



ASIC
Australian Securities &
Investments Commission



Deloitte Touche Tohmatsu Australia

Audit inspection report

1 July 2021 to 30 June 2022

Report 745 | October 2022

About this report

This report sets out our findings from reviewing audit files at Deloitte Touche Tohmatsu Australia for the period 1 July 2021 to 30 June 2022 and better practices for Deloitte to consider in its approach to root cause analysis.

Introduction

This report includes:

- › findings from reviews that we completed in the 12 months to 30 June 2022 (this year) of key audit areas in selected financial report audits of listed entities and one large unlisted entity conducted by Deloitte Touche Tohmatsu Australia (Deloitte, the firm)
- › financial reporting surveillance findings relating to entities audited by Deloitte this year, and
- › better practice considerations from the application of Deloitte's policies, systems and processes for conducting root cause analysis.

This report:

- › 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 underway or finalised in the 12-month period relating to audits (if any) involving members of the firm. For details, refer to the [periodic updates](#) of our enforcement outcomes
- › 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.

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 during the period covered by this report.

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. The panel agreed with our approach to measuring and reporting our findings.

Further details about our audit inspection program this year can be found in [Report 743 Audit inspection report: 1 July 2021 to 30 June 2022](#) (REP 743), including a glossary of key terms. [Report 739 Root cause analysis: Audit firm thematic review](#) (REP 739) outlines good practices in place at some of the largest six firms and better practice recommendations for performing root cause analysis. [Information Sheet 224 ASIC audit inspections](#) (INFO 224) provides further information on our audit firm inspection process.

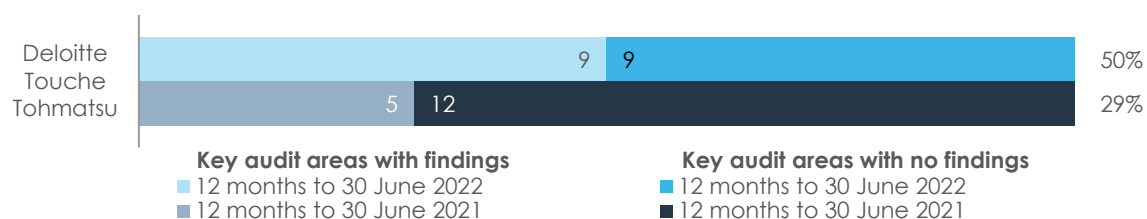
Our findings

Deloitte did not, in our view, obtain reasonable assurance that the financial report was free of material misstatement (negative findings) in nine of the 18 key audit areas reviewed (50%) across five audits by the firm this year. This compares to five of the 17 key audit areas reviewed (29%) across five audits for the 12 months ending 30 June 2021 (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 increase in 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



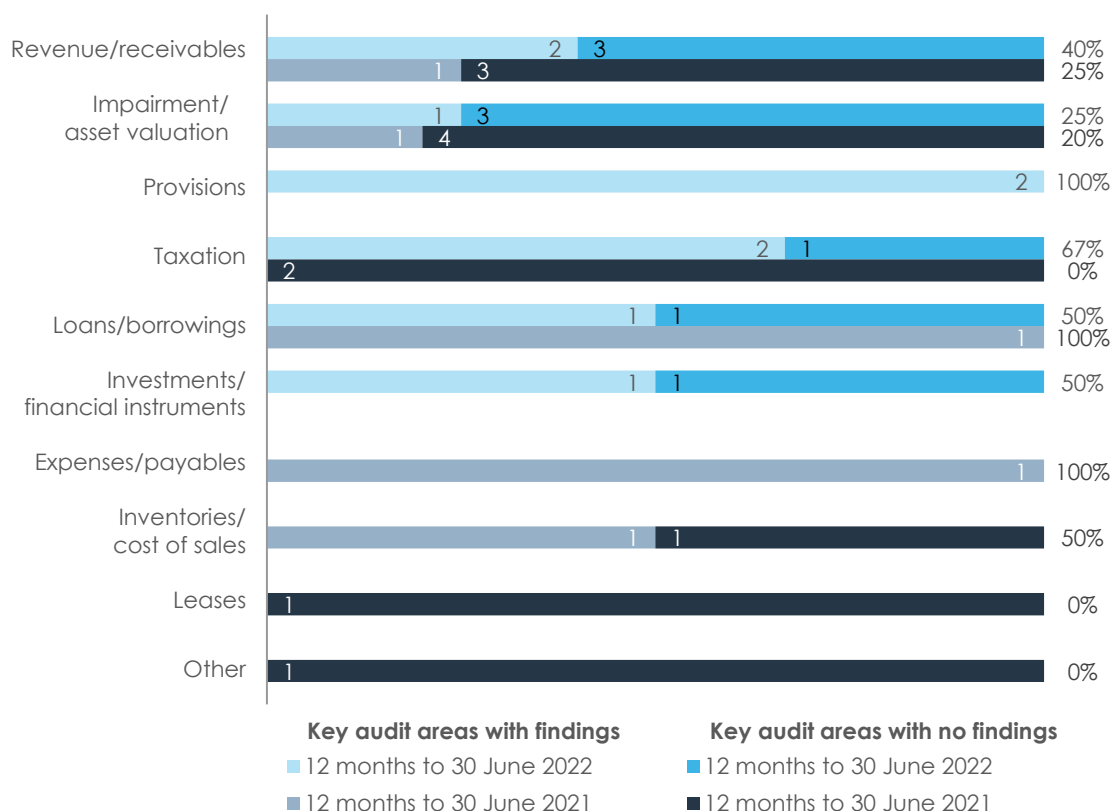
Note: See Table 4 for the data shown in this figure (accessible version).

The firm did not agree with all of our findings. The findings do not necessarily mean 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, provisions and taxation.

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 2022 and the 12 months to 30 June 2021



Note 1: 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	3 of 4 key audit areas reviewed	<ul style="list-style-type: none"> › <i>Rental income</i>—The auditor did not adequately support its risk assessment, test key characteristics of revenue recognition and the agreements, and test the cut-off assertion. In addition, the auditor did not adequately investigate the nature and cause of a variance identified in its tests of detail › <i>Deferred tax liability</i>—The auditor did not adequately evaluate the work of a management expert over the tax base of investment properties. The auditor did not perform any audit procedures to test the completeness and accuracy of the tax base › <i>Borrowings</i>—The auditor did not obtain sufficient audit evidence to conclude on the treatment of an embedded derivative in a significant debt facility
Entity B	2 of 3 key audit areas reviewed	<ul style="list-style-type: none"> › <i>Revenue</i>—The auditor did not sufficiently test the accuracy and completeness of data from an external source, and sufficiently test the application of the entity's revenue recognition policy. In addition, the auditor did not adequately respond to exceptions identified in its tests of detail › <i>Uncertain tax positions</i>—The auditor did not sufficiently evaluate the entity's accounting treatment and disclosure for an uncertain tax position in relation to GST. In addition, the auditor did not sufficiently test the adequacy of related contingent liability disclosures
Entity C	2 of 5 key audit areas reviewed	<ul style="list-style-type: none"> › <i>Investment property</i>—The auditor's evaluation of the adequacy of the auditor's expert's work on the management expert's valuation of investment property was insufficient and did not evidence sufficient challenge of the reasonableness of the auditor's expert's comments and conclusions › <i>Provision for environmental remediation</i>—The auditor did not obtain sufficient audit evidence or apply sufficient professional scepticism in concluding on the adequacy of the remediation provision or whether there was sufficient disclosure of estimation uncertainty

Entity	Areas with findings	Findings
Entity D	2 of 3 key audit areas reviewed	<ul style="list-style-type: none"> › <i>Provision for external dispute resolution claims</i>—The auditor did not adequately challenge the measurement approach for the provision, accounting policy and contingent liability disclosure adopted by the entity › <i>Insurance receivables</i>—The auditor did not adequately challenge the entity's recognition of insurance recoveries for future settlements of client complaints. The auditor did not obtain sufficient evidence demonstrating that the receipt of insurance recoveries was virtually certain › <i>Intangible assets</i>—The auditor did not adequately challenge the entity's value in use impairment testing methodology, where the entity relied on a discrete two-year cash flow period for its discounted cash flow valuation

Our audit file review findings that 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 E	› <i>Auditor independence—vendor business relationship in an overseas jurisdiction with a component of a restricted entity</i> —The auditor did not document its evaluation of independence threats and safeguards in relation to a vendor business relationship in an overseas jurisdiction, in accordance with the independence requirements and firm policy

Financial report findings

We completed risk-based reviews of aspects of 24 financial reports audited by the firm this year. Following our inquiries, one entity made material changes to information previously provided to the market as summarised in Table 3. No changes were made to net assets or profits. 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
Audio Pixel Holdings Limited	31 December 2021	The company provided disclosure of material business risks that had not been sufficiently disclosed in its operating and financial review See Media Release (22-153MR) ASIC calls for better disclosure of business risks and asset values following financial reports review (23 June 2022)

Root cause analysis

We performed a detailed review of the firm's approach to root cause analysis by reviewing a sample of two root cause analyses conducted by the firm, and related observations based on benchmarking the largest six firms' processes in conducting root cause analysis at the audit engagement level.

While the firm had implemented a range of good practices in its root cause analysis (RCA) processes, our additional better practice recommendations are summarised below for the firm's consideration:

- › The population from which root cause analysis is selected should include restatements, ASIC's other findings noted in Table 2 and ASIC media releases (where there has been a change in financial information by an audit client).
- › Specific criteria for determining which issues are 'significant' should be formalised to provide clarity over when a root cause analysis should be performed.
- › Where a decision is made not to undertake a root cause analysis for a negative quality occurrence the reason should be documented (supporting the overall evaluation rating).
- › Interviews should include all engagement team members in the area under review including experts, specialists and engagement quality control reviewers.
- › Audit quality data, including on project milestones (where available), should be consistently considered when performing root cause analysis.

The firm should continue to explore the wide range of underlying root causes in its RCA program on both negative findings and positive outcomes, to ensure that the real root causes are identified and actioned, including the robustness and adequacy of the professional scepticism and supervision and review that contribute to the findings.

[REP 739](#) summarises thematic findings from our review of root cause analysis by audit firms on audit file quality occurrences for the period 1 July 2020 to 31 December 2021. This report also outlines good practices in place at some of the largest six firms and further better practice recommendations for performing root cause analysis.

Improving audit quality

The increase in the level of negative findings from our limited reviews is of concern and warrants continued deliberate and concerted action by Deloitte. 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 743](#) 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	FY 2021–22 Key audit areas with findings	FY 2021–22 Key audit areas reviewed	FY 2021–22 Percentage	FY 2020–21 Key audit areas with findings	FY 2020–21 Key audit areas reviewed	FY 2020–21 Percentage
Deloitte	9	18	50%	5	17	29%

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 2022 and the 12 months to 30 June 2021

Key audit areas	FY 2021–22 Key audit areas with findings	FY 2021–22 Key audit areas reviewed	FY 2021–22 Percentage	FY 2020–21 Key audit areas with findings	FY 2020–21 Key audit areas reviewed	FY 2020–21 Percentage
Revenue/receivables	2	5	40%	1	4	25%
Impairment/asset valuation	1	4	25%	1	5	20%
Provisions	2	2	100%	0	0	0%
Taxation	2	3	67%	0	2	0%
Loans/borrowings	1	2	50%	1	1	100%
Investments/financial instruments	1	2	50%	0	0	0%
Expenses/payables	0	0	0%	1	1	100%
Inventory/cost of sales	0	0	0%	1	2	50%
Leases	0	0	0%	0	1	0%
Other	0	0	0%	0	1	0%
Total	9	18	50%	5	17	29%

Note: This is the data shown in Figure 2.

About ASIC regulatory documents

In administering legislation ASIC issues the following types of regulatory documents: consultation papers, regulatory guides, information sheets and reports.

Disclaimer

This report does not constitute legal advice. We encourage you to seek your own professional advice to find out how the Corporations Act and other applicable laws apply to you, as it is your responsibility to determine your obligations. Examples in this report are purely for illustration; they are not exhaustive and are not intended to impose or imply particular rules or requirements.