

**BLACKMORES**

**Blackmores Limited  
Charter of External Auditor  
Independence**

**August 2018**

# Table of Contents

---

Scope.....	3
Values and Commitments .....	3
Purpose .....	3
Key Independence Principles .....	4
Independence of Mind .....	4
Independence in Appearance.....	4
Threats to independence.....	4
Self-interest .....	4
Self-review.....	4
Advocacy.....	5
Familiarity .....	5
Intimidation .....	5
Communications between the Audit & Risk Committee and the external Auditor .....	5
Auditor’s Independence Declarations.....	5
Communication of Breaches .....	5
Services .....	6
General Principle and Controls.....	6
Restricted Non-Audit Services.....	6
1. Restricted regardless of materiality.....	6
2. Restricted if the result of the service, the information generated or the amounts involved are material to the financial statements .....	7
Employment Relationships .....	7
Business Relationships.....	7
Audit Partner Rotation.....	7
External Audit Tenders .....	8

# Charter of External Auditor Independence

---



## Scope

The Charter of External Auditor Independence applies to the Company's external Auditor, the Company and all subsidiaries and material investments of the Company. The Charter is based on the independence requirements of the:

- Corporations Act 2001 (the Act)
- APES 110: Code of Ethics for Professional Accountants (the Code)

The Charter was approved by the Board of Blackmores Ltd ("Board") on 27 August 2018 and is reviewed annually by the Audit & Risk Committee. Any changes to this Charter will be presented to the Audit & Risk Committee for recommendation to the Board for approval.

## Values and Commitments

Blackmores is committed to designing and implementing effective governance and optimal structures, internal systems and processes to enable delivery of Blackmores' financial, customer, people and community objectives. A strong internal control framework with clear policies is fundamental to achieving these goals.

## Purpose

The Board maintains their obligations to ensure that Blackmores Ltd.'s external Auditor is independent in fact and appearance, that no conflict of interest exists that would prevent the external Auditor from being capable, or perceived to be capable, of exercising objective and impartial judgement in relation to the conduct of the external audit.

The Board's role in ensuring the independence of the external Auditor is illustrated by requirements in the Corporations Act for the Directors to make a statement that the Directors are satisfied the provision of non-audit services by the external Auditor is compatible with the general standard of Auditor Independence in the Corporations Act; and the statement is consistent with the advice of the Audit & Risk Committee.

The Board is responsible, subject to shareholder approval at the AGM, for appointing the external Auditor. The Audit & Risk Committee has been delegated the responsibility for monitoring the independence of the external Auditor, by the Board. The Audit & Risk Committee has also been empowered by the Board to recommend to the Board the appointment, remuneration and removal of the external Auditor.

## Key Independence Principles

It is a requirement that the external Auditor maintain a quality control system that provides reasonable assurance to the Board that its independence will not be impaired. The concept of Independence is fundamental to compliance with the principles of integrity and objectivity.

Independence comprises:

### *Independence of Mind*

The state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgement, allowing an individual to act with integrity and exercise objectivity and professional scepticism.

### *Independence in Appearance*

The avoidance of facts and circumstances that are so significant that a reasonable and informed third party, having knowledge of all relevant information, including safeguards applied, would reasonably conclude an external Auditor or audit service provider's integrity, objectivity or professional scepticism had been compromised.

The external Auditor must also avoid conflict of interest situations which will exist in relation to the conduct of the audit, if, because of circumstances that exist at that time:

(a) the external Auditor, or a professional member of the audit team, is not capable of exercising objective and impartial judgment in relation to the conduct of the audit of the audited body;

**or**

(b) a reasonable person, with full knowledge of all relevant facts and circumstances, would conclude that the external Auditor, or a professional member of the audit team, is not capable of exercising objective and impartial judgment in relation to the conduct of the audit of the audited body.

### *Threats to independence*

Potential threats to the independence of external Auditors may be caused by a broad range of relationships and circumstances and may fall under one or more categories outlined in the Code:

- **Self-interest**

The threat that a financial or other interest will inappropriately influence the judgement or behaviour of an external Auditor or audit firm.

- **Self-review**

The threat that an external Auditor or audit firm will not appropriately evaluate the results of a previous judgement or service performed by the audit firm, or individual from the audit firm, on which they will rely when forming a judgement as part of providing a current service.

- **Advocacy**  
The threat that an external Auditor or audit firm will promote Blackmores Ltd.'s position where objectivity is potentially compromised.
- **Familiarity**  
The threat that due to a long or close relationship with Blackmores Ltd, the external Auditor or audit firm becomes too sympathetic to Blackmores Ltd.'s interests or too accepting of Blackmores Ltd.'s work.
- **Intimidation**  
The threat that an external Auditor or audit firm will be deterred from acting objectively due to actual or perceived pressures, including attempts to exercise undue influence, from employees of Blackmores Ltd.

## **Communications between the Audit & Risk Committee and the Auditor**

The Audit & Risk Committee require regular communication between the external Auditor and the Audit & Risk Committee regarding relationships and other matters that might, in the external Auditor's opinion, reasonably bear on independence. Communication from the external Auditor enables the Audit & Risk Committee to:

- consider the external Auditor's judgements in identifying and evaluating threats to independence;
- consider the appropriateness of safeguards applied to eliminate them or reduce them to an acceptable level; and
- take appropriate action.

### ***Auditor's Independence Declarations***

In respect of any audit or review of the Company's financial report for a financial year or for a half-year, the external Auditor must provide the Company with a written independence declaration that to the best of the external Auditor's knowledge and belief, there have been no contraventions of the Auditor Independence requirements of the Corporations Act or the Code.

### ***Communication of Breaches***

In the case of a breach of any applicable independence requirement being identified by the external Auditor, the external Auditor shall inform the Chair of the Audit & Risk Committee as soon as possible and discuss the breach and the action it has taken or proposes to take. Further, the external Auditor shall also communicate in writing with the Audit & Risk Committee all matters discussed and obtain its concurrence that action can be, or has been taken to satisfactorily address the consequences of the breach.

## Services

### *General Principle and Controls*

- The external Auditor must not accept engagements to provide non-audit services to Blackmores Ltd that would impair the independence of the external Auditor, in fact or appearance.
- The external Auditor is required to identify and evaluate threats to independence, and apply safeguards to reduce any threats to an acceptable level. If threats cannot be eliminated or reduced to an acceptable level, either because the threat is too significant or because appropriate safeguards are not available or cannot be applied, then the external Auditor must decline to provide the service.
- The external Auditor will not provide any “Restricted Non-Audit Services” to Blackmores Ltd.
- All permissible non-audit services to be provided by the external Auditor must be pre-approved in accordance with the following:
  - Where the proposed fee does not exceed \$100,000 the service requires pre-approval by the CFO.
  - Where the proposed fee exceeds \$100,000, the service requires pre-approval by the Chair of the Audit & Risk Committee. If the Chair deems necessary, the matter may be referred to the full Audit & Risk Committee for consideration.
  - Every non-audit service request is required to be accompanied by written confirmation from the external Auditor that they have identified and evaluated any threats to independence, applied appropriate safeguards where necessary, and in their opinion, their independence will not be impaired by the provision of the services in fact or appearance.
- The Audit & Risk Committee has not set any nominal “cap” on the level of non-audit services which can be performed by the external Auditor, as it considers that this may restrict the ability of the Company to assess the best advisers for the particular task. However, it is a requirement that any non-audit services engagement where the proposed fee is expected to exceed \$100,000 can only be awarded after the completion of a competitive tender process.
- The Audit & Risk Committee will monitor the level of spend on non-audit services through the pre-approval process outlined above. In addition, on a six monthly basis, the CFO will report to the Audit & Risk Committee the level of fees paid by Blackmores Ltd and its related entities, and the nature of services for which the fees were paid.
- Details of the non-audit services provided by the external Auditor over the reporting period are disclosed in the Financial Statements.

### *Restricted Non-Audit Services*

#### **1. Restricted regardless of materiality**

- Assuming a management responsibility
- Accounting and bookkeeping services, including payroll services

- Preparation of financial statements on which the external Auditor will express an opinion or information which forms the basis of the financial statements
- Promoting, dealing in, or underwriting the Company's shares
- Recruiting directors/officers, or senior management who will have significant influence over accounting records or financial statements

## **2. Restricted if the result of the service, the information generated or the amounts involved are material to the financial statements**

- Valuation services
- Calculations of current/deferred taxes
- Tax or corporate finance advice that depends on a particular accounting treatment/financial statement presentation for which there is reasonable doubt as to its appropriateness
- Acting as an advocate before a public tribunal or court to resolve a tax matter
- Acting in an advocacy role to resolve a dispute or litigation
- Internal audit services relating to internal controls over financial reporting, financial accounting systems, or financial statement amounts/disclosures
- Designing or implementing IT systems
- Estimating damages or other amounts as part of litigation support services

## **Employment Relationships**

Blackmores Ltd has a framework in place that takes account of the code and regulatory requirements in respect of the employment by Blackmores Ltd of a person who has been a former partner or employee of the audit firm.

Proposed employment of former audit staff members by Blackmores Ltd within 12 months of their leaving the audit firm must be approved in advance by the Group Financial Controller for junior positions and the CFO for senior positions (i.e. middle management and higher) with the Audit & Risk Committee being kept informed of all changes. The Audit & Risk Committee should also consider whether the hiring of personnel that are or were formerly employed by the audit firm might affect the audit firm's independence.

## **Business Relationships**

The external Auditor and members of the audit engagement team, may not enter into a close business relationship with Blackmores Ltd or its related entities, or members of management, unless the financial interest is immaterial and the business relationship is insignificant.

## **Audit Partner Rotation**

The Auditor is required to have policies and process to ensure that the same individual does not serve as the lead partner or the review partner (or in any combination of these roles) for more than five successive years or for more than five years out of seven successive years.

After five years the individual must rotate off the audit and cannot be a member of the engagement team for the audit of Blackmores Ltd until at least two years have passed.

In exceptional circumstances, the Audit & Risk Committee is permitted under 324DAA of the Act to recommend to the Board that the audit partner rotation be extended for a period not exceeding a further two years where it is considered necessary to maintain the quality of the audit of the company. The resolution granting an extension must be in compliance with section 324DAB of the Act.

## **External Audit Tenders**

Consistent with good corporate governance, the Audit & Risk Committee will periodically assess the need to run an external audit tender process.