



AUDITOR INDEPENDENCE POLICY

Hills Limited

ABN 35 007 573 417

Policy Name	Auditor Independence Policy
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CONTENTS

1	Purpose / Overview.....	5
2	Appointment and Removal of the External Auditor	5
3	Performance of Auditor	5
4	Auditor Independence	6
5	Provision of Non-Audit Related Services.....	6
6	Responsibility of the External Auditor	7
7	Audit Delivery and Reporting.....	7
8	Review of this Policy	7
9	Appendices.....	8
	Appendix A: Permitted and Prohibited Provision of External Auditor Services	8

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1 Purpose / Overview

This policy provides guidance on the provision of external audit services for Hills Limited (**Hills**).

This policy should be read in conjunction with the Audit, Risk and Compliance Committee (**ARCC**) Charter, which outlines the responsibilities of the ARCC in regards to the provision of audit services.

The Hills Board recognises that the ultimate responsibility for the integrity of the Company's financial reporting lies with the full Board. The Board, through the ARCC, looks to external audit as one form of assurance that the annual accounts are free from material error and internal controls are operating effectively in all material respect in relation to financial reporting.

The purpose of this policy is to define those areas the ARCC should consider in relation to the provision of external audit services.

2 Appointment and Removal of the External Auditor

The ARCC has been empowered to recommend to the Board the selection and, if appropriate and subject to shareholder approval if required, termination of the external auditor.

If the role of external auditor becomes vacant, or if the ARCC otherwise considers it appropriate to do so, the ARCC will conduct a formal, selective tendering process. Tenders will be evaluated in accordance with the disclosed criteria as appropriate at the time. However, tenders are not assessed solely on price but on a number of issues including:

- skills and knowledge of the proposed external audit team;
- independence of the external audit firm and more specifically the audit partner in relation to Hills;
- understanding of the industry;
- quality and thoroughness of proposed audit coverage; and
- value for money.

3 Performance of Auditor

The ARCC, in accordance with its charter, reviews the performance of the external auditor on an annual basis. In reviewing the performance of the external auditors the ARCC focuses on:

- the quality and rigour of the audit;
- the quality of service provided;
- the audit firm's reputation; and
- the independence of the auditor.

Where the performance of the external auditor is assessed as being unsatisfactory, the ARCC determines and recommends to the Board the course of action, which may include:

- discussion with the external audit firm to resolve performance issues;
- replacement of members within the external audit team; or
- commencement of a competitive tender process in order to select a new service provider.

4 Auditor Independence

The ARCC will review the independence of the external auditor annually. In evaluating auditor independence, it is important that the auditor is independent not only in fact, but also in appearance, such that a reasonable third party, having knowledge of all relevant information, would reasonably conclude that the firm's independence had not been compromised.

The external auditor is precluded from providing any services that might threaten its independence or conflict with its assurance and compliance role. Specifically, any firm providing audit services to Hills will need to satisfy the ARCC that:

- no services will be provided that will result in a conflict of interest;
- no partner, professional member or staff or superannuation fund of the firm holds any shares or options, either directly or indirectly, in Hills or its controlled entities;
- 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 auditing itself;
- the firm has an appropriate and agreed audit personnel rotation policy including lead and signing partners;
- no partner or member of staff or spouse or close relative of an audit partner or member of the audit staff holds a position as a director or executive of Hills or its controlled entities; and
- there will be no situations where the auditor assumes the role of management or where the auditor is placed in the role of advocate for Hills.

Attachment A of this Policy highlights those audit and audit related services that are permitted and those that are prohibited.

Half yearly reports on the provision of auditing and related services are provided to the ARCC. The ARCC reviews these reports and satisfies itself that any non-audit services do not compromise the external auditor independence.

5 Provision of Non-Audit Related Services

The external auditor can be engaged to perform audit or non-audit services in line with the permitted services as detailed in Attachment A of this Policy subject to the prior approval of the ARCC if the annual fees for non-audit services are reasonably likely to exceed a

ratio of 1:1 audit to non-audit fees. It should be noted that significant projects undertaken by the auditors for non-audit services should be separately disclosed in the accounts.

6 Responsibility of the External Auditor

The external audit firm will maintain a quality control system that provides assurance that its independence will not be impaired. The external auditor semi-annually provides a letter to the Company Secretary on their independence within the meaning of relevant legislation and professional standards.

7 Audit Delivery and Reporting

Each year as part of the external audit assignment the external auditors, after discussions with management will issue an external audit plan for review and discussion with the ARCC. The audit plan should outline the standard combination of control and substantive based procedures to be completed.

The plan should also include additional audit procedures, based on the external auditor's analysis and understanding of developments during recent months, which require additional emphasis during the audit.

The external audit plan will apply materiality to assist in determining when the external auditors would expect to involve the ARCC, should it become necessary, in order to resolve an audit or accounting issue. It also affects the extent to which the external auditors perform detailed procedures on smaller account balances in the financial records.

All audit differences in excess of a set limit each year are to be brought to the attention of management for further consideration and action as appropriate.

On completion of the semi-annual audit, the Auditors provide the ARCC with a closing Management Report and an audit opinion. The Management Report will confirm the audit findings and highlight any of these audit differences that have not been addressed by management and the potential impact on the accounts. The audit opinion will indicate the auditor's conclusion as to the integrity of the financial statements.

8 Review of this Policy

This policy is reviewed annually

9 Appendices

Appendix A: Permitted and Prohibited Provision of External Auditor Services

1. Permitted Services – General Approval

1.1 Audit Services

- Audits of consolidated financial statement including interim reviews, consultation on accounting issues, internal control work, attendance at Board Audit, Risk and Compliance Committee meetings, use of specialists in connection with the foregoing, preparation of 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 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 companies.
- Audits and accounting consultation on acquisition, dispositions and discontinued operations.
- Audits of financial statements and transactions that are used by lenders, filed with government and regulatory bodies and similar reports.

1.2 Non-audit Services

Assurance 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 scrutiner at general meetings of the company.
- Provision of training and technical material in relation to application of accounting principles.

Tax 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.

Audit Related Services – Specific Approval

- Transactional assistance, such as due diligence.*
- Divestment services.*

* Prior approval must be obtained from the Chairman of the ARCC, and such approval is to be advised to the Board at the next Board meeting.

Criteria for selection of statutory auditors to perform these permitted non-audit services will be where there is specific expertise, know-how or company knowledge, which provides a compelling benefit to Hills.

2. Prohibited Services

- Bookkeeping or other services, related to the accounting records or financial statements of the audit client.
- Preparation of financial statements.
- Financial information systems design and implementation.
- Appraisal or valuation services, fairness opinions, or contribution-in-kind reports.
- Internal audit outsourcing services.
- Management functions or human resources.
- Independent expert reports.
- Legal services and expert services unrelated to the audit.
- Litigation support.
- Any other service that the Board determines is impermissible.