Australian Securities & Investments Commission

KPMG Australia

Audit inspection report

1 July 2020 to 30 June 2021

Report 714 | November 2021

About this report

This report sets out our findings from reviewing audit files at KPMG Australia for the period 1 July 2020 to 30 June 2021 and aspects of KPMG's approach to culture and talent.

Introduction

This report includes findings from:

- reviews that we substantially completed in the 12 months to 30 June 2021 (this year) of key audit areas in selected financial report audits of listed entities and other public interest entities conducted by KPMG Australia (KPMG, the firm); and
- financial reporting surveillances completed by us this year relating to listed entities and other public interest entities audited by KPMG.

This report:

- also comments on our review of aspects of KPMG's approach to maintaining a culture focused on audit quality and attracting and retaining the right talent for complex audits;
- should not be taken to provide assurance that the firm's audits and systems, or audited financial reports, are free of other deficiencies not identified in this report;
- does not include details of enforcement actions that may have been underway or finalised in the 12-month period relating to audits (if any) involving members of the firm;
- is intended to communicate our findings in a clear and concise manner to the leadership of the firm who are informed auditing and accounting professionals. Other readers of this report should recognise they may not have the full context of this report and the findings summarised below; and
- does not represent a balanced scorecard as our negative findings are based on a limited number of audits focusing on higher risk audit areas and does not report on positive audit quality.

ASIC extended the deadlines for lodging audited financial reports for both listed and unlisted entities by one month for certain balance dates. We note that the firm and the entities it audits were required to adapt to remote work arrangements, global, national and local travel restrictions and other impacts of COVID-19.

We consulted an independent external panel on the method of measuring and reporting our findings. The panel discussed and tested the conclusions reached (including firm responses) on a small number of anonymised findings and agreed with them. The panel agreed with our approach to measuring and reporting our findings.

Information Sheet 224 *ASIC audit inspections* (INFO 224) and Report 709 *Audit inspection report: 1 July 2020 to 30 June 2021* (REP 709) provide further information on our audit firm inspection process.

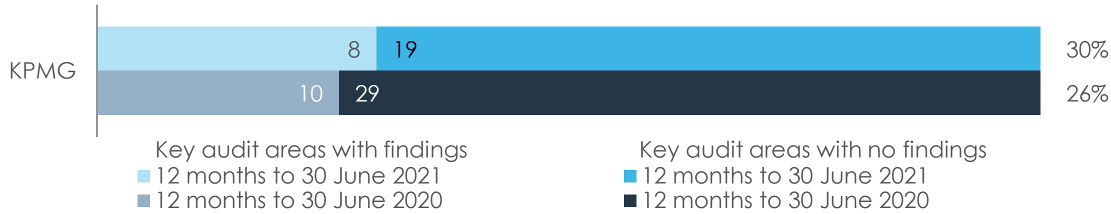
Our findings

KPMG did not obtain reasonable assurance that the financial report was free of material misstatement (negative findings) in eight of the 27 key audit areas reviewed (30%) across eight audits by the firm this year. This compares to 10 of the 39 key audit areas reviewed (26%) for the 12 months ending 30 June 2020 (last year). See Figure 1.

A limited number of audits and audit areas were selected for review on a risk basis, and so caution is needed in generalising from the results to all audits conducted by the firm and all areas of those audits.

The level of negative findings is of concern and warrants continued deliberate and concerted action by the firm.

Figure 1: Negative findings from reviews of key audit areas in audit files



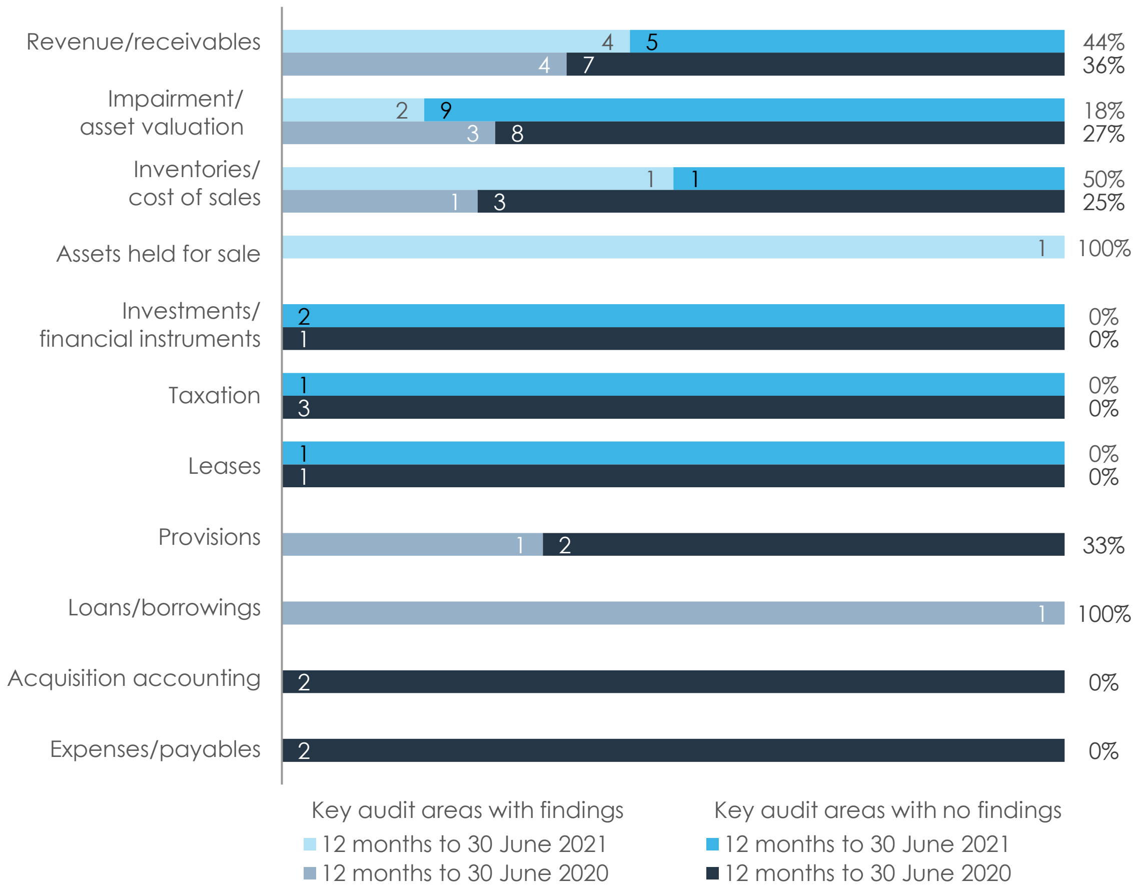
Note: See Table 4 for the data shown in this figure (accessible version).

The firm did not agree with all of our findings. The findings do not necessarily mean that the financial report was materially misstated. Rather, in our view, the auditor did not have a sufficient basis for their opinion.

The largest number of negative findings relate to the audit of revenue and receivables and impairment testing.

Figure 2 shows the areas we reviewed and the frequency of our findings this year and last year.

Figure 2: Key audit areas with negative findings, and key audit areas reviewed in the 12 months to 30 June 2021 and the 12 months to 30 June 2020



Note: See Table 5 for the data shown in this figure (accessible version).

Table 1 summarises our findings that were classified as a risk of material misstatement.

Table 1: Audit review findings—risk of material misstatement

Entity	Areas with findings	Findings
Entity A	1 of 3 key audit areas reviewed	› *Revenue*—the auditor performed controls and substantive procedures. This included a substantive analytical procedure that was not sufficiently precise to detect a material misstatement and contained a calculation error not identified by the auditor resulting in a variance which was greater than the acceptable difference and performance materiality
Entity C	2 of 4 key audit areas reviewed	› *Asset impairment*—the auditor did not adequately evaluate some key assumptions in the entity's value in use model and the auditor's sensitivity analysis did not sufficiently address changes to key assumptions › *Assets held for sale*—the auditor did not obtain sufficient evidence to support the key factors that indicate that the planned disposal of assets held for sale was highly probable
Entity D	3 of 3 key audit areas reviewed	› *Valuation of inventories*—the auditor did not sufficiently test standard costs and variance adjustments used in the valuation of inventories at year end › *Trade receivables*—the auditor did not obtain sufficient evidence over impairment losses on receivables due to insufficient evaluation of impairment loss allowances including the COVID-19 impact on the expected credit loss allowance › *Impairment*—the auditor did not obtain sufficient evidence over revenue forecasts and the appropriateness of the WACC rate used in the assessment of the valuation of non-financial assets
Entity E	1 of 3 key audit areas reviewed	› *Revenue*—the auditor did not obtain sufficient evidence over the accuracy of specific types of revenue as the auditor did not agree a sample of those revenue transactions to appropriate source documents
Entity F	1 of 3 key audit areas reviewed	› *Finance lease receivables*—the auditor did not perform sufficient substantive procedures over the accuracy of finance lease receivables and the sample selected for controls testing was not a finance lease

Our audit file review findings which did not involve a risk of material misstatement are summarised in Table 2. These findings include matters that could be relevant to obtaining reasonable assurance for the audited entity in future or another audited entity.

Table 2: Audit review findings—other

Entity	Findings
Entity F	› *Finance income and operating lease rental revenue*—the auditor did not evaluate whether the accounting treatment used by the company complied with the requirements of AASB 16 *Leases* and that the accounting policy on operating lease rentals as disclosed in the financial statements accurately reflected the accounting treatment adopted by the company

Financial report findings

We completed risk-based reviews of aspects of 51 financial reports of listed and other public interest entities audited by the firm this year. Following our inquiries, one entity made material changes to net assets or profits as summarised in Table 3. More information can be found in media releases available from the ASIC website.

Table 3: Financial report findings—media release issued

Entity	Year end	Findings
Ainsworth Game Technology	30 June 2020	The company wrote down the non-financial assets of its Latin American business by $23.1 million and inventory by $3.4 million and increased its estimated expected credit losses on trade receivables by $6 million See Media Release (21-068MR) *Ainsworth writes down assets* (12 April 2021)

Culture and talent

This year we reviewed how the firm:

- establishes and maintains a culture focused on audit quality; and
- has the right talent for complex audits, including how they attract, retain and upskill partners, staff and experts.

The firm had a range of practices and initiatives to maintain a culture focused on audit quality and to attract and retain the right talent for complex audits. Changes in practices and initiatives by the firm on culture may take time to show an impact on negative findings and need to be applied in combination with other initiatives to improve audit quality. The extent to which these practices and initiatives are delivering the intended outcomes therefore should continue to be regularly monitored and assessed.

The availability of audit staff resources may continue to be affected by COVID-19 conditions, pre-existing factors, and planned and future changes.

We made no better practice recommendations for KPMG. Instead, REP 709 discusses general considerations for firms and the profession in the areas of culture and talent.

Improving audit quality

The level of negative findings from our limited reviews is of concern and warrants continued deliberate and concerted action by KPMG. The firm needs to focus on identifying and addressing the root causes for the matters reported from our audit file reviews, financial reporting surveillances, and for findings from internal and global firm reviews. The firm should continue to evaluate the effectiveness of its current initiatives to improve audit quality and revise them or implement new and improved actions if they are not achieving appropriate outcomes.

Further information

More information on the matters in Figures 1 and 2 and Tables 1, 2 and 3 is contained in REP 709 and detailed comment forms provided separately to the firm. The comment forms include the firm’s responses to our findings.

Appendix: Accessible versions of figures

This appendix is for people with visual or other impairments. It provides the underlying data for the figures in this report.

Table 4: Negative findings from reviews of key audit areas in audit files

Firm	12 months to 30 June 2021			12 months to 30 June 2020		
	Key audit areas with findings	Key audit areas reviewed	Percentage	Key audit areas with findings	Key audit areas reviewed	Percentage
KPMG	8	27	30%	10	39	26%

Note: This is the data shown in Figure 1.

Table 5: Key audit areas with negative findings, and key audit areas reviewed in the 12 months to 30 June 2021 and the 12 months to 30 June 2020

Key audit areas	12 months to 30 June 2021			12 months to 30 June 2020		
	Key audit areas with findings	Key audit areas reviewed	Percentage	Key audit areas with findings	Key audit areas reviewed	Percentage
Revenue/receivables	4	9	44%	4	11	36%
Impairment/asset valuation	2	11	18%	3	11	27%
Inventory/cost of sales	1	2	50%	1	4	25%
Assets held for sale	1	1	100%	–	–	–
Investments/financial instruments	–	2	0%	–	1	0%
Taxation	–	1	0%	–	3	0%
Leases	–	1	0%	–	1	0%
Provisions	–	–	–	1	3	33%
Loans/borrowings	–	–	–	1	1	100%
Acquisition accounting	–	–	–	–	2	0%
Expenses/payables	–	–	–	–	2	0%
Total	**8**	**27**	**30%**	**10**	**39**	**26%**

Note: This is the data shown in Figure 2.