



# Appointment of External Auditor

## 1. Introduction

As an ASX listed company, Ruralco is conscious of the need to engage external auditors to provide a thorough and effective audit. To enable this, the selection of Ruralco's external auditor will be conducted in accordance with this Policy.

The Audit & Corporate Governance Committee will oversee the appointment of the external auditor with the assistance of management. The Board will make recommendations to shareholders at the relevant annual general meeting in relation to the appointment.

Independence of the external auditor is a key component of the Company's Corporate Governance Policy. This selection method ensures that the auditor is independent and has appropriate expertise and experience to provide the audit services to the Company.

## 2. Process

Ruralco will appoint its auditor through a formal tendering process. The Audit & Corporate Governance Committee will make a recommendation of those firms to be invited to tender. The invitation is to set out appropriate information concerning the Company to enable prospective auditors to provide a formal tender. The Committee or the Board may require a formal presentation from a number of short listed audit firms.

The Committee will ensure that the Company provides tendering auditors with sufficiently detailed information concerning the Company, its operations, its executives, group structures and financial statements so that an appropriate proposal and fee estimate can be presented. The tender will require the auditor to provide interests and details of its capabilities and experience. The Committee will undertake reference checks before appointing of the auditor.

When the Committee receives the tenders it will short list firms for the Board to consider. The Committee will consider the tenders with senior management and will make a recommendation to the Board.

The selection process is to be objective and based on merit. It is not to be influenced by improper considerations. The selection criteria will be clearly set out for the tendering firms to consider.

The Company is to execute a formal letter of engagement with the auditor before any audit work begins.

## 3. Criteria

The Board will develop a list of its needs, expectations and criteria for appointing of the auditor.

The criteria will include:

- actual and perceived independence;
- an understanding of the Company, its business and the industry in which the Company operates;
- the experience of the auditor within the industry;
- whether the auditors are auditors of direct competitors - particularly considering issues concerning confidentiality;
- the calibre of the team and team leader proposed;
- the relationship between the audit partner, the Board and senior management; and
- fee proposal and structure.

Although the fee proposal is a relevant factor, it will not be the determining factor in selecting the auditor. The determining factor will always be the ability of the auditor to provide an appropriate audit to the level and depth the Audit & Corporate Governance Committee requests and to otherwise assist the Committee. The Company seeks fees which are competitive but understands that the fee must be sufficient to undertake the audit in the appropriate manner. Ruralco expects that the audit and associated work will be undertaken by qualified auditors with an appropriate level of seniority, skill and knowledge. Fees will be sufficient:

- to ensure that the task can be properly fulfilled; and
- to prevent improper inducements being attractive; and
- to cover reasonable risk arising from the task.

The auditor will be a registered company auditor and a member of an accredited professional body.

#### **4. Independence**

Auditors must be objective and independent of the Company. The Board and Audit & Corporate Governance Committee will consider the actual and perceived independence in selecting the external auditor.

The external auditor will not provide services that impact on the independence of the audit role. Typically, these services might include:

- activities normally undertaken by management;
- activities remunerated through a success fee;
- if the auditor may be required to audit their own work;
- valuation services including appraisals and fairness opinions;
- human resources and recruitment services;
- IT design and system services;
- due diligence on potential acquisitions and investments other than in limited defined areas;
- advice on deal structuring or deal documentation;
- bookkeeping, except for secondments under control of Ruralco management;
- litigation support services
- legal services;
- investment advice and investment banking services; and
- expert services in relation to tax structuring.

The Board has not adopted definitive rules in relation to the scope of the provision of services. However, the Audit & Corporate Governance Committee and auditors will be conscious to ensure that the auditor does not provide services that may impact on the auditor's independence.

Independence will be assessed with assistance from Professional Statement F.1 on Professional Independence. The Company will use this as a guide on the independence of the auditor and the auditor appointed will be required to act in compliance with this Statement.

In accordance with this Statement:

- the auditor or their immediate family and partners may not have any direct financial interest or material indirect financial interest in Ruralco;
- the auditor may not have close material business relationship with a member of the Ruralco Group;
- the auditor and audit team may not contain any persons who have a direct family, personal or business relationship with an officer or senior employee or a member of the Ruralco Group;
- no former partners of the firm may be employed by a member of the Ruralco Group and no former member of the Group may be a material member of the audit firm;
- no partner or employee of the audit firm may have served as a director on the Board or held some other official role (for example, liquidator or receiver and manager) with Ruralco, within the last 3 years; and
- the auditor's fees from the Company must not exceed 5% of the auditor's consolidated gross revenue.

The audit will provide on an annual basis a statement of independence consistent with Professional Statement F.I.

## **5. The Tender**

The tender will be in two parts:

PART A will include a detailed capability statement indicating:

- the tenderer's capacity to perform the work in a timely fashion;
- history of similar work the tenderer has performed;
- knowledge and experience of the rural, wholesale and retail industries;
- any factors which may impact on actual and perceived independence;
- any potential conflicts of interest;
- an outline of the proposed audit programme;
- details of the firm's organisational structure including a listing of key personnel;
- the qualification and experience of personnel to be assigned to the company's audit;
- the proposed method of servicing interstate locations;
- any other relevant information in support of the proposal;
- proposals for lead partner and rotation policies; and
- names of referees.

PART B will be a fee proposal in which there must be identified:

- a flat fee to cover the proposed audit programme;
- a detailed schedule of rates for each key person and for each category of support staff;

- a detailed schedule of rates for ancillary costs and disbursements including travel expenses, photocopying, faxes, telephone and miscellaneous costs; and
- any other relevant information.

## **6. Tender Evaluation and Award**

Tenderers will be given the opportunity of visiting the Company's premises and meeting with executives in order to obtain additional information which is relevant to the tender process.

Selected tenderers will be required to make a presentation to the Audit & Corporate Governance Committee or the Board or both.

The auditor will be selected using the criteria the Board and Committee determines, including the criteria set out in this policy.

No contract will exist or be deemed to exist until, at least, a formal appointment in writing is made.

Advisers will be appointed as independent contractors and in no manner is a master-servant, or agency, relationship to be construed to exist between the parties.

Auditors will be appointed for a fixed term as determined by the Board.

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**Updated as at 15 February 2007.**