



EXTERNAL AUDIT INDEPENDENCE POLICY

Objective

The objective of this policy is to ensure that audit independence is maintained, both in fact and appearance, to protect Medical Assurance Society's (MAS) reputation for reliable and credible financial reporting.

Approval of Auditor

The Audit and Risk Committee (the Committee) shall only recommend to the Board for approval a firm to be auditor if that firm:

- would be regarded by a reasonable Member with full knowledge of all relevant facts and circumstances as capable of exercising objective and impartial judgement on all issues encompassed within the auditor's engagement.
- does not allow the direct compensation of its audit partners for selling non-audit services to Medical Assurance Society.
- is a registered audit firm under the Auditor Regulation Act 2011.
- is widely known and held in high regard within the business community.

Provision of Services

The Committee has adopted the following guidelines to ensure that related services provided by MAS's auditors are not perceived as conflicting with the independent role of the auditor.

The general principles to be applied in assessing related services are:

- the external auditor may 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. This includes the provision of valuation services where such valuation forms an input into audited financial information.
- the external auditor may not perform any function of management, or be responsible for making management decisions.
- the external auditor may not be responsible for the design or implementation of financial information systems.
- the separation between internal and external audit should be maintained
- in principle, fees for non-audit services (excluding other assurance services) should not exceed 70% of audit fees.

Services permitted to be performed

The Committee must pre-approve the general nature of all audit and related services. Any non-audit services that are to be provided by the auditor require prior approval from the Chair of the Committee. Where any non-audit service would result in a non-audit to audit fee ratio in excess of 70% approval is needed from the Committee.

Aside from core audit services, it is appropriate for MAS's auditors to provide the following services, with prior approval from the Chair:

- other assurance services.
- accounting policy advice (including opinions on compliance with New Zealand Generally Accepted Accounting Policy Practice and International Financial Reporting Standards).
- taxation services (excluding advice in relation to tax structuring).
- due diligence services.
- accounting / technical training.
- provision of temporary staff for appropriate assignments.
- assistance in the recruitment of senior management.
- remuneration advice.

Services not permitted

It is not considered appropriate for MAS's auditors to provide:

- bookkeeping / other services related to accounting records or financial statements.
- the design of financial information systems.
- appraisal / valuation services.
- legal services (these are services that should only be provided by a person who is qualified in law).
- internal audit services.
- management functions.
- services of an expert as an advocate.
- actuarial services.

Auditor Rotation

The continued appointment of MAS external auditors is to be confirmed annually by the Committee. A policy of regular rotation of audit firm is not required.

Rotation of audit partners will be required every five years and two years must expire between the rotation of an audit partner and that partner's next engagement by MAS.

Billing arrangements

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

Non Interference

The Committee shall ensure that no unreasonable restrictions are placed on MAS's external auditors by the Board or MAS's management. To enable the Committee to monitor this requirement, the external auditors will report to the Committee in writing, at the same time as it reports in respect of its independence, as to whether this requirement has in the external auditor's opinion been satisfied during the previous year.

The Committee shall have a formal and transparent procedure for sustaining communication with the external auditors. This includes meeting with the external auditors at least twice a year, and for at least part of that meeting, no employees of MAS shall be present.

Other procedural requirements

Regardless of MAS' policies, it is expected that the external auditor will also comply with its own internal policies on independence and all relevant professional guidance (including independence rules and guidance issued by the New Zealand Institute of Chartered Accountants and the Financial Markets Authority).

The policy prescribes a cap on the level of non-audit fees to audit fees. The nature of services provided by the external auditor and the level of fees incurred is reported to the Committee annually to enable the Committee to perform its oversight role.

Hiring of staff from the external audit firm

The hiring by MAS of any former audit partner or audit manager must first be approved by the Chair of the Committee. There are no other restrictions on hiring of staff from the audit firm.

Disclosure

The Board should report annually to Members and stakeholders on the amount of fees paid to the auditors, and should differentiate between fees for audit, other assurance services, agreed upon procedures and fees for other individually identified non-audit work.

The Board should explain in the annual report what non-audit work was undertaken and why this did not compromise auditor independence.

Certification and discussion with the external Auditors on independence

The Committee is required to annually assess and confirm to the Board the independence of the external auditor, including assessing whether the independence of the external audit process has been maintained in light of the performance of any other assurance services.

The external auditor is required to confirm that it has complied with MAS's External Audit Independence Policy.

Accountabilities

The Chair of the Committee and the CEO have overall responsibility for meeting the requirements of this policy.

Ownership and Review

Approver: MAS Board

Reviewer: Audit and Risk Committee

Ownership: CEO

Review: Every two years (last reviewed November 2023).