and subcontracting of operational activities normally undertaken by management and on which the auditor may ultimately be required to express an opinion on its own work. It is not considered appropriate for the external auditor's firm to provide:

- book keeping services, or any other services related to accounting records or financial statements;
- recommendation of supplier or design of financial information systems;
- valuation services;
- legal services;
- tax planning, strategy and compliance services;
- broker / dealer / investment advisor / investment banking services;
- actuarial services;
- management functions.

#### **6. Approval Process**

The Chief Financial Officer must pre-approve all services to be provided by the external auditor.

Before the external auditor is engaged to undertake any non-audit services, the following information must be provided to the Chief Financial Officer:

- a copy of the signed engagement letter;
- an explanation of the proposed services;
- confirmation that the proposed services are permitted under this independence policy; and
- an estimate of the professional fees to be paid to the external auditor.

Copies of engagement letters for permitted services will be circulated by the Chief Financial Officer to the Chair of the Audit Committee/s.

Pre-approval must be sought from the Chair of the Audit Committee/s, or in his/her absence, the Chair of the Board of Directors, for any engagements of permitted services with estimated fees greater than \$50,000.

Fees for services provided by the external auditor should not include any contingent fees (e.g. where a success fee is paid depending on whether a transaction proceeds or not).

The Chief Financial Officer will oversee this process.

## **7. Other Requirements**

It is expected that the external auditor will rigorously comply with its own internal policies on independence and all relevant professional guidance.

While this policy does not prescribe a ratio of non-audit service fees to audit fees, the ratio will be monitored by the Chief Financial Officer and the Chair of the Audit Committee. Accordingly, the nature of services provided by the external auditor and the level of fees incurred should be reported to the Audit Committee in detail on a semi-annual basis to enable the Audit Committee to perform its oversight role.

Rotation of Heartland's lead audit partner and review partner will be required every five years. Those partners will be subject to a suitable cooling off period following rotation.

## **8. Policy Review Date**

This policy will have a full review and approval every year, or earlier if deemed necessary. Notwithstanding planned policy review dates, this policy remains effective and applies until a revised version is distributed.

The General Counsel maintains records of Policy Owner approvals.

**Version History:**

<b>Version</b>	<b>Date</b>	<b>Amendments</b>
1.0	September 2014	Policy created.
1.1	October 2015	Annual review and approval
2.0	December 2015	Update from Heartland NZ Ltd to Heartland Bank Ltd
3.0	December 2016	Annual review and approval
4.0	December 2017	Annual review and approval
5.0	May 2019	Annual review and update to Heartland Group Holdings Limited

**Approved by:** Heartland Group Holdings Limited Board

**Approval Date:** 28 May 2019

**Policy Owner:** Chief Financial Officer

**Distribution List:** Executives