

1. BACKGROUND

- 1.1 In the delivery of an audit service, the quality of opinion is paramount. The markets have to be able to rely on all aspects of the quality of the audit. One of the issues that arises in relation to the delivery of an audit service is independence and conflicts of interest, in particular whether the auditor should be free to provide other services to Fletcher Building.
- 1.2 The board, through the Audit & Risk Committee, has determined a policy in accordance with the regulations issued and adopted by IFAC (International Federation of Accountants) in 2001. The Institute of Chartered Accountants in New Zealand (ICANZ) issued independence guidance in 2003 based on the IFAC regulations and revised them in September 2008.
- 1.3 The IFAC framework is based around the consideration of the various types of threats to independence and the safeguards, if any, that can be put in place to mitigate the threats. There is an acknowledgement that some non-audit services will impair independence; that some non-audit services could impair independence if appropriate safeguards are not applied; and other non-audit services do not impact upon independence.
- 1.4 The compromises to objectivity and independence where they are considered to exist, require appropriate safeguards to eliminate or reduce the compromise to an acceptable level, which may include declining to perform the service. The compromising situations identified by IFAC are:
 - (a) self-interest, including the auditor benefiting by having a financial interest in Fletcher Building, potential employment or contingent fees;
 - (b) self-review, including auditing their own work and preparing material source financial data;
 - (c) advocacy, including being a promoter of Fletcher Building's shares or acting as a legal advocate;
 - (d) familiarity or trust, including family relationships and long association of senior team members; and
 - (e) intimidation, including fee pressures and threat of replacement.

2. OVERVIEW OF THE FLETCHER BUILDING POLICY

- 2.1 The Fletcher Building group has adopted the following policies in relation to auditor independence:
 - (a) Fletcher Building's auditor is required to abide by the independence regulations set out in the code of Ethics on Independence issued by IFAC;
 - (b) the audit & risk committee must approve the appointment of Fletcher Building's auditor to provide any non-audit services to the company or its subsidiaries. Where such approval is required of the audit & risk committee, the chairman of the committee is delegated to provide such approval, provided that the approval is subsequently reported to the committee. The audit & risk committee may approve delegations to management, subject to financial limits and reporting to the committee;
 - (c) Fletcher Building's auditor is required to report in writing to the audit & risk committee on a six monthly basis on matters pertaining to their independence; and

- (d) Fletcher Building's auditor will be required to rotate their lead audit partner every five years and other key audit partners every seven years.

3. APPLICATION OF THE POLICY

- 3.1 The company's auditor independence policy is designed to ensure that by undertaking non-audit services our auditor will not:
 - (a) have a mutual or conflicting interest;
 - (b) audit their own work;
 - (c) function as management;
 - (d) act as an advocate for Fletcher Building; or
 - (e) have their independence impaired or seen to be impaired.
- 3.2 Over a rolling 3-year annualised basis, the level of aggregate non-audit fees paid to the company's auditor would not be expected to exceed 50% of the group audit fee.
- 3.3 The application of this policy means that the following non-audit services are approved by the audit & risk committee, subject to clause 3.2:
 - (a) half annual review of the financial results of the Fletcher Building group;
 - (b) provision of general accounting advice (where the value of the engagement for services is less than \$20,000);
 - (c) provision of general taxation compliance and advisory services (where the value of the engagement for services is less than \$20,000); and
 - (d) attendance at the annual shareholders' meeting.
- 3.4 The IFAC code of ethics has provisions covering the employment of audit team members by the company and puts the onus on the auditor to protect against their independence being challenged by such employment events. In keeping with the recommendation of ICANZ no standard stand-down period is prescribed. Each situation involving a transferring employee or partner will be assessed having regard to the perceived threat to and of audit independence.

4. NON-APPROVED SERVICES

- 4.1 The application of this policy is expected to mean that the audit & risk committee will not approve the use of the auditor as non-audit service providers for the:
 - (a) provision of taxation advice which is, or is potentially, material to the group financial statements;
 - (b) provision of M&A advice and / or due diligence services for significant acquisitions and divestments unless there are compelling advantages in using the audit firm and section 3.1 of this policy is adhered to;
 - (c) provision of outsourced internal audit services;
 - (d) provision of design and / or implementation services, including quality assurance services, for significant IT systems;

- (e) provision of valuation services that would have a material effect on the group financial statements;
- (f) provision of corporate secretarial, bookkeeping or payroll services;
- (g) provision of legal advocacy services.

4.2 Fletcher Building's auditor is required to report in writing to the committee on a six monthly basis:

(a) all relationships that may bear on independence, including but not limited to:

- the provision of non-audit services;
- financial relationships; and
- employment relationships;

(b) any other matters that may reasonably be thought to have a bearing on the auditor independence; and

(c) that the auditor is independent having regard to their firm's policies, and the IFAC and New Zealand rules regarding auditor independence.

4.3 The Lead audit engagement partner, who has ultimate responsibility for the audit engagement of the consolidated group, is required to rotate every five years with a minimum cooling-off period of two years. Other key audit partners, considered to be making key decisions or judgments on matters significant to the audit, are required to rotate every seven years with a minimum cooling-off period of two years.

Approved by the Audit & Risk Committee on 11 August 2015.