

# Scales Corporation Limited

## External Auditor Independence Policy

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### INTRODUCTION

1. This is a Board approved governance policy. The approach to corporate governance in Scales Corporation Limited ("Scales") is set out in the Board and Board Committee Charters and related documents.

### POLICY STATEMENT

2. The objective of this policy is to ensure that audit independence is maintained, both in fact and appearance, such that Scales' external financial reporting is viewed as being highly reliable and credible.

### BACKGROUND

3. Oversight of Scales' external audit arrangements is the responsibility of Scales' Audit and Risk Committee. Ensuring that external audit independence is maintained is one of the key aspects in discharging this responsibility. This formal External Auditor Independence Policy has been adopted by the Committee to meet this requirement.
4. The policy covers the following areas
  - Approval of external auditor;
  - Provision of other assurance services by Scales' external auditors;
  - Pre-approval process;
  - External auditor rotation;
  - The hiring of staff from the external audit firm; and
  - Relationships between the external auditor and Scales.

### APPROVAL OF EXTERNAL AUDITOR

5. The Audit and Risk Committee shall only recommend to the Board an external audit firm if that firm:
  - would be regarded by a reasonable investor 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;

- has not, within two years prior to the commencement of the audit, had as a member of its audit engagement team Scales' Chief Executive Officer, Chief Financial Officer, or any member of Scales' management who act in a financial oversight role;
- does not allow the direct compensation of its audit partners for selling non-audit services to Scales.

## **PROVISION OF OTHER ASSURANCE SERVICES BY SCALES' EXTERNAL AUDITORS**

6. The guidelines that follow are designed to ensure that related assurance and other services provided by Scales' auditors are not perceived as conflicting with the independent role of the auditor.
7. The general principles to be applied in assessing the acceptability of related assurance and other 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. This includes the provision of valuation services where such valuation forms an input into audited financial information; it also includes the design or implementation of financial information systems;
  - The external auditor should not perform any function of management, or be responsible for making management decisions. This includes responsibility for the performance of internal audit functions;
  - The external auditor should not be an advocate of the company. This includes being a promoter of Scales shares or legal advocacy.

### **Services permitted to be performed**

8. The Audit and Risk Committee must pre-approve all audit and related assurance services provided by the external auditor.
9. Audit Services including:
  - Statutory audits of the financial statements of the company and any subsidiary or affiliate required to be audited in order for the auditors to render an opinion with respect to the audit of the consolidated financial statements of the company;
  - Limited reviews of the half year results and financial position of the company;
  - Consultations with management as part of the annual audit as to the accounting or disclosure treatment of transactions or events and/or the actual or potential impact of final or proposed rules, standards or interpretations by regulatory or standard setting bodies (including International Financial Reporting Standards);
  - Procedures required to be performed by an independent auditor to be able to form an opinion on the consolidated financial statements;
  - Engagements on internal controls for financial reporting and information systems reviews, performed in connection with the audit.

#### 10. Audit-Related Services:

- General assistance with understanding auditing standards and applicable regulatory rules;
- Any procedures in relation to the annual Shareholders' meeting or any special meeting of shareholders;
- Consultations and recommendations in connection with internal control reporting requirements;
- Assessment of risk management controls;
- Information systems review not performed in connection with the audit and that will not be subject to audit procedures;
- Opening balance sheet audits of significant acquisitions which will be accounted for as a purchase transaction in the group financial statements;
- To the extent required as part of any restructuring of the company, any audit and/or review of carve out financial statements relating to acquisition or disposals in connection with the audit of the consolidated financial statements of the company;
- assurance services with respect to specific requests or legal requirements such as compliance with banking covenants and/or review of employee and executive bonus entitlements (including agreed upon procedures in relation to banking covenant compliance);
- Due diligence review of prospective and other financial information as requested by the Board in connection with a public filing;
- Other audit-related services where the general principles outlined above are complied with and there is a clear cost/benefit advantage of using the incumbent audit firm through existing company knowledge and/or expertise.

#### 11. Other Services. Consistent with the general principles as outlined above these include:

- Tax services:
  - Assistance with tax compliance assignments (direct and indirect taxation), where indirect taxes include GST, FBT, NRWT and payroll taxes;
  - Review of annual tax returns;
  - Assistance with IRD queries, requests for information, investigations and audits.
- Other services where the general principles outlined above are complied with and there is a clear cost/benefit advantage of using the incumbent audit firm through existing company knowledge and/or expertise.

#### **Services not permitted**

#### 12. It is not considered appropriate for Scales' auditors to provide:

- Book keeping/other services related to accounting records or financial statements;
- The design of financial information systems;
- Appraisal/valuation services/opinions as to fairness;

- Internal audit services;
- Legal services (these are services that could only be provided by a person who is qualified in law);
- Consultation with respect to tax structuring for acquisitions, divestitures, and financing arrangements;
- Tax planning advice;
- Management functions;
- Broker/dealer/investment adviser/investment banking services;
- Services of an expert as an advocate;
- Actuarial services;
- Assistance in the recruitment of senior management.
- Financial due diligence on prospective acquisitions or transactions that the company undertakes or may consider undertaking.

### **Billing Arrangements**

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

### **Other Procedural Requirements**

14. Regardless of Scales' policies, it is expected that the auditors will rigorously comply with their own internal policies on independence and all relevant professional guidance (including independence rules and guidance issues by the NZICA, NZX and the Securities and Exchange Commission).
15. While this policy does not prescribe any particular ratio of "other service" fees to audit fees, this ratio will be monitored by the Audit and Risk Committee. Accordingly, the nature of services provided by Scales' auditors and the level of fees incurred should be reported to the Audit and Risk Committee in detail annually to enable the Committee to perform its oversight role.

### **PRE-APPROVAL AND DISCLOSURE OF SERVICES**

16. All audit related and other services to be performed by the auditors require the specific pre-approval of the Audit and Risk Committee.
17. Services permitted to be performed under this policy involving a total fee of less than \$10,000 can be approved by the Chief Executive or Chief Financial Officer. All such matters relating to approvals by the Chief Executive or Chief Financial Officer are to be reported at the subsequent Audit and Risk Committee meeting.
18. In providing approval the Audit and Risk Committee should ensure:
  - The service does not give rise to any self-review or familiarity threat taking into account the safeguards in place
  - That all management decision making is retained by Scales

- The service does not involve the auditor being an advocate of the company.

#### **Disclosure**

19. The Audit and Risk Committee should ensure transparency in reporting of all fees paid to the external auditors. As a minimum, fees should be disclosed under three categories of audit services, taxation and other, with further breakdown to be considered based on materiality as determined by the Audit and Risk Committee.

#### **EXTERNAL AUDITOR ROTATION**

20. The recommendation of the continued appointment of Scales' external auditors is to be recommended annually by the Audit and Risk Committee to the Board prior to the Annual Meeting of Shareholders. A policy of regular rotation of the audit firm is not mandated.
21. Rotation of the Engagement and Quality Review audit partners of Scales will be required every five years.
22. Those partners will be subject to a two year cooling-off period following rotation.
23. All other audit partners will be required to rotate every seven years and will be subject to a two year cooling-off period.

#### **HIRING OF STAFF FROM THE EXTERNAL AUDIT FIRM**

The hiring by Scales of any former audit partner or audit manager must first be approved by the Audit and Risk Committee.

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

#### **RELATIONSHIP BETWEEN THE EXTERNAL AUDITOR AND SCALES**

The auditors are required to confirm their independence and advise the amount of audit and non-audit fees to the Audit and Risk Committee annually.