



PACIFICENERGY

# Auditor Independence Policy



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## 1.0 Introduction

### 1.1 Objective

The purpose of this policy is to define those areas that the Pacific Energy Group (Group) Board (Board) must consider in relation to the provision of external audit services.

Fundamentally, the external auditor must always remain independent of the Group and comply with the relevant requirements of the Corporation Act 2001.

### 1.2 Scope

This Policy applies to all entities (companies, trusts and other legal structures) within the Group unless varied by the governing body of an individual entity, after consultation with the Audit, Safety and Risk (ASR) Committee.

## 2.0 Policy Statement

The Board and the Group's management recognise the importance of strong corporate governance, particularly processes to ensure the independence and objectivity of the appointed external audit engagement partner/team. The Board also recognises that ultimate responsibility for the integrity of the Group's financial reporting lies with the Board.

The Board relies upon external audit as one form of assurance that the annual accounts are free from material misstatement and that a sound system of risk management and internal control is operating effectively in all material aspects in relation to financial reporting.

## 3.0 Policy Operation

### 3.1 Appointment, Removal and Rotation of External Auditor

- a. Whilst non-listed public companies are not formally required to rotate their audit firm, the Board recognises that accessing the same senior personnel on an assurance engagement over a long period of time may create a familiarity threat. As such, rotating the audit lead engagement partner every 5 years is an appropriate safeguard applied to reduce the risk to an acceptable level. Audit firm rotation will be determined based on the performance of the external auditor.
- b. The Board through the ASR Committee will determine the selection and termination of the external auditor subject to relevant requirements of the Corporation Act 2001 and the company constitution.
- c. If a vacancy or change in external auditor for the Group occurs, the Board will conduct a formal, selective tendering process.
- d. Tenders will be evaluated in accordance with criteria appropriate at the time.
- e. Tenders are not assessed solely on price but on several factors including:

- i. Skills and knowledge of the proposed external audit team;
- ii. Independence of the external auditor and more specifically the audit engagement partner in relation to the Group;
- iii. Understanding of the industry;
- iv. Quality and thoroughness of proposed audit coverage;
- v. Partner rotation and succession planning; and
- vi. Value for money.

### 3.2 Performance of External Auditor

- a. The Board reviews the performance of the external auditor on an annual basis, focusing on:
  - i. The quality and rigour of the audit;
  - ii. The quality of services provided;
  - iii. The external auditor's internal quality control procedures; and
  - iv. The independence of the external auditor
- b. Where the performance of the external auditor is being unsatisfactory, the Board determines a course of action, which may include:
  - i. Discussion with the external auditor to resolve performance issues;
  - ii. Replacement of members within the external auditor's team; or
  - iii. Commencement of a competitive tender process in order to select a new service provider.

### 3.3 Independence of External Auditor

- a. The Board will review the independence of the external auditor annually.
- b. In evaluating the external auditor independence, it is important the external auditor is independent not only in fact, but also in appearance, such that a reasonable and informed third party, having knowledge of all relevant information, including any safeguards applied, would reasonably conclude that the external auditor's independence has not be compromised.
- c. The external auditor is precluded from providing any services that might threaten its independence or materially conflict with its assurance and compliance role. Specifically, any firm providing audit services to the Group will need to satisfy the Board that:
  - i. No services will be provided that will result in a material conflict of interest;
  - ii. No partner, management level professional member of staff or member of the audit team, holds any shares or options, either directly or indirectly, the Group;
  - iii. No funds have been received by the firm by way of a loan or other form of capital from the Group;
  - iv. Any services provided by the firm additional to that of the audit function involving non-audit services traditionally performed by accounting firms, would not have a material bearing on the audit and would not involve the firm directly auditing itself;

- v. The firm has an appropriate and agreed audit personnel rotation policy including lead and signing partners;
  - vi. No partner or member of the audit team or spouse or close relative of an audit partner or member of the audit team staff holds a position as a director or executive of the Group; and
  - vii. There will be no situations where the external auditor assumes the role of management or where the external auditor is placed in the role of advocate for the Group.
- d. Attachment A of this policy lists those audit and audit related services that are permitted and those that are prohibited.

### 3.4 Provision of Non-Audit Related Services

- a. In order to ensure that the external auditor maintains its independence, there are strict controls in place in relation to non-audit work performed.
- b. The external auditor can be engaged to perform non-audit related services in line with the permitted services as detailed in Attachment A of this policy up to a value of \$20,000 indexed annually for Australia All Groups CPI. Services above this must be approved by the ASR Chair.
- c. If, in the view of the Board, the level of fees being paid to the external auditor for audit or non-audit related service, either severally or in the aggregate, are of a magnitude that could impair, or be perceived to impair, auditor independence, the Board may impose a restriction on the services being awarded to the external auditor.

### 3.5 Responsibility of the External Auditor

- a. The external auditor will maintain a quality control system that provides assurance that its independence will not be impaired. The external auditor must provide an annual declaration in the Financial Report on its compliance with independence requirements within the meaning of relevant legislation and professional standards.

### 3.6 Audit Delivery and Reporting

- a. Each year, as part of the external audit assignment, the external auditor, after discussions with the Group's management, will issue an external audit plan for the information, and discussion with the Board.
- b. The audit plan must apply materiality to assist in determining when the external auditors would expect to involve the Board, should it become necessary, in order to resolve an audit or accounting issue. It also affects the extent to which the external auditor performs detailed procedures on smaller account balances in the financial records.
- c. All audit differences which are potentially material are to be brought to the attention of the Group's management for further consideration and action as appropriate.

- d. On completion of the annual audit, the external auditor must provide the Board with a Closing Report to the Board, a Management Letter and an audit opinion. The Report to the Board and Management Letter will confirm the audit findings and highlight any of these audit differences that have not been addressed by the Group's management and the potential impact on the accounts as well as highlighting in any control weaknesses which need to be addressed. The audit opinion will indicate the external auditor's opinion as to whether the accounts present a true and fair view of the financial position and financial performance of the entity and compliance with the Australian Accounting Standards, Corporation Act 2001 and other relevant requirements.

## 4.0 Review

The CEO will monitor the effectiveness and review the implementation of this policy, considering its suitability, adequacy and effectiveness. Any improvements identified will be made as soon as possible.



Jamie Cullen  
**Group CEO**  
16 July 2020

## Attachment A

### Permitted Services – General Approval

#### *Audit Services*

- Audits of consolidated and individual entity financial statements including interim reviews, consultation on accounting issues, internal control work, attendance at Board and Audit & Risk Committee meetings, use of specialists in connection with the foregoing, preparation of a management letter and other services integral to audits of financial statements;
- Audit of subsidiary financial reports required by local reporting requirements or from time to time by the Group's management;
- Assistance in the implementation of new accounting pronouncements and interpretation of accounting principles;
- ASIC consultation, including review of correspondence relating to filings;
- Audits of opening balance sheets of acquired entities/companies;
- Audits and accounting consultation on acquisitions, disposals and discontinued operations; and
- Audits of financial statements and transactions that are used by lenders, filed with government and regulatory bodies and similar reports.

#### *Non-Audit Services*

##### *Audit related services*

- Services that result from the role of the firm as independent auditor;
- Compliance letters, agreed-upon procedures, reviews and similar reports based on audited financial statements, financial information or the role of the independent auditor;
- Acting as scrutiniser at general meetings of the Group;
- Assistance in reviews and tests of internal control and related systems;
- Assessment of the design and implementation of internal controls; and
- Provision of training and technical material in relation to application of accounting principles.

##### *Audit related services – specific approval*

- Transactional assistance, such as due diligence

##### *Non-audit related services*

- Tax return and tax accrual reviews, consultations and assistance;
- Tax planning and other non-compliance related consultation or services;
- Other tax related services;
- Modelling services including the Corporate Model;
- Risk management services including, but not limited to, business continuity and IT disaster recovery;
- Surveys, analyses and economic studies to assist commercial feasibilities; and
- Other consulting services where the external auditor has relevant expertise and the engagement of which complies with this policy.

Specific approval from the ASR Chair must be obtained for any non-audit related services greater than \$20,000, indexed annually for Australia All Groups CPI. Amounts under this limit must be approved by the Chief Financial Officer prior to engaging the external auditor for non-audit related services.

Criteria for selection of the external auditor for performing permitted non-audit services will be where there is specific expertise, know-how or knowledge, which provides a compelling benefit to the Group.

### **Prohibited Services**

To avoid conflicts, the external auditor must not:

- Assume the role of management;
- Become an advocate for its own client; or
- Directly audit its own professional expertise.

Under the policy, the external auditor would not normally provide the following services:

- Bookkeeping or other services related to the accounting records or financial statements of the audit client;
- Financial information systems design and implementation;
- Appraisal or valuation services, fairness opinions, or contribution-in-kind reports;
- Actuarial services;
- Internal audit outsourcing services;
- Management functions, including temporary staff assignments or human resource services, including recruitment of senior management;
- Broker or dealer, investment adviser, or investment banking services;
- Legal services and expert services unrelated to the audit; and
- any other service that the Board determines is impermissible.