



**ASIC**  
Australian Securities &  
Investments Commission



# BDO firms in Australia

## Audit inspection report

**1 July 2021 to 30 June 2022**

**Report 744 | October 2022**

### **About this report**

This report sets out our findings from reviewing audit files at BDO firms in Australia for the period 1 July 2021 to 30 June 2022 and better practices for BDO 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 BDO firms in Australia (BDO, the firm)
- › financial reporting surveillance findings relating to entities audited by BDO this year, and
- › better practice considerations from the application of BDO'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.

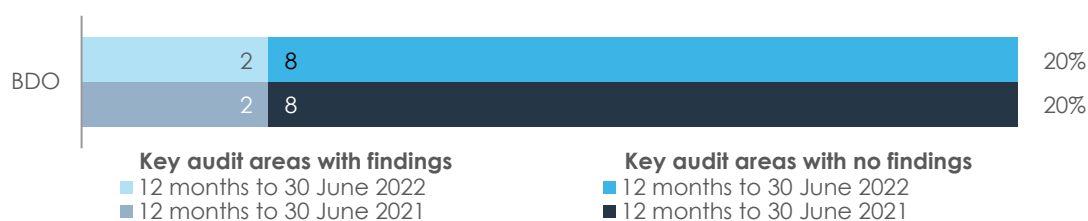
## Our findings

BDO did not, in our view, obtain reasonable assurance that the financial report was free of material misstatement (negative findings) in two of the 10 key audit areas reviewed (20%) across three audits by the firm this year. This compares to two of the 10 key audit areas reviewed (20%) across three 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 continuing level of negative findings warrants deliberate and concerted action by the firm.

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



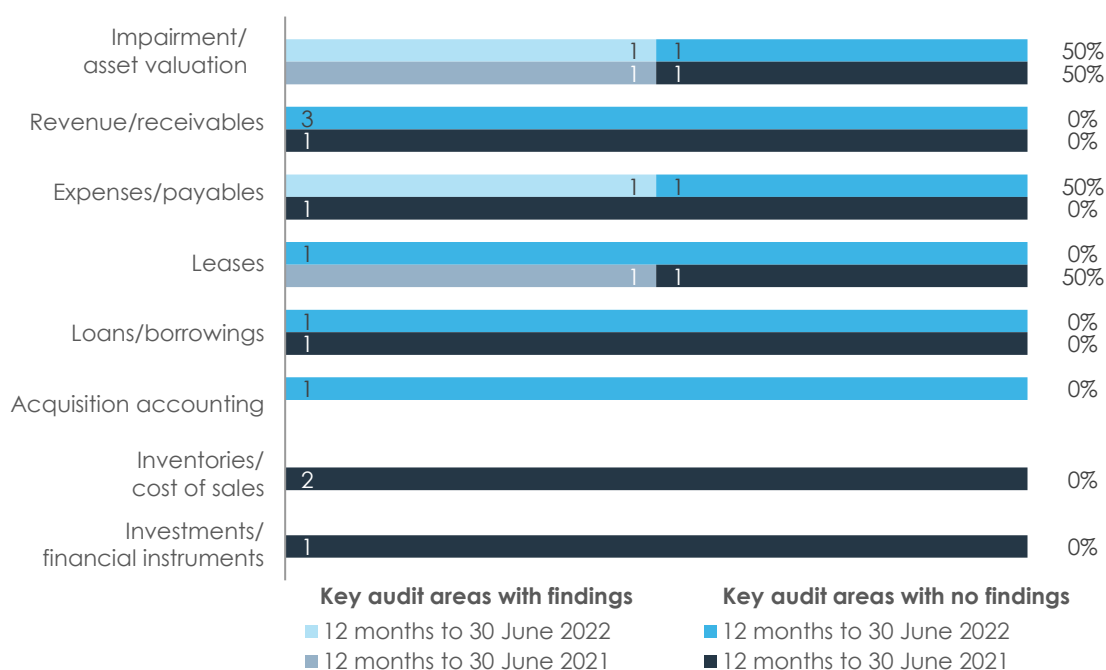
**Note:** See Table 3 for the data shown in this figure (accessible version).

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.

Our negative findings relate to impairment testing and audit of expenses and payables.

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 4 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	2 of 3 key audit areas reviewed	<ul style="list-style-type: none"> <li>› <i>Goodwill impairment</i>—The auditor did not obtain sufficient evidence to support the reasonableness of some key assumptions used in testing the valuation of goodwill</li> <li>› <i>Contract asset and liability</i>—The auditor did not obtain sufficient evidence to address the completeness and accuracy of the entity's estimate of forecast costs to complete its construction projects</li> </ul>

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 A	› <i>Going concern</i> —The auditor did not sufficiently evidence their testing of going concern

## Financial report findings

We completed risk-based reviews of aspects of 32 financial reports of entities audited by the firm this year. Following our inquiries, no entities made material changes to net assets, profits or information previously provided to the market.

## 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 for root cause analysis should be expanded to include engagement files subject to restatements as well as engagement files where there has been an ASIC media release issued in relation to changes in financial information of an audit client. The firm should also consider including a sample of files with positive quality outcomes and ASIC's other findings noted in Table 2 in its RCA program.
- › An integrated system should be adopted for recording root cause analyses that documents all key steps in the RCA process.

- › The National Audit Quality (NAQ) team should consistently direct the RCA discussions and interviews instead of a mix of the NAQ team and the engagement partner to ensure separation and independence of the RCA program from the engagement team and the monitoring processes.
- › Interviews should include all engagement team members in the area under review including experts, specialists and engagement quality control reviewers. Meeting agendas or other methods should be used to encourage discussion.
- › Audit quality data, including on project milestones (where available), should be consistently applied when performing root cause analysis.
- › Time codes should be established for capturing time spent on root cause analysis.
- › Annual RCA training should be implemented to develop best methods and practices for the 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 continuing level of negative findings from our limited reviews warrants deliberate and concerted action by BDO. The firm needs to focus on identifying and addressing the root causes for the matters reported from our audit file reviews 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 and 2 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 3: 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
BDO	2	10	20%	2	10	20%

**Note:** This is the data shown in Figure 1.

**Table 4: 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
Impairment/asset valuation	1	2	50%	1	2	50%
Revenue/receivables	0	3	0%	0	1	0%
Expenses/payables	1	2	50%	0	1	0%
Leases	0	1	0%	1	2	50%
Loans/borrowings	0	1	0%	0	1	0%
Acquisition accounting	0	1	0%	0	0	0%
Inventory/cost of sales	0	0	0%	0	2	0%
Investments/financial instruments	0	0	0%	0	1	0%
<b>Total</b>	<b>2</b>	<b>10</b>	<b>20%</b>	<b>2</b>	<b>10</b>	<b>20%</b>

**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.