

# **STAKEHOLDER ENGAGEMENT MODEL**

**FOR RELATIONSHIP WITH  
THE EXTERNAL AUDITOR**

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**VERSION 8.0**

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# CONTENTS

<a href="#">Purpose</a> .....	3
<a href="#">External Auditors</a> .....	3
<a href="#">Relevant Stakeholders</a> .....	3
<a href="#">Roles &amp; Responsibilities</a> .....	4
<a href="#">Relationship with the External Auditor – Key Principles</a> .....	5
<a href="#">Application to Associates</a> .....	7
Appendices .....	8
1. <a href="#">Appendix 1 – Categories of services that may be provided by the External Auditor (subject to pre-approval)</a>	
2. <a href="#">Appendix 2 – Categories of services that may not be provided by the External Auditor</a>	

## PURPOSE

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The **External Auditor Stakeholder Engagement Model** (this engagement model) has been prepared in accordance with the global [Stakeholder Engagement Policy](#) and applies to Australia and New Zealand Banking Group Limited (ANZ) and its controlled entities.

This engagement model outlines the key principles and policies for dealings with External Auditors.

Auditor independence is fundamental to the credibility and reliability of the auditors' reports. This engagement model on the relationship with the External Auditor is in place to ensure that ANZ's External Auditor is independent and is perceived to be independent. The engagement model is set in light of the specific requirements of the Australian *Corporations Act 2001*, SEC independence rules and other professional standards. The engagement model should be read in conjunction with the Audit Committee Charter. It is mandatory and must be followed by all personnel engaging the External Auditor.

## EXTERNAL AUDITOR

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ANZ's group External Auditor is currently KPMG. This engagement model must be followed for any proposed engagement of the External Auditor and its staff.

The principles of this engagement model should also be considered where ANZ engages audit firms other than KPMG for local reporting purposes.

## RELEVANT STAKEHOLDERS

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In performing its audit duties, the External Auditor has unrestricted access to persons within ANZ from whom the External Auditor determines it necessary to obtain audit evidence. However, the key stakeholders for the purpose of this document are:

- Chairman of the Audit Committee and members of the Audit Committee;
- Chief Financial Officer;
- Deputy Chief Financial Officer (Deputy CFO);
- Group Financial Controller;
- Head of Financial Policy & Governance;
- Divisional Chief Financial Officers (Divisional CFOs);
- Senior Risk Executives (Credit, Operating and Market); and
- Management, either seeking to appoint the External Auditor or seeking to rely upon a report prepared by the External Auditor for either a syndicate (in which ANZ is a participant) or an ANZ client.

## ROLES & RESPONSIBILITIES

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### **Audit Committee**

- The Audit Committee is responsible for the appointment, compensation, retention and oversight of the External Auditor, including resolving disagreements between management and the External Auditor regarding financial reporting. The External Auditor will provide reports directly to the Audit Committee.
- The Audit Committee must pre-approve all audit, audit-related and non-audit services either on an engagement by engagement basis, or pursuant to specific pre-approval policies adopted by the Audit Committee.
- The Audit Committee will assess regularly the independence of the External Auditor, with at least one formal review per year.
- The Audit Committee will evaluate regularly the effectiveness of the External Auditor, with at least one formal review per year.
- The Audit Committee will maintain an engagement model addressing the provision of services by the External Auditor.

### **Subsidiary Board Audit Committees**

- Subsidiary Board Audit Committees may have specific regulatory requirements in relation to external audit. The key principles set out in this policy should be applied by the Subsidiary Board Audit Committees in the management of external audit engagements. If there are any perceived issues or conflicts these should be raised through the Deputy CFO to the ANZ Audit Committee Chairman for resolution.

### **Global Leader**

In accordance with the [Stakeholder Engagement Policy](#), the global leader for the External Auditor engagement model is ANZ's Deputy CFO, who has accountability to ensure this engagement model is effectively managed.

### **Global Relationship Owners**

The global relationship owners with the External Auditor are as follows:

- **Group Finance** – In Australia the relationship with the External Auditor is owned by Group Finance and supported by Divisional CFO's, who are responsible for oversight and management of the relationship on a global basis.
- **Divisional CFOs** - In other countries or legal entities of the Group, the relationship is owned by the relevant Divisional CFO unless there is a local regulatory rule stipulating that dealings with the External Auditor must be conducted by a specified in-country officer.
- **Other Finance** - Where there is no in-country CFO, the primary relationship lies with the country CEO and/or the country COO, although all material queries and disputes have to be reported to Group Finance.
- **Non-finance** - In many situations the External Auditor will be engaged to perform services where the relationship owner is not in a finance role. In such situations, the engaging party is responsible for oversight and management of the relationship for that engagement.

The relationship owners identified above are responsible for ensuring that all communications with the External Auditor, for whom they have been assigned responsibility, are prompt, accurate and in accordance with the key principles outlined above and the applicable ANZ policies.

### **All Staff**

In line with audit requirements, the External Auditor has unrestricted access to persons within ANZ from whom the External Auditor determines it necessary to obtain audit evidence. All staff should be aware that engagement of the External Auditor should be in line with this engagement

model. If staff are unsure of these requirements their first point of contact should be Group Financial Policy.

## RELATIONSHIP WITH THE EXTERNAL AUDITOR - KEY PRINCIPLES

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### 1. ENGAGEMENT OF EXTERNAL AUDITOR

All services provided by the External Auditor must be in accordance with the following Independence Principles:

- any audit, audit related and non-audit services must not, or must not be perceived to, impair or impact the independence of the External Auditor;
- the External Auditor should not have a mutual or conflicting interest with ANZ;
- the External Auditor should not audit its own work;
- the External Auditor's relationship with ANZ, or a service provided to ANZ, should not result in it acting as management or as an employee of ANZ or in a project management/oversight capacity for an ANZ project;
- the External Auditor should not act as an advocate for ANZ;
- there must be a compelling reason for the External Auditor to provide the service; and
- in all cases, contingent fees, commission or success fees are prohibited.

#### **A) Services that may be provided by the External Auditor (subject to pre-approval)**

Categories of Services that may be provided by the External Auditor are outlined in Appendix 1 and are subject to the following requirements:

- Every September, for the following financial year, the Audit Committee will pre-approve categories of Audit and Audit-Related services that may be performed by the External Auditor.
- All individual Audit and Audit-Related services (including the associated fees), which are recurring, should be escalated to Group Financial Policy (GFP), and will be presented to the Audit Committee for approval at the February meeting.
- All non-recurring/one-off Audit and Audit-Related and Non-Audit services should be escalated to GFP by management with the final draft engagement letter. GFP<sup>1</sup> will:
  - a. Escalate non-recurring/one-off Audit, Audit-Related and Non-Audit services with a value above A\$50,000 to the Audit Committee Chair for approval.
  - b. Approve non-recurring/one-off Audit, Audit-Related and Non-Audit services with a value under A\$50,000.
  - c. Report on a periodic basis to the Audit Committee on all approved non-recurring/one-off services.
- Fees for all proposed services must be fixed, GFP or Audit Committee approval needs to be sought for any overruns (subject to the above escalation thresholds).

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<sup>1</sup> GFP or the Group Financial Controller or the Group Deputy CFO or the Group CFO.

## **B) Services that may not be provided by the External Auditor**

The services for which the External Auditor is not permitted to be engaged by ANZ are listed in Appendix 2.

These services may, or may be perceived to, impair or impact the independence of the External Auditor, and are therefore prohibited under this engagement model and may be prohibited by applicable law. Pre-approval does not affect the prohibited status of these services.

This is not an exhaustive list of services that may not be provided by the External Auditor. Management must apply the principles above to any proposed service for which the External Auditor may be engaged.

## **C) Syndicated Loans**

A syndicate of banks may at times appoint an accounting firm to undertake a specific engagement for a client of the syndicate. The accounting firm may be appointed by the syndicate or by the client.

In these situations, if ANZ makes the appointment or has significant influence over the appointment, the External Auditor **may not be appointed**.

ANZ **may not participate** in or influence the selection or appointment of the External Auditor to such an engagement, or participate in setting the scope and terms of the engagement where:

- ANZ has control or significant influence over the syndicate (generally, 20% or more participation or where ANZ is a member of the agent bank group or creditors' committee); OR
- ANZ has a significant stake in the outcome of the transaction (for example, where the amount due to ANZ from the third party is material to ANZ); OR
- ANZ has primary responsibility for reviewing the External Auditor's advice and for making decisions based on that advice; OR
- ANZ pays more than its proportionate share of fees for that advice.

In addition, where ANZ is the sole lender to a client, the External Auditor may not be appointed as the investigating accountant, receiver, administrator or liquidator to that client.

## **D) External Auditor Appointed by an ANZ client**

Situations may arise where an ANZ client appoints the External Auditor to prepare a report, for example a report on the state of the client's business or cash flow position.

Where the External Auditor is engaged by the client and the client pays the External Auditor for the provision of this service, a copy of the External Auditor's report may be provided to ANZ and may be relied upon by ANZ subject to the following:

- the client is not on the ANZ watch and control list;
- the report is not the sole source of reliance by ANZ for any subsequent decisions made; and
- the report will make reference to the fact that the scope of work is limited to the terms of reference and the engagement is not an audit or a review.

## **2. RECRUITMENT OF EXTERNAL AUDITOR STAFF**

ANZ requires a two year "cooling off" period before any partner or professional staff of the External Auditor, who was a member of the ANZ external audit team, is appointed as a Director or Senior Executive of ANZ. In addition, where a current Director or Senior Executive of ANZ was previously a partner of the External Auditor at a time when the External Auditor was auditor of ANZ, ANZ requires a five year "cooling off" period before any other former partner of the External Auditor is appointed as a Director or Senior Executive of ANZ.

In addition, potential appointments to a senior ANZ Finance role must be approved in advance of the appointment if the candidate, their immediate family member/close relative (i.e. spouses, spousal equivalents, related or unrelated dependants, parents, siblings and non-dependent children) is a partner of the External Auditor (irrespective of whether they worked directly on the ANZ audit) or a senior manager of the External Auditor who provides services to ANZ. Such approval must be granted by the Chairman of the Audit Committee for appointments at a Group 2 level or higher and by the Chief Financial Officer for appointments at a Group 3 level.

## **3. EXTERNAL AUDITOR STAFF ROTATION**

ANZ requires that the lead and concurring partner involved in the external audit should not remain in a key audit role beyond a period of 5 years and should not return to the audit team for a further five years. In addition, ANZ requires that other audit partners, who have responsibility for decision making on significant auditing, accounting or reporting matters or maintain regular contact with management or the audit committee, should not remain in a key audit role beyond a period of seven years and should not return to the audit team for a further two years. This does not apply to specialist partners such as tax partners and actuarial partners unless they are also engagement partners.

## **4. NON-BUSINESS RELATED INTERACTIONS WITH THE EXTERNAL AUDITOR**

All ANZ Directors or management who receive gifts or entertainment from the External Auditor shall report the type of gift or entertainment and its approximate value, in accordance with the ANZ Anti-Bribery and Anti-Corruption Policy.

For Directors, the above requirements only apply to gifts or entertainment received as a result of their role at ANZ, they do not apply to gifts or entertainment received as a result of other directorships held in respect of organisations with the same external audit firm.

## **APPLICATION OF THIS ENGAGEMENT MODEL TO ASSOCIATES**

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Associates are entities over which ANZ has significant influence rather than control. Generally significant influence exists where ownership interests are between 20% and 50%. As associates are not controlled by ANZ the requirements of this engagement model do not apply, except in the circumstances described below:

- ANZ is paying directly, or partly paying, for the service provided by ANZ's External Auditor; OR
- ANZ is signing the engagement letter for the service being provided.

In either of these circumstances the requirements of this engagement model should apply.

# APPENDIX 1 – Categories of services that may be provided by the External Auditor

(Subject To Pre-Approval)

## **AUDIT SERVICES**

Audit or Reviews of financial statements of ANZ, its subsidiaries and affiliates.

*Principles for classifying as Audit Services* - A reasonable assurance engagement where the External Auditor expresses an opinion on whether historical financial information presented in ANZ financial statements (including those of subsidiaries and affiliates of ANZ) are prepared and presented in all material respects to give a true and fair view, in accordance with an applicable financial reporting framework. This is restricted to work performed as part of statutory audits and reviews.

Categories of services which are pre-approved by the Audit Committee include:

- 1) Statutory financial statement audits and interim reviews, the Consolidated Group, each subsidiary and affiliated legal entity.
- 2) Attestation reports on internal controls over financial reporting.

## **AUDIT-RELATED SERVICES**

Engagements other than the statutory audit or review of financial statements which involve the External Auditor:

- attesting whether ANZ's opinion, processes or policies associated with the recording of transactions or account balances are consistent with an external standard or requirement.
- leveraging a significant portion of the work performed on a statutory audit or review.
- being required, by an external statutory or regulatory authority, to be engaged by ANZ.

*Principles for classifying as Audit-Related Services* – Audit-Related Services are engagements other than the statutory audit or review of financial statements where:

- 1) The External Auditor is required to attest/confirm/provide assurance/present findings to either ANZ management or external parties that account balances, transactions, processes or ANZ work performed/views are consistent and comply with, an external statutory or regulatory standard or requirement.
- 2) A significant portion of the scope of work to be performed can be leveraged by the External Auditor from work they have already performed as part of the statutory audit/review (these engagements are restricted to the Audit-Related categories mentioned below).

Categories pre-approved by the Audit Committee include:

1. Opinions for APRA under tripartite arrangements with the External Auditor.
  2. Comfort letters, consent letters, agreed upon procedures and other forms of attestation provided by the External Auditor in connection with debt, equity or hybrid capital raisings.
  3. Accounting advice on the appropriateness of ANZ's proposed accounting treatment.
  4. General training on the impact of new and revised accounting and regulatory standards.
  5. Assurance over reports containing financial or non-financial information prepared to meet the ANZ Group governance objectives, such as the Annual Sustainability and Environment Reports.
- 3) There is either a regulatory or statutory requirement to engage the External Auditor or where the External Auditor is required to report to a statutory or regulatory authority.



For the sake of clarity where:

- The External Auditor provides a service that would be considered as advice or recommendations for management action, irrespective of whether management has sole discretion or responsibility for actioning those recommendations or advice, the engagement in its entirety would not be Audit-Related.
- The External Auditor provides additional assurance to management on previously audited/reviewed account balances, transactions, processes or ANZ work performed/views, in the absence of any change in reporting standards, statutory or regulatory requirements or a significant ANZ business restructure, would not be considered Audit-Related.

### **NON-AUDIT SERVICES**

Non-Audit services include all services other than those classified as Audit or Audit-Related and are not those which are prohibited as outlined in Appendix 2. Non-audit services are subject to a dollar cap per year as determined by the Audit Committee Chair.

Outlined below is a listing of possible categories of non-audit services. These are **NOT considered pre-approved** and are listed for reference only:

- 1) Any training that is not accounting or prudential or regulatory related.
- 2) Presentations/research on industry or business or financial market or risk insight/developments.
- 3) Review of operational effectiveness of ANZ business activities and recommendations regarding potential areas of improvement, provided that such services do not involve the design or implementation of internal controls over financial reporting.
- 4) Any benchmarking services.

## APPENDIX 2: Categories of services that may not be provided by the External Auditors

The following categories of services or activities **are prohibited** and cannot be provided by the External Auditor to ANZ.

- 1) Accounting, administration, project management, HR, payroll and tax services. Examples include:
  - a) Bookkeeping, preparation/compilation of accounting records or financial statements or regulatory or tax returns.
  - b) Recruitment services or acting in the capacity of an ANZ employee, or secondments to ANZ.
  - c) Corporate Secretarial Services.
  - d) Acting in a project management capacity on any ANZ project or project implementation or related post implementation review.
  - e) Any internal audit services, including monitoring of controls on an on-going basis. ANZ should place no reliance on the External Auditors as the primary basis for determining the adequacy of internal controls over financial reporting systems.
  - f) The marketing, planning or positively opining on the tax treatment of confidential transactions<sup>2</sup> or aggressive tax position transactions.<sup>3</sup>
  - g) Personal income tax services, including compilation of tax returns to an employee or contractor in a financial reporting oversight role<sup>4</sup> in ANZ or any ANZ legal entities. This prohibition extends to any immediate family members of that employee or contractor.
  - h) Interpretation of tax legislation and its application to ANZ.
- 2) Any design and implementation work involving:
  - a) Financial information systems, risk management and financial procedures or controls.
  - b) Hardware or software that aggregates source data underlying financial statements or generates information that is significant to the financial statements.
- 3) Actuarial, valuation or legal services. Examples include:
  - a) Determination of the amounts recorded in the financial statements and determination of actuarial valuation. Actuarial services in respect to the appropriate actuarial methods and assumptions as well as attestations required by regulators are permitted but not pre-approved.
  - b) Appraisals or fairness opinions and valuations to support business acquisitions.
  - c) Any legal services including providing an expert opinion or other expert services for the purpose of advocating the interests of ANZ in a regulatory or administrative proceeding or investigations.
  - d) Investigating accountants work (on potential or existing ANZ clients), including any receiver or liquidator and related investigation work for ANZ.
- 4) Broker-dealer, investment advisor or investment banking services. Examples include:
  - a) Serving as a promoter or underwriter or making investment decisions, or executing transactions on behalf of ANZ.
  - b) Have custody of ANZ assets.
  - c) Advice on deal structuring and assistance in deal documentation or fairness opinions.
  - d) Promoting, dealing in, or underwriting shares in ANZ.
  - e) Any due diligence on potential acquisition or disposals except as outlined in Appendix 1.
- 5) Services linked to financing, capital structure and allocation (except those outlined in Appendix 1).

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<sup>2</sup> A Confidential transaction for the purposes of applicable PCAOB independence rules is a transaction that is offered by an advisor under conditions of confidentiality and for which the taxpayer pays the advisor a fee. Confidentiality refers to a limitation on disclosure of the tax treatment or tax structure of the transaction that protects the confidentiality of that advisor's tax strategies.

<sup>3</sup> An Aggressive Tax Position for the purposes of applicable PCAOB independence rules is a transaction where tax avoidance is a significant purpose of the transaction and where the proposed tax treatment is not "likely" to be allowable under applicable laws. "Likely" is defined in terms of a transaction being more likely than not to be allowable under applicable tax laws.

<sup>4</sup> A Financial Reporting Oversight Role is a role in which a person is in a position to, or does, exercise influence over the contents of the financial statements, or exercises (or is in a position to exercise) influence over anyone who prepares them. The restriction also applies to persons serving in a financial reporting oversight role in any ANZ controlled entity.

## Administration

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