

Independent Assessment Policy and Procedure Report

Summary Report

25 November 2024

PKF Melbourne Corporate Pty Ltd

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Background

Between June 2023 to March 2024, the Australian Securities and Investments Commission (ASIC) reviewed (1) three historical Independent Expert Reports (“IER”) engagements undertaken by PKF Melbourne Corporate Pty Ltd (“PKF”) and (2) PKF’s IER policies and procedures with respect to IERs, to assess compliance with statutory obligations, relevant regulatory guides and AFSL conditions. ASIC shared a number of concerns in relation to its review in a letter dated 24 January 2024.

In response to ASIC’s concerns, ASIC and PKF entered into an Enforceable Undertaking (EU) on 20 June 2024. In accordance with the EU, PKF appointed EY (“we”, “our”) as an Independent Expert on 19 July 2024 to conduct and complete a review of the effectiveness of its policies and procedures to perform IERs.

This Summary Report outlines the observations, findings and recommendations of EY’s work conducted between July 2024 and November 2024.

Scope

Per Paragraph 5.13 of the EU, PKF engaged EY to conduct a review of the effectiveness of policies and procedures to conduct IERs.

The scope of EY’s review was limited to the design of internal policies and procedures for conducting IERs. It did not include:

- ▶ Assessment of processes for monitoring, training, and supervising employees engaged in IER engagements.
- ▶ Review of recent IERs issued by PKF or assessment of the reasonableness of conclusions reached.
- ▶ Verification of facts described to us against source documents and emails.
- ▶ Assessment of the design and implementation of any Remedial plan period.

Approach

EY performed the following activities to form their assessment:

- ▶ Assessed relevant documents and artefacts provided by PKF to evidence its policies and procedures for conducting IERs. In accordance with Section 5.13 of the EU, this covered:
 - IER-specific internal procedures, including manuals and guidelines reflecting policy guidance in RG 111 Content of expert reports (“RG 111”), RG 112 Independence of experts (“RG112”) and RG 181 Licensing:

Managing conflicts of interest (“RG181”), designed to assist PKF in meeting its obligations as an AFS licensee;

- Policies and procedures relating to identifying and managing conflicts of interest; and
 - File Audit policy and procedures.
- ▶ Conducted workshops and interviews with PKF stakeholders to discuss their approach to conducting IERs.
 - ▶ Performed a mapping of internal policies, procedures and documentation to RG 111, 112, and 181.

EY’s assessment was based upon information provided by PKF up to 30 August 2024.

EY’s Observations:

EY shared the following independent observations with PKF:

- ▶ **Lack of Internal Policy and Procedure:** PKF does not have a policy and procedure in place specifically for conducting IER(s). While a Valuation Workbook Template document was updated in February 2024 to include a checklist of requirements for conducting IERs in accordance with regulatory requirements:
 - Given the unique nature of each IER engagement, a policy or procedure setting out the requirements for IER engagement acceptance and planning, based on the type of transaction, would drive compliance from the outset.
 - The Valuation Workbook Template document does not include all regulatory requirements for IERs. For example, it does not cover the Fair and Reasonable Test (RG 111.55 - 111.63) or consideration of changes to material assumptions (RG 111.94).
- ▶ **Independence and Conflicts Process:** The independence and conflicts process should be improved. There is a risk associated with the independence and conflicts check email process that involves an assumption that there are no issues if there is no response from recipients of the email within 24 hours.
- ▶ **Absence of Independent Review Process:** There is no demonstrable independent review process for IERs. An independent quality review is performed by a Quality Review Consultant (a former Director of PKF), with notes recorded on the draft IER report. However, the scope and corresponding outputs of this review are not documented. The lack of formal documentation may limit PKF’s ability to demonstrate to itself, and to regulators, that it is consistently meeting its regulatory requirements for conducting IERs.
- ▶ **Monitoring changes in regulatory requirements:** PKF does not have a dedicated team or resources who are responsible for monitoring changes in regulatory

requirements. PKF advised that the PKF IER Partner is responsible for attending regulatory update forums and staying informed of changes to the law, regulatory guidance or professional practice.

EY's Recommendations

A summary of EY's key recommendations to PKF are as follows:

- 1. Develop an IER Policy and Procedure:** PKF should establish a detailed IER-specific policy and procedure, including engagement acceptance and planning requirements, and update PKF's Valuation Workbook Template to cover all regulatory requirements.
- 2. Improve Independence and Conflict Verification:** PKF should enhance its independence verification processes and manage conflicts of interest more effectively whilst maintaining confidentiality, moving away from reliance on non-responses.
- 3. Document Review Processes:** PKF should create formal policies for independent quality checks, with clear definitions of the review scope, criteria, and outcomes.
- 4. Monitoring regulatory changes:** PKF should consider establishing a process for tracking and analysing changes in laws, regulatory guidance, and professional practice standards relevant to IERs.

Limitations

EY's work was not performed in accordance with generally accepted auditing, review, or other assurance standards in Australia and accordingly does not express any form of assurance. None of the Services or any reports will constitute any legal opinion or advice. EY did not conduct a review to detect fraud or illegal acts.

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