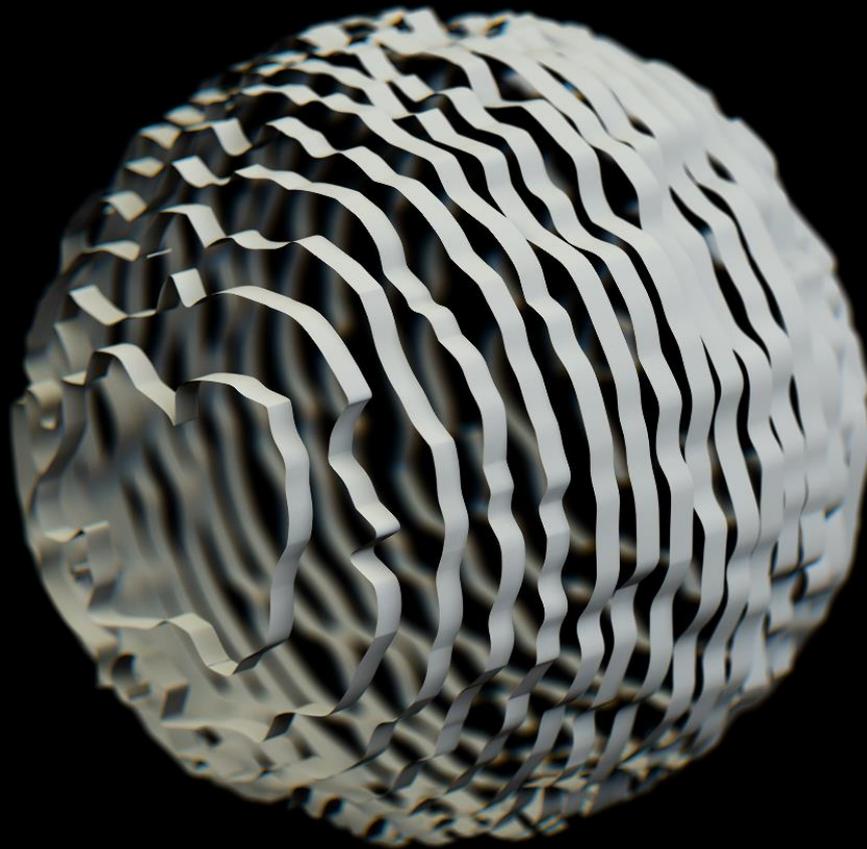


**Deloitte.**



**Thorn Australia Pty Limited**  
Independent Expert Summary Report:  
Final Remediation Report and Further Compliance  
Report

5 December 2019

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# 1 Background

Thorn Australia Pty Ltd ("Thorn") is a wholly-owned subsidiary of Thorn Group Limited and carries on a consumer leasing business through its brands Radio Rentals ("RR"), which operates nationally except for South Australia, and Rentlo Reinvented. Thorn Group Limited is listed on the Australian Securities Exchange.

Thorn has held an Australian Credit Licence ("ACL"), number 383003, since 12 October 2010 and leases appliances, furniture and technology and other consumer goods to consumers online via its websites, by telephone and through its store network across Australia.

Thorn entered into an Enforceable Undertaking with the Australian Securities and Investments Commission ("ASIC") on 23 January 2018 ("EU").

The EU was the outcome of ASIC surveillance and investigation, which focused on Thorn's compliance with the *National Consumer Credit Protection Act 2009* ("National Credit Act").

In addition to appointing an Independent Expert to assess Thorn's compliance with the National Credit Act, the EU also required Thorn to remediate consumers who have entered into an Affected Lease with Thorn ("Affected Consumers").

An "Affected Lease" means a consumer lease entered into between 1 January 2012 to 1 May 2015 ("the Relevant Period"), to which Part 11 of the National Credit Code applies and where:

- the lease is not an Absconded Account<sup>1</sup>; and
- there was at least one Arrears Event<sup>2</sup> in the first 12 months or alternatively three or more Arrears Events during the lease period.

Thorn identified 51,081 Affected Leases, with a total value of \$6,709,249, comprising of:

- \$2,988,611 (Remediable Fee or Expenses<sup>3</sup> to be refunded); and
- \$3,720,638 (Remediable Fee or Expenses to be written-off).

Deloitte was appointed as the Independent Expert on 12 February 2018 to provide a series of reports in accordance with the EU. As at the date of this Report, Deloitte has completed five reports which have been issued to ASIC and Thorn:

- *Interim Compliance Report* dated 23 August 2018;
- *Final Compliance Report* dated 23 January 2019;
- *Interim Remediation Report* dated 7 February 2019;
- *Final Remediation Report* dated 7 August 2019; and
- *Further Compliance Report* dated 30 August 2019.

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<sup>1</sup> "Absconded Account" means an account which is in arrears and after having made reasonable inquiries, Thorn is unable to contact the consumer or Thorn has been denied access to repossess the rental goods.

<sup>2</sup> "Arrears Event" is where a lease payment was overdue for at least 41 calendar days.

<sup>3</sup> Includes late payment fees, dishonour fees, early termination fees and collection of enforcement fees and expenses

Additionally, Deloitte prepared a summary report dated 7 May 2019, which contained a summary of the matters in the *Interim Compliance Report* and *Final Compliance Report*. Deloitte prepared another summary report dated 7 May 2019 which contained the summary of matters in the *Interim Remediation Report*. These summary reports were published on ASIC's Enforceable Undertaking Register.

This Summary Report provides a summary of the findings of the *Final Remediation Report* dated 7 August 2019 and the *Further Compliance Report* dated 30 August 2019 (the "Summary Report").

The Summary Report does not reflect any events or circumstances that may have occurred since we issued our Final Remediation Report or Further Compliance Report.

# 2 Scope and Approach

## Final Remediation Report

### Scope

The EU required the Independent Expert to provide a *Final Remediation Report* to Thorn and ASIC in accordance with paragraph 3.10.13 of the EU. Accordingly, the scope of Deloitte's work was limited to the matters set out in paragraph 3.10.13 of the EU.

### Approach

The activities we performed during our assessment for the *Final Remediation Report* included:

- An assessment of the activities performed by Thorn to calculate the remediation amount, and for a sample of Affected Leases recalculating the remediation amount and comparing the results against Thorn's own calculation.
- An assessment of the activities performed by Thorn in relation to the refund process for Affected Leases which included sample testing.
- An assessment of the activities performed by Thorn in relation to the write-off process initiating the request to remove default listings for Affected Leases which included sample testing.
- An assessment of the activities performed by Thorn to notify Affected Consumers which included conducting sample testing on various communication artefacts to confirm that Thorn has attempted to contact Affected Consumers in accordance with its Communication Plan and made the appropriate disclosures on its websites.

### Sampling period

The sampling period for our assessment for the *Final Remediation Report* included the remediation activities set out in the EU and conducted by Thorn between 7 May 2018 up to and including 15 July 2019.

## Further Compliance Report

### Scope

In accordance with section 3.10.10 of the EU, the Independent Expert is to test whether the recommendations identified in the *Final Compliance Report* dated 23 January 2019 have been reasonably implemented four months after the date of the *Final Compliance Report* (or such other date as may be agreed between ASIC and Thorn<sup>4</sup>) and to provide a *Further Compliance Report* on the outcome of such testing.

The scope of the *Further Compliance Report* was agreed with ASIC and in addition to assessing Thorn's responses to one Recommendation and three Enhancements identified in the *Final Compliance Report*, Deloitte assessed a sample of 30 consumer leases approved by Thorn, comprising 15 consumer leases

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<sup>4</sup> ASIC and Thorn agreed a due date of 30 August 2019.

from 1 June 2019 to 30 June 2019 and another 15 consumer leases from 26 July 2019 to 30 July 2019.

### Approach

The activities we performed during our assessment for the *Further Compliance Report* included:

- Conducting a walkthrough of Thorn's lease assessment system to understand how the Recommendation in relation to further inquiries has been implemented into Thorn's system.
- Obtaining and assessing key documents and policies to determine they have been updated in accordance with the Enhancements and obtaining relevant training material to evidence that training has been delivered and completed.
- Assessing 30 recently approved consumer leases against Thorn's lease assessment guidelines and relevant responsible lending obligations in the National Credit Act.

# 3 Report conventions

The following conventions are used in this Summary Report:

- All references to 'Deficiencies', refer to an act or omission whereby Thorn:
  - appears not to have complied with the EU in relation to the consumer remediation program; and
  - appears not to have complied with its systems, processes, policies or training procedures.
- All references to 'Adequate', refer to the adequacy of Thorn's activities in:
  - relation to consumer remediation; and
  - assessing and issuing consumer leases with consideration to the size, nature, scale and complexity of Thorn's business.
- All reference to 'Recommendations' refer to the actions we believe would be necessary for Thorn to undertake in order to rectify deficiencies identified; and
- All references to 'Enhancements' refer to actions we believe should be considered by Thorn in taking a leading approach in:
  - relation to a consumer remediation program; and
  - demonstrating compliance with its obligations as a licensee under the National Credit Act.

# 4 Summary of Findings

## Final Remediation Report

### Communication Plan

Under the EU, Thorn was required to undertake a number of activities in relation to consumer remediation, including developing a Communication Plan to communicate with Affected Consumers.

The Communication Plan is the key document setting out Thorn's activities in relation to consumer remediation and describes how and when Affected Consumers will be contacted.

The Communication Plan was approved by ASIC on 7 May 2018 and as detailed in the EU, the approval date triggered a number of activities to be taken by Thorn by a specific timeframe.

Thorn has adhered to the approved Communication Plan in contacting consumers.

### Remediation Activities

The EU prescribes timeframes for which Thorn is required to complete remediation activities. In undertaking our assessment (including sampling of operational processes), we have determined Thorn has completed all activities in accordance with the dates set out in the EU.

We note that the EU outlines that remediation is to be paid to Affected Consumers seven months after approval of the Communication Plan. Thorn has continued to pay remaining Remediable Fees and Expenses to Affected Consumers beyond this date because of additional efforts required to contact Affected Consumers where initial attempts at communication were unsuccessful.

### Remediation Status

Due to the nature of the interactions a consumer may have with Thorn (for example, a returning consumer or multiple leases held by a consumer at one time), reporting statistics in relation to progress of the remediation program requires a 'consumer account level' analysis as well as a 'lease level' analysis.

Thorn's progress in remediating Affected Consumers (at the consumer account level, not the Affected Lease level) as of 15 July 2019 is detailed in Table 1 below.

Thorn has remediated 40,862 Affected Leases out of 51,081, with Remediable Fees refunded and Expenses written-off to the value of \$5,306,109 as of 15 July 2019.

**Table 1. Remediation Status as of 15 July 2019**

Remediation Status	Affected Consumers	Completion Rate
Consumer contacted - Remediated	18,365	74.1%
Consumer contacted - Not Remediated	6,426	25.9%
<b>Total</b>	<b>24,791</b>	

As our assessment of Thorn's remediation activities against the requirements of the EU did not identify any deficiencies or enhancements, there were no recommendations made in the *Final Remediation Report*.

## **Further Compliance Report**

### **Recommendation**

Deloitte made a recommendation in the *Final Compliance Report* following an assessment of a sample of consumer leases. In undertaking the assessment of consumer leases, it was observed that Thorn was not consistently documenting the results of further inquiries required to be made under its policies in relation to assessing a consumer for a lease.

We recommended that Thorn should develop a checklist or template within its lease assessment system to clearly capture the nature and the results of any further inquiries made. We also recommended that the checklist should be supported by changes to the lease policy and further training of Credit Assessors on the importance of documenting inquiries.

In addition to the recommendation, we made three suggestions for enhancement regarding business rules relating to gambling, Buy Now Pay Later liabilities and defaults in relation to Thorn's leasing policy. The enhancements were related to developing thresholds around the presence and number of gambling transactions, Buy Now Pay Later liabilities and defaults to be considered by a Credit Assessor when assessing a consumer's lease application.

Thorn has adequately responded to the recommendation and enhancements suggested in the *Final Compliance Report* by implementing changes to its lease assessment system, updating its leasing policy and undertaking further training to staff.

Thorn has implemented Deloitte's recommendation through a change in its lease assessment system to allow better capture of the results of further inquiries. This change has resulted in the introduction of a specific screen in Thorn's lease assessment system that records the results of further inquiries made by a Credit Assessor.

Thorn has also updated its leasing policy following Deloitte's suggestions for enhancement.

### **Lease Assessment**

Prior to implementing the system change to better capture the result of further inquiries on 26 July 2019, Thorn put in place interim measures. These interim measures comprised of updates to policy and training to relevant staff. Deloitte assessed 15 leases that were approved under the interim measures and an additional 15 leases approved after the system enhancement to test Thorn's response to the recommendation.

We identified one lease approved prior to the system enhancement where insufficient evidence was on file in relation to further inquiries made. We observed three out of 15 leases approved after the system implementation that did not contain notes sufficiently documenting the inquiries made.

The deficiencies identified in our testing suggest Thorn should continue to focus on reiterating the importance of documenting further inquiries and consider ongoing enhancements to the effective use of the further inquiries tab by Credit Assessors. These deficiencies were a result of the Credit Assessors

inadequately following Thorn’s policy of sufficiently documenting further inquiries. To address this deficiency<sup>5</sup> we made the following recommendation:

**Table 2. Further Compliance Report – Recommendation**

Observation	Recommendation
<p>Despite Thorn having implemented the recommendation and enhancements, our sample testing of 30 leases indicates further inquiries were not consistently documented by Credit Assessors as required by Thorn’s policy.</p> <p>It is acknowledged that the implementation of the changes were only effective as at 26 July 2019 and there has only been a short period of time since the implementation of the change.</p>	<p>It is important that Thorn continue to reiterate to its Credit Assessors the importance of consistently documenting further inquiries.</p> <p>We recommend that Internal Audit focuses its upcoming Credit Hindsight reviews (e.g. to at least cover a six month period) on assessing the adequacy and improvements in the documentation of further inquiries as required by Thorn’s policy and increases the sample size to 100 (compared to the normal sample size of 50).</p> <p>For example, the Internal Audit test should assess the effective use of the further inquiries tab in Thorn’s new system and where gaps are found provide feedback on possible enhancements to strengthen the controls and / or requirements for further training / performance management practices for individual Credit Assessors to reinforce the importance of consistency in the documentation.</p> <p>In particular, we also recommend that Thorn revisits the documentation of the further inquiries for the four leases tested by Deloitte to address the gaps and following this, re-assess if the original decision to approve the lease was appropriate.</p>

Thorn provided its management comments to Deloitte in relation to the recommendation and agreed to action all aspects of the recommendation.

In responding to the recommendation, Thorn stated that its Internal Audit (“IA”) function will also work closely with the proposed Quality Assurance (“QA”) function currently being established as part of Credit Operations to ensure enhanced, timely and increased monitoring of exceptions and trends in an integrated manner.

The sample size for the Credit Hindsight review is to increase from 50 to 100. Once the QA function is fully operational, IA will work closely with QA to determine the QA approach and sample size in their testing. It is envisaged that IA and QA, in combination, will provide the same level of sample coverage of 100 samples per month.

Additionally, Thorn also confirmed that all four leases with exceptions identified by Deloitte have been reassessed for suitability. Thorn confirmed all four leases were found to have been approved appropriately.

<sup>5</sup> In this instance the deficiencies relate to where Thorn appears to have not complied with its policies. The deficiencies do not relate to non-compliance with the terms of the EU.

# 5 Limitations

Our work for Thorn was limited to the specific scope outlined in the Engagement Letter dated 26 February 2018, the variation to the Engagement Letter dated 7 May 2019, both which were provided to ASIC, and the terms of the Enforceable Undertaking. This report contains a summary of our work that was completed during the period 7 February 2019 to 7 August 2019 for the Final Remediation Report, and 1 November 2018 to 30 August 2019 for the Further Compliance Report. Accordingly, this report does not reflect any events or circumstances which may have occurred since we completed our work.

Our work does not constitute a reasonable assurance (audit) or limited assurance (review) engagement in accordance with the Auditing and Assurance Standards Board ("AUASB") standards and consequently, no assurance is provided. The scope of our work does not extend to obligations not specifically detailed in the engagement letter and the work described herein, and any interpretation of law. No legal opinions are provided or can be assumed.

Our assessment is based on the relevant legislative and compliance obligations identified within the engagement letter and this report at a point in time, which are subject to change and hence cannot be relied upon to meet the future compliance needs.

Deloitte assumes that any information (including the data quality and integrity of underlying datasets) provided by Thorn in relation to enquiries for this report is true, complete and not misleading, and confirms that if the information is untrue, incorrect or misleading then the report may be incorrect or inappropriate for its purpose. The decision-making responsibility in response to the findings of this report resides solely with Thorn and ASIC.

Our assessment of a sample of leases and training records and Thorn's operational activities in relation to remediation activities (communication, calculation of Remediable Expenses, payment, write-offs and initiating requests to remove default listings) was performed on a sample basis. Therefore, we cannot, in practice, examine every aspect of content, activity and procedure, nor can we be a substitute for management's responsibility to ensure adequacy and maintenance of adequate controls over all levels of operations including the prevention and detection of irregularities, including fraud.

We did not assess the completeness and accuracy of the data migration from Thorn's legacy account management system (B400) to the new system (Navision) which occurred in 2013.

Within the scope of the engagement, we did not re-perform the extraction of the affected population and the re-calculation of the remediable fees (except for a sample of 27 Affected Leases).

Our assessment involved reviewing the code developed by Thorn and an assessment was conducted on the Structured Query Language ("SQL") utilised by datasets provided by Thorn. In addition, we have relied on the clarifications provided by Thorn. The extent of our validation was limited by the data being available and accessible to us outside of Thorn's environment only.

Using the code and the dataset that Thorn had provided, we were able to extract the remediable fee charged, account balance and next credit amount. However, the actual calculation of the remediable fees was conducted by Thorn outside the SQL environment (in Excel) and it incorporates information derived from other source/s that were not part of the datasets provided by Thorn. Hence, the fee amounts were validated for the Affected Leases sampled only (not the entire population).

Deloitte was unable to test Thorn's actions in relation section 3.10.13(h-i) of the EU. Section 3.10.13(h-i) states the Independent Expert is to provide in the *Final Remediation Report* the amount of any residual balance and the name of the organisation to which Thorn has paid the residual balance. At the date of this report, Deloitte was not able to test this as this is still subject to ASIC approval.

We believe the statements made in this report are accurate, but no warranty of completeness, accuracy, or reliability is given in relation to the statements and representations made by, and the information and documentation provided by, Thorn. We have not attempted to verify these sources independently unless otherwise noted within the report.

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