

# Transparency Report

**PKF MACK**

For the year ended 30 June 2016



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# Transparency Report

We are pleased to present our Transparency Report for the year ended 30 June 2016, designed to give information on the ownership and governance of the firm and the measures we take to maintain high quality standards in our audit and other services.

## LEGAL STRUCTURE AND OWNERSHIP

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PKF Mack (the firm) is a partnership governed by the terms of its Partnership Agreement and is owned by its equity partners. As at 30 June 2016 there were 7 equity partners and 1 non-equity partner. The firm operates from its office at 35 Havelock Street, West Perth, WA 6005. Although independently owned and based in Western Australia, the firm is a member of the PKF International network of firms.

The firm offers a range of services comprising:-

- Audit and assurance services;
- Business services;
- Taxation (corporate and personal); and
- Superannuation and administration services.

The MLDM Unit Trust is used by the partnership as a service trust. All employees are employed through this entity. There is one active related company, Mack & Co Wealth Management Pty Ltd. Its principal activity is the provision of financial planning services.

On 1 July 2016, the firm entered into a merger with another accounting firm and financial services company, being Pike Skinner and Pike Skinner Financial Services. The resulting new partnership formed continues to be named PKF Mack, while the financial services company continues to operate separate to the partnership as Pike Skinner Financial Services. Mack and Co Wealth Management Pty Ltd has been merged into Pike Skinner Financial Services. This has resulted in an additional 3 equity partners being included into the partnership.

## GOVERNANCE

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The firm is managed by a board of partners. The board comprises of all the equity and non-equity partners, and consists of a Managing Partner who is elected by the partners. The board meets regularly on a monthly basis throughout the year, to discuss various operational and strategic matters.

The board also meets periodically from time to time to discuss matters that arise which need to be urgently addressed.

## TRANSPARENCY REPORT

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As at 30 June 2016 the board comprised of:

### **Equity Partners**

Anthony Maclean (Managing Partner and Chairman)

Matthew Van Riessen (Partner - Taxation)

Darren Shillington (Partner - Taxation)

Carl Longshaw (Partner - Taxation)

Christopher Roos (Partner - Taxation)

Anthony Russo Battagliolo (Partner – Taxation)

Simon Fermanis (Partner - Audit and Assurance)

### **Non-Equity Partner**

Shane Cross (Partner - Audit and Assurance)

The additional equity partners that have joined the firm effective 1 July 2016 from the above mentioned merger are:

Dean Pike (Joint Managing Partner)

Paul Skinner (Partner – Taxation)

Tony Munday (Partner – Financial Services)

## NATIONAL AFFILIATION - NETWORK, LEGAL & STRUCTURAL ARRANGEMENTS

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On 3 March 2014, the Lawler Alliance network of firms were admitted into the PKF International network. Each of the 5 firms have been admitted under individual Operating Licence Agreements. The 5 firms are located in Sydney, Melbourne, Brisbane, Perth and Tamworth. In addition, an additional Adelaide accounting firm, Kennedy & Co, has been admitted into the PKF network on 1 September 2015, This was renamed PKF Kennedy. With the admission of these additional firms, all PKF firms within Australia have signed a Members Agreement with PKF Australia Limited (PKFA).

PKFA is governed by a board of directors, consisting of a managing partner from each of the PKF firms in Australia (excluding any correspondent members). Currently, the members of the Board are:-

Norman Draper - Melbourne [Chairman]

Steven Meyn - Sydney/Newcastle

Thomas Hackett - Brisbane

Anthony Maclean - PKF Mack Perth

Michael Sheehy - Gold Coast

Wayne Healy - PKF Lawler Perth

Ross Di Bartolo - Canberra

Mark O'Connor - Tamworth

Daniel Rand – Tasmania

Domenico Cosentino - PKF Kennedy

## TRANSPARENCY REPORT

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The Board meets at a minimum 4 times per year, with at least 1 meeting in each quarter. The Board is responsible for protecting the interests and reputation of the members of PKFA, and for the oversight of the management and operations of the national network from a strategic level. The functions and powers of PKFA are specified within the Members Agreement. To assist the Board in performing these functions and powers, the following sub-committees have been established and the various functions and powers delegated:-

- Audit and Risk Management;
- Taxation;
- Business Services;
- Business Recovery and Insolvency;
- Corporate Advisory;
- Information Technology;
- Training/Knowledge/Learning & Development; and
- Marketing and Promotions.

A representative from each office is entitled to have a member on each of these sub-committees. Each sub-committee has a chairperson, who is required to report up to the Board on a regular basis and various matters set out within the Members Agreement.

## INTERNATIONAL AFFILIATION - NETWORK, LEGAL & STRUCTURAL ARRANGEMENTS

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The firm is a member firm of the PKF International Limited (PKFIL) network of legally independent firms. In total, there are 400 offices operating in 150 countries across 5 regions, and have an overall turnover of over US\$1 billion. The firm does not accept any responsibility or liability for the actions or inactions on the part of any other individual member firm or firms within PKFIL. PKF Mack is a separate legal entity to all other PKFIL network firms and accordingly is not responsible for the decisions and actions made by other PKF network firms.

The network formed by PKFIL (the Licensor) and the member firms (the Licensees) is regulated by adherence to an Operating Licence Agreement (OLA) between the Licensor and individual Licensees. The form of the OLA authorises the Licensee to use the PKF name as defined under specific circumstances, under specific conditions, for specific purposes (The Business) and in a specific territory (The Territory), in consideration for which, the Licensee pays a royalty and Licence fee to the Licensor.

PKFIL is a company registered in England and limited by guarantee. The Company's Articles of Association require a Board of Directors who conducts the business of the Company. The Board, authorises recruitment of PKFIL's staff, authorises a number of international committees, divides the member firms into geographical regions, and sets an annual licence fee for the member firms within the network.

Each licensee is legally independent. Contractual relations are only formed between a client and the member firm engaged by the client and no other member firm may be held liable. PKFIL has no financial or management interest in any member firm. None of the directors of PKFIL has a financial or management interest in any member firm other than his or her own.

## TRANSPARENCY REPORT

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The Board comprises at least one member from each geographical region. The following committees have been established which report to the Board:

- ▶ International Professional Standards Committee – this establishes the minimum professional standards to be met by member firms and conducts a global quality review programme. It also promotes audit materials and capabilities as well as organising audit and accounting events.
- ▶ International Tax Committee – this promotes the development of tax capabilities on a global basis and organises tax events.
- ▶ International Corporate Finance Committee – this promotes the development of corporate finance business on a global basis and organises an annual conference.
- ▶ International Business Development Committee – this co-ordinates marketing initiatives.
- ▶ International Insolvency Committee – this promotes the development of insolvency work capabilities on a global basis.

Details of member firms are set out in the PKFIL directory and on the website [www.pkf.com](http://www.pkf.com).

## QUALITY CONTROL SYSTEM

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PKF Mack has established a quality control system that encompasses the six elements of quality control embedded within Australian Standards on Quality Control: Quality Control for Firms That Perform Audits and Reviews of Financial Reports, Other Financial Information, and Other Assurance Engagements (ASQC1), which deals with a firm's responsibilities for systems of quality control for audits and reviews of financial statements and other assurance and related engagements, and APES 320: Quality Control for Firms (APES 320), which deals with the same except in relation to all services within the firm.

PKFIL also maintain an international professional standards manual which must be adhered to by member firms.

The elements of quality control set out in ASQC1 and APES 320 have relevance to all services provided by the firm and the firm has applied them as follows:

### LEADERSHIP RESPONSIBILITIES

The overall responsibility for the firm's system of quality control has been accepted by the partners of PKF Mack. Each partner has an overriding commitment to quality, however the day to day responsibility has been assigned to a specific Partner.

The firm has documented the above quality control system, which is in compliance with ASQC 1 and APES 320 mandatory requirements, in the Staff Quality Control Guide. This document sets out the various policies and procedures that reflects the above standards requirements. The partners reinforce their commitment to quality, and an annual review of these policies and procedures is performed and updated, when required.

The partners commitment to quality within these standards is reinforced to staff through the following:-

- All team members are expected to maintain the tone of a high level of quality through the application to their various assigned tasks;
- Quality will not be comprised on assignments;
- Procedures and processes will be consistently followed by all team members;
- Team members' annual performance reviews include an assessment on their commitment to quality;
- Ongoing training to ensure quality is maintained; and
- Team members are encouraged to participate and actively attend training sessions internally and externally.

### **ETHICAL REQUIREMENTS**

The firm's professional standards note covering independence sets out the following:

- Adherence to the ICAA's Code of Ethics and Professional Standards issued by the Accounting Professional & Ethical Standards Board (APESB) takes precedence over commercial considerations.
- Partners and managers are required to keep independence issues under constant review and, in respect of audit assignments, reconfirm the firm's independence having regard to the APESB Code of Ethics and Professional Standards, prior to the commencement of every audit.
- All members of the firm are required to complete an annual declaration of their independence and freedom from conflicts of interest.

The requirement to comply with the ICAA's Code of Ethics and the APESB's Professional Standards is set out in the Staff Quality Control Guide and forms part of employees' contracts of employment.

### **ACCEPTANCE AND CONTINUANCE OF CLIENT RELATIONSHIPS AND SPECIFIC ENGAGEMENTS**

The firm has detailed procedures covering the acceptance and continuance of client relationships and new specific engagements. A comprehensive client acceptance form must be completed prior to acceptance of an appointment. This requires identification of the prospective client, an assessment of our independence and freedom from conflicts of interest, and an assessment of whether the firm has the requisite skills to carry out the engagement.

Upon acceptance of a new client or a specific engagement from an existing client, the firm issues a detailed engagement letter for agreement by the client, detailing our understanding of the nature of the assignment and what is required of us and our standard terms of business.

### **HUMAN RESOURCES**

We have established policies and procedures to ensure that our people are equipped with the required technical skills and reflect our values of commitment to client service and high professional and ethical standards, covering objectivity, integrity and independence.

#### *Recruitment and Performance Evaluation*

The firm sets high standards for the recruitment and promotion of personnel, in particular with regard to the selection and interview of candidates and the qualifications required. Partners are involved in all interviews and references are always taken, including from professional or regulatory bodies, and obtaining confirmation of academic qualifications. All new staff are subject to a compulsory six month probationary period as part of their employment agreement.

## TRANSPARENCY REPORT

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All personnel undergo regular appraisals dealing with past performance, future development and training needs. Audit staff receive performance appraisals informally at the end of each significant assignment, which feed into their annual appraisal.

### *Training and CPD Requirements*

The firm adheres to the requirements of the ICAA for continuing professional development (CPD). Senior management and the partners are responsible for the training and development of staff.

New technical developments are monitored by senior management and the partners and training is created to meet the needs of all staff. CPD records are maintained by staff and monitored accordingly to ensure compliance with guidelines.

The firm provides:

- Subscriptions to various technical publications, software and checklists, such as CCH, Caseware, IDEA and IFRS Systems;
- Manuals setting out the firm's procedures for all audit and assurance engagements as well as other services provided by the firm;
- Subscriptions to a number of technical updates emailed by various bodies including the ICAA and the Taxation Institute of Australia.
- Half-yearly and externally provided update training for staff and partners dealing with current developments, (new legislation, accounting and auditing standards);
- Ad hoc internal and external training to meet specific needs.

The progress of students studying for their professional qualifications with ICAA and other bodies (for example, the Taxation Institute of Australia) is carefully monitored, with each student being closely supported.

## **ENGAGEMENT PERFORMANCE**

The firm's procedures for engagements are set out in comprehensive manuals developed by the firm. In respect of audit and assurance engagements we use a mixture of proprietary audit and developed programmes.

All professional work is subject to review by line managers and partners, with clear guidelines laid down for second partner consultation and the use of external experts where required.

Adequate supervision is provided to staff in performing their tasks through the following:-

- All team members have direct access to partners;
- Team leaders meeting with partners for one on one consultations;
- Job progress is reviewed and updated at weekly team meetings; and
- Partners and managers are constantly monitoring actual WIP compared to the time budgets agreed within planning.



## TRANSPARENCY REPORT

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### MONITORING

The responsibility for quality control is taken on by all managers and partners. All engagements are reviewed by the engagement partner and any issues identified at that time must be addressed and cleared before the final result is achieved. This engagement review includes reviewing whether the firm's policies and procedures have been followed.

We engage an external reviewer to review the quality of audit and assurance work provided by the firm. This is performed on an ongoing basis. Every three/five years, an independent quality assurance review is conducted by a reviewer appointed by the ICAA. The firm has undergone this process in August 2013.

Within the PKFA national network, partners from other PKFA firms on an annual basis review other firms within the network to ensure that both audit engagement files and quality control procedures are being performed in accordance with the PKF International Professional Standards Manual (IPSM) and Australian Auditing Standards. This was last performed in April 2016.

The results from these reviews are reported to the partners at their monthly meetings, and any improvements and revisions are considered and made, where required. These results are also reported to the board of directors of PKFA.

### STATEMENT OF EFFECTIVENESS

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Based on the results of the monitoring we are satisfied that our quality control system is operating effectively to ensure that we comply with professional standards and deliver a quality service to our clients.

### COMPLAINTS AND ALLEGATIONS

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When a formal complaint is received the client is immediately advised that we have received the complaint. The matter is then referred to the engagement partner for resolution. A complaints register is used to log and monitor the complaint and PI insurers are notified if the matter is serious.

Policies and procedures are assessed to determine if a weakness exists within the quality process that needs to be addressed and rectified.

The firm has a culture whereby staff can discuss a complaint from a client openly.

### INDEPENDENCE PROCEDURES AND PRACTICES

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The firm maintains an 'Audit Methodology Document' manual, which sets out the independence and ethical requirements and procedures in relation to audits. This reflects and satisfies the requirements of the APESB's Code of Ethics and Professional Standards and an exercise has been carried out to map the manual against these requirements.

The firm's procedures cover:

- Integrity, objectivity and independence;
- Financial, business, employment and personal relationships;
- Long association with the audit engagement;
- Fees, remuneration and evaluation policies, litigation, gifts and hospitality; and
- Non-audit services;

### **INTEGRITY, OBJECTIVITY AND INDEPENDENCE**

The audit partner is ultimately responsible for making decisions on independence and objectivity matters. Where a threat to objectivity is identified the partner considers whether safeguards can be introduced such as having different types of work for the same client done by different teams or introducing an engagement quality control reviewer. If the safeguards are determined to be sufficient to reduce the threat to an acceptable level then the relevant issue can be overcome. The audit practice has not to date needed to deal with any of these types of threats.

Partners are expected to report all threats to objectivity and independence to those charged with governance of the client with details of the relevant safeguards where appropriate and this is recorded on the audit file.

All partners and staff are required to sign an independence declaration annually, and any new employees upon commencement.

Governance is further managed by the monthly partner meetings.

### **FINANCIAL, BUSINESS, EMPLOYMENT AND PERSONAL RELATIONSHIPS**

Partners and their immediate families are prohibited from having a financial interest in an audit client of the firm. Members of staff and their immediate families cannot have a financial interest in clients where they have an involvement in the audit.

Neither the firm nor partners, staff and their immediate families can enter into a business relationship with an audit client of the firm unless this involves the purchase of goods and services in the ordinary course of business, on an arm's length basis and the value is not material to either party, or the relationship is clearly inconsequential to both parties.

Partners and staff must report to the Managing Partner where a member of their immediate or close family has an employment relationship with an audit client. Where a partner leaves the firm to join his or her audit client, unless two years have elapsed since the last audit report was signed, the firm must resign from the audit engagement.

### **LONG ASSOCIATION WITH THE AUDIT ENGAGEMENT**

In the case of listed companies the partner must rotate from the audit after five years. In certain cases this has been extended to a maximum of seven years, where the relevant company's board has approved this extension and notified ASIC.

A rotation database is maintained holding a record for every public interest entity client. The database is reviewed by the Audit Partners on a regular basis.

### **FEES, REMUNERATION AND EVALUATION, POLICIES, GIFTS AND HOSPITALITY**

The firm's policies specifically prohibit partners and staff being incentivised or rewarded for selling non audit services to audit clients.

Contingency fees are prohibited for certain types of work such as audit and where they may rely on novel or contentious matters relating to the audit. There are also restrictions on the potential quantum of fees so they cannot individually be material in a financial sense to the firm.

Gifts and hospitality may not be accepted. Hospitality is provided to clients rarely and on an ad hoc basis. Such hospitality is immaterial in nature.

### **NON AUDIT SERVICES**

The overriding consideration in deciding whether the firm can properly provide a non audit service to an audit client is whether it is probable that a reasonable and informed third party would regard the objectives of the non audit service as being consistent with the objectives of the audit of the financial statements.

The firm has a policy that whenever a partner or member of staff is contemplating providing non audit services to an audit client the audit partner is informed promptly so that the audit partner can make an assessment of the relevant threats and safeguards.

### **DOCUMENTATION**

Ethical and independence considerations are documented at the following stages:

- The client acceptance and continuance stages;
- The planning stage of each audit engagement; and
- The conclusion of each audit engagement.

The firm's closing reports to those charged with governance of audit client's incorporates independence confirmations. Specific management issues are then incorporated into closing reports to audit clients.

A prescribed list is maintained of all entities where investment is prohibited because of client relationships. This list is accessible to all staff.

### **CONFLICTS OF INTEREST**

The firm's system for identifying conflicts of interest is built around internal database searches and e-mail notifications of potential engagements to all partners. Procedures for dealing with actual and potential conflicts are set out in the Quality Control Guide and the PKF International Professional Standards Manual, and include notifications of potential conflicts to interested parties, establishing safeguards, and not proceeding with the potential engagement. .

A register of business relationships with clients is maintained and reviewed annually by a specified partner and its accuracy confirmed each year by every partner.

### MONITORING AND REVIEW

Procedures are in place to monitor compliance with the firm's independence requirements. As part of their review procedures, the Managing Partner reviews and checks compliance with the firm's independence procedures. The audit quality assurance programme considers adherence to the firm's ethical and independence requirements on each engagement selected for review. Additionally an annual declaration is made by every partner and member of staff confirming compliance with all ethical and independence requirements.

During the year the Managing Partner carried out a review of the firm's independence procedures and confirmed he was satisfied with them.

### EXTERNAL AUDIT MONITORING

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PKF Mack audit and assurance department during the year ended 30 June 2016 comprised of two audit partners, Simon Fermanis and Shane Cross, who are Registered Company Auditors under the Corporations Act 2001.

The firm is regulated in the conduct of its services by:-

- ▶ The Institute of Chartered Accountants in Australia (ICAA). The firm is subject to periodic audit and whole firm practice assurance reviews, which was carried out in August 2013;
- ▶ The Australian Securities and Investments Commission (ASIC). ASIC performed a detailed review on a significant listed client's file for the year ended 30 June 2009 in January 2010, a significant unlisted public AFSL client for the years ended 30 June 2012 and 2013 in January 2014, and a significant listed client's file for the year ended 30 June 2015 in March 2016;
- ▶ As a member firm of PKFIL the firm is subject to peer reviews by other member firms. (The taxation division was subjected to a rigorous review in October 2011, and the audit & assurance division in April 2016 by another member firm); and
- ▶ Independent reviews of listed companies by an external reviewer who is a member of the ICAA and a registered company auditor.

### PARTNER REMUNERATION

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Partners are remunerated wholly out of the profits of the firm receiving an equal percentage share of the profits which are drawn as available, with the exception of the non-equity partner who is remunerated an agreed fixed amount determined annually and incentive payments for achieving certain KPI targets relating to the audit and assurance division..

No partners receive a bonus for exceptional performance. Having regard to auditor independence, partners are not incentivised to gain non audit work from audit clients.

## TRANSPARENCY REPORT

## FINANCIAL INFORMATION

	\$'000s	Year ended 30 June 2016 \$'000s
<b>Audit fees - external audits other than SMSF</b>		
- External audits other than SMSF	1,867	
- SMSF audits	254	2,121,
<b>Fees for non-audit services to audit clients</b>		
- External audits other than SMSFs	293	
- SMSF audits	751	1,044
<b>Fees for other non-audit clients</b>		4,230
<b>Total revenue</b>		<b>7,395</b>

## PUBLIC INTEREST ENTITIES AUDITED BY THE FIRM

At Appendix A to this report there is a list which includes the public interest entities in respect of which an audit report was made by the firm during the year to 30 June 2016.



Anthony Maclean  
Managing Partner  
For and on behalf of PKF Mack

31 October 2016

# Appendix A

## PUBLIC INTEREST ENTITIES AUDITED BY THE FIRM – YEAR TO 30 JUNE 2016

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The following is a list of public interest entities which we were the appointed auditors during the year ended 30 June 2016:-

Ardiden Limited	Primary Gold Limited
Corazon Mining Ltd	Riedel Resources Ltd
MGC Pharmaceuticals Ltd	Siburan Resources Limited
Euroz Limited	Sprintex Limited
4DS Memory Limited	Syndicated Metals Ltd
Indus Energy NL	Wolf Minerals Limited
Ironbark Zinc Limited	XTD Ltd
Orthocell Limited	Zenith Minerals Limited
Plymouth Minerals Limited	