

External auditor independence policy

Purpose

The purpose of this policy is to reinforce high standards of reliability and credibility in Southern Cross's external financial reporting by ensuring the independence and objectivity of the external financial auditor.

Scope and assumptions

This policy applies to the Southern Cross Medical Care Society (Society) and Southern Cross Health Trust (Trust) together with their respective subsidiary companies (Southern Cross).

It is Southern Cross's practice that a single Director/Trustee will Chair the Audit Committees of all Southern Cross entities. To ensure optimal efficiency and transparency, a single firm will be appointed to perform external audit and audit-related functions across all Southern Cross entities.

For the purposes of this policy "audit services" means the statutory audit of annual financial statements; "audit-related services" means assurance financial information, such as solvency returns or half year results; and "non-audit services" are services that are not audit or audit-related.

Policy

To ensure that the external auditor is, and remains, objective and independent:

- The Audit Committee will manage and monitor the service provision, appointment, rotation, and compliance with this policy by the external auditor on behalf of the Board(s).
- The external auditor will not provide non-audit services to a Southern Cross entity if doing so may be perceived to conflict with its external audit role on behalf of any Southern Cross entity.
- The external auditor will operate in accordance with its own ethical guidelines and those published by relevant regulatory bodies.

Guidelines

Service provision

Southern Cross's external auditor will complete statutory financial statement audit engagements and audit-related assurance engagements such as solvency returns in accordance with Letter(s) of Engagement/Appointment approved by the Board(s) each year.

Fees for services provided by the external auditor will not include any contingent payments (e.g. a bonus or success fee).

In relation to non-audit services:

- The external auditor will not:
 - Have any involvement in the production of financial information or preparation of financial statements as doing so may be perceived as auditing their own work. This includes the provision of valuation services where such valuations form an input into audited financial information

- Perform any function of management or be responsible for making management decisions
 - Be responsible for the design or implementation of financial information systems or processes
- The separation between internal and external audit functions will be maintained.

If a situation arises that requires the external auditor to provide non-audit services to a Southern Cross entity, such an engagement must first be assessed and approved by the Chair of that entity's Audit Committee in accordance with this policy. Fees for non-audit services should not in any financial year exceed the sum of audit and audit-related fees unless approved by the relevant Southern Cross entity's Audit Committee Chair.

Appointment, rotation and employment

The Audit Committee of each entity will consider and recommend to the Board the selection and appointment of the external auditors (refer Audit Committee Charter). The appointment will be confirmed annually. In so doing the Committee will ensure the external audit firm:

- Is widely known and held in high regard as an auditor in the New Zealand business community
- Holds any necessary license or registration to provide audit services to each Southern Cross entity
- Does not include on their audit team any person who has been employed in a temporary, contract or permanent position, or held a Director/Trustee role, at Southern Cross in the prior two financial years
- Rotates the client service partner and lead audit partner at least every five years and stands them down from those roles for five years following rotation.
- Confirms in writing to the Audit Committees its compliance with these requirements prior to their appointment or annual reappointment.

Approval from the Audit Committees Chair will be required before a person serving in a senior role on the external audit team may within two years of that service be appointed as a Director/Trustee or employed on a full time, part time or contract basis by any Southern Cross entity. NB - Any such appointment to Southern Cross Benefits Limited must comply with relevant APRA Prudential Standards.

Compliance

The external auditor will comply with this Policy, and its own policies and guidelines, in relation to auditor independence and objectivity, plus all relevant professional guidance (including independence rules and guidance issued by relevant regulating bodies). The external auditor will certify to the Audit Committees (at least annually) that compliance with this Policy and all relevant regulations and ethical guidelines has been achieved, and that in the external auditor's opinion independence, objectivity and impartiality has been applied/maintained.

Consequences of non-compliance

Non-compliance with this Policy may reflect negatively on the perceived reliability and credibility of Southern Cross's external financial reporting. As a consequence, any breach of this Policy is a serious matter that may result in the relevant disciplinary procedures being invoked and action taken against an employee or employees and/or corrective action being taken in relation to the external auditor in accordance with the terms of their engagement.

Policy maintenance

This Policy is approved by the Audit Committees of the Society and Trust on behalf of their respective subsidiaries. The Board Secretary has administrative responsibility for this Policy, including regular reviews (in conjunction with the businesses) to ensure it remains appropriate, legally compliant and fit for purpose.