

# Audit Independence Policy

## 1 Introduction and Purpose

The purpose of this policy is to ensure external audit services are provided independently and without impairment, safeguarding the reliability and credibility of Mercury's external financial reporting. Mercury is a public entity as defined by the Public Audit Act 2001 and as a consequence the Auditor-General is the auditor. The Auditor-General may appoint an audit practitioner to carry out the audit of Mercury on their behalf, including the setting of fees. Consequently, the appointment of the auditor and the setting of auditor's fees are not matters required to be put to the resolution of shareholders.

Mercury will maintain external auditor independence by complying with the most recently issued independence requirements of the:

- > Office of the Auditor General (OAG) as set out in The Auditor-General's Code of Ethics (Code of Ethics)<sup>1</sup>; and
- > NZX Main Board Listing Rules.

This policy applies to all entities within the Mercury NZ Group, including subsidiaries and joint venture entities.

Responsibility for administering this policy rests with the Risk Assurance and Audit Committee (the Committee).

## 2 Independence of the External Auditor

This policy sets out the fundamental principles as required by the OAG and the NZX Listing Rules. It is intended to provide principles on those topics that are expected to be most pertinent to Mercury. For all requirements, reference should be made to the OAG and the NZX Listing Rules.

### 2.1 Responsibilities of the external auditor

- > The external auditor will confirm to the Committee annually that he/she and his/her firm comply with all professional regulations relating to auditor competency and independence.
- > The external auditor will monitor his/her firm's independence and confirm to the Committee annually that it has remained independent during the previous twelve months. Fundamental independence principles are outlined in the following sections.

### 2.2 Audit team composition

- > Rotation of the Appointed Auditor and concurring partner is required every five years, with a mandatory five year stand down period.
- > Audit staff below Appointed Auditor level shall not continue their involvement with the audit for more than six years if they retain substantially the same responsibility, without a two year stand down period.
- > Former Mercury employees will not participate in an assurance engagement role of Mercury within two years of leaving Mercury.

### 2.3 Types of services

- > Provision of external audit services shall adhere to the OAG's independence standard that allows only services of an assurance nature.
- > Where unclear an assessment should be made against the independence requirements in the Code of Ethics. The Chair of the Committee must be consulted, and consideration made to seeking prior approval from the OAG.

#### 2.3.1 Assurance services that are non-audit

- > Mercury may engage with the external auditor from time to time to provide non-audit assurance services.
- > Approval from the Chief Financial Officer is required before any non-audit assurance services are provided.
- > Examples of assurance services that are non-audit include but are not restricted to the following:
  - agreed upon-procedures;
  - providing accounting and other technical training;
  - engagements that involve the formal expression of an opinion such as to the Bond Trustees;
  - probity engagements.

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<sup>1</sup> <https://oag.parliament.nz/auditing-standards/docs/code-ethics.pdf>

### 2.3.2 Non-assurance services

- > Services that are of a non-assurance nature are not permitted.
- > Non-assurance services that cannot be performed by the external auditor include but are not restricted to the following:
  - performing any function of management at Mercury
  - staffing of temporary roles
  - producing or preparing financial information or financial statements on behalf of Mercury
  - providing valuation services where the valuation is included in audited financial information
  - providing actuarial services
  - providing tax advisory services
  - providing due diligence services
  - designing or implementing financial information systems, processes and control for Mercury
  - involvement in Mercury's Internal Audit Programme.

## 3 Independence of the Internal Auditor

The Risk Assurance Officer oversees the day-to-day implementation of Mercury's Risk Management policy and the overarching risk management framework. The Risk Assurance Officer is responsible for managing Mercury's internal audit function, including conducting assurance and audit reviews as per the assurance review plan. The objective of these reviews is to determine the extent to which internal controls are designed and operating effectively in relation to the risks involved.

Mercury utilises out-sourced internal auditors to conduct our assurance and audit reviews. Depending on the nature of the review, auditors are sourced from either specialist individual / organisations (e.g. dam safety, HS&W, industry compliance) or from an appointed primary internal audit services provider.

This policy sets out the principles for the independence of the internal auditor.

### 3.1 Responsibilities of the internal auditor

- > The internal auditor will report functionally to the Committee and administratively to Risk Assurance Officer.
- > The internal auditor will attend the quarterly Committee (RAAC) meetings.
- > The internal auditor will confirm to the Committee annually that he/she and his/her firm comply with all professional regulations relating to auditor competency and independence.
- > The internal auditor will monitor his/her firm's independence and confirm to the Committee annually that it has remained independent during the previous twelve months.
- > The internal auditor will agree with the Risk Assurance Officer prior to accepting any engagement to undertake any other services for Mercury.

### 3.2 Internal audit team appointment

- > Following recommendation from the Risk Assurance Officer and Chief Financial Officer, the Committee will confirm the appointment of the primary internal audit services and lead partner.
- > Appointment of the primary internal audit services provider will be for a period of two years. The incumbent internal audit services provider may be reappointed for an additional two year term.
- > Rotation of the appointed lead partner will occur at least every five years, with a mandatory five year stand down period.

### 3.3 Internal audit services

- > Provision of internal audit services shall adhere to the Accounting Professional and Ethical Standards of the Chartered Accountants Australia and New Zealand, which include requirements in the areas of ethics, independence, documenting the terms of the engagement, and quality control.

## 4 Review and Breaches of Policy

This policy has been approved by the Committee and the Board and will be reviewed every three years to ensure that it remains consistent with the Committee's objectives and responsibilities. Any breach of the above policy must be reported to the Chief Financial Officer and Committee as soon as practical or in accordance with Mercury's Whistleblowing Policy. The Committee may consider such breaches to constitute serious misconduct and will take such action as is required to preserve the integrity of Mercury's financial reporting.

