

# External Audit Independence Policy

February 2015

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## 1. Objective

The objective of this policy is to ensure that audit independence is maintained, both in fact and in appearance, such that Water New Zealand's external financial reporting is viewed as being highly reliable and creditable.

## 2. Background

Oversight of Water New Zealand's external audit arrangements is the responsibility of the Board. Ensuring that external audit independence is maintained is one of the key aspects in the Board's responsibilities. This formal policy on audit independence has been adopted by the Board to meet this requirement.

The policy covers the following areas:

- provision of related assurance services by Water New Zealand's external auditors;
- auditor rotation;
- the hiring of staff from the audit firm; and
- relationship between the auditor and Water New Zealand.

## 3. Approval of Auditor

The Board shall only approve a firm to be auditor if that firm:

- is a member of the New Zealand Institute of Chartered Accountants;
- would be regarded by a reasonable stakeholder with full knowledge of all relevant facts and circumstances as capable of exercising objective and impartial judgment on all issues encompassed within the auditor's engagement;
- has not, within two years prior to the commencement of the audit, had as a member of its audit engagement team, Water New Zealand's Chief Executive, Chief Financial Officer or any member of Water New Zealand's management who act in a financial oversight role;
- does not allow the direct compensation of its audit partners for selling non-audit services to Water New Zealand.

The general principles to be applied in assessing related assurance 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 as auditing their own work;

- the external auditor should not perform any function of management, or be responsible for making management decisions;
- the external auditor should not be responsible for the design or implementation of financial information systems.

#### **4. Services Permitted to be Performed**

The Board must pre-approve all audit and related assurance services provided by the auditor.

Aside from core audit services, it is appropriate for Water New Zealand's auditors to provide the following services, with prior approval from the Board:

- other assurance services;
- accounting policy advice;
- accounting and technical training.

It is not considered appropriate for Water New Zealand's auditor to provide:

- book keeping/other services related to accounting records or financial statements;
- design of financial information systems;
- appraisal/valuation service/opinions as to fairness;
- internal audit services;
- due diligence services;
- legal services;
- tax planning, strategy and compliance services;
- management functions;
- broker/dealer/investment advisor/investment banking services;
- actuarial services;
- services of an expert as an advocate;
- provision of temporary staff for appropriate assignments;
- assistance in the recruitment of senior management; and
- tax services to employees of Water New Zealand who act in a financial reporting oversight role.

#### **5. Billing Arrangements**

The billing arrangements for services provided by Water New Zealand's external auditors should not include any contingent fees.

#### **6. Other Procedural Requirements**

Regardless of Water New Zealand's policies, it is expected that Water New Zealand's auditors will rigorously comply with their own internal policies on independence and all relevant professional guidance.

While this policy does not prescribe any particular ratio of "other" services fees to audit fees, this should be monitored by the Board. Accordingly, the nature of services provided by Water New Zealand's auditors and the level of fees incurred should be reported to the Board to enable them to perform its oversight role.

## **7. Auditor Rotation**

The continued appointment of Water New Zealand's external auditors is to be confirmed annually by the Board. A policy of regular rotation of audit firm is not mandated.

Rotation of Water New Zealand's client services partner, and lead audit partner will be required every three years. Those partners will be subject to a two year cooling off period following rotation.

## **8. Hiring of Staff from the Audit Firm**

The hiring by Water New Zealand of any former audit partner or audit manager must first be approved by the President of the Board;

There are no other restrictions on the hiring of other staff from the audit firm.