



**ASIC**  
Australian Securities &  
Investments Commission

# Deloitte Touche Tohmatsu Australia

## Audit inspection report

**1 July 2020 to 30 June 2021**

**Report 711 | November 2021**

### **About this report**

This report sets out our findings from reviewing audit files at Deloitte Touche Tohmatsu Australia for the period 1 July 2020 to 30 June 2021 and aspects of Deloitte'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 Deloitte Touche Tohmatsu Australia (Deloitte, the firm); and
- › financial reporting surveillances completed by us this year relating to listed entities and other public interest entities audited by Deloitte.

This report:

- › also comments on our review of aspects of Deloitte'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.

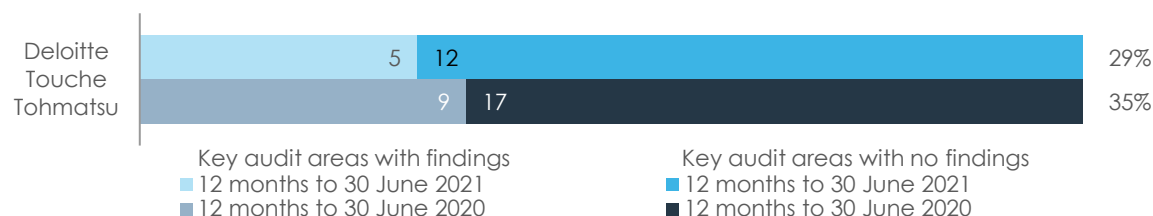
## Our findings

Deloitte did not obtain reasonable assurance that the financial report was free of material misstatement (negative findings) in five of the 17 key audit areas reviewed (29%) across five audits by the firm this year. This compares to nine of the 26 key audit areas reviewed (35%) 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**



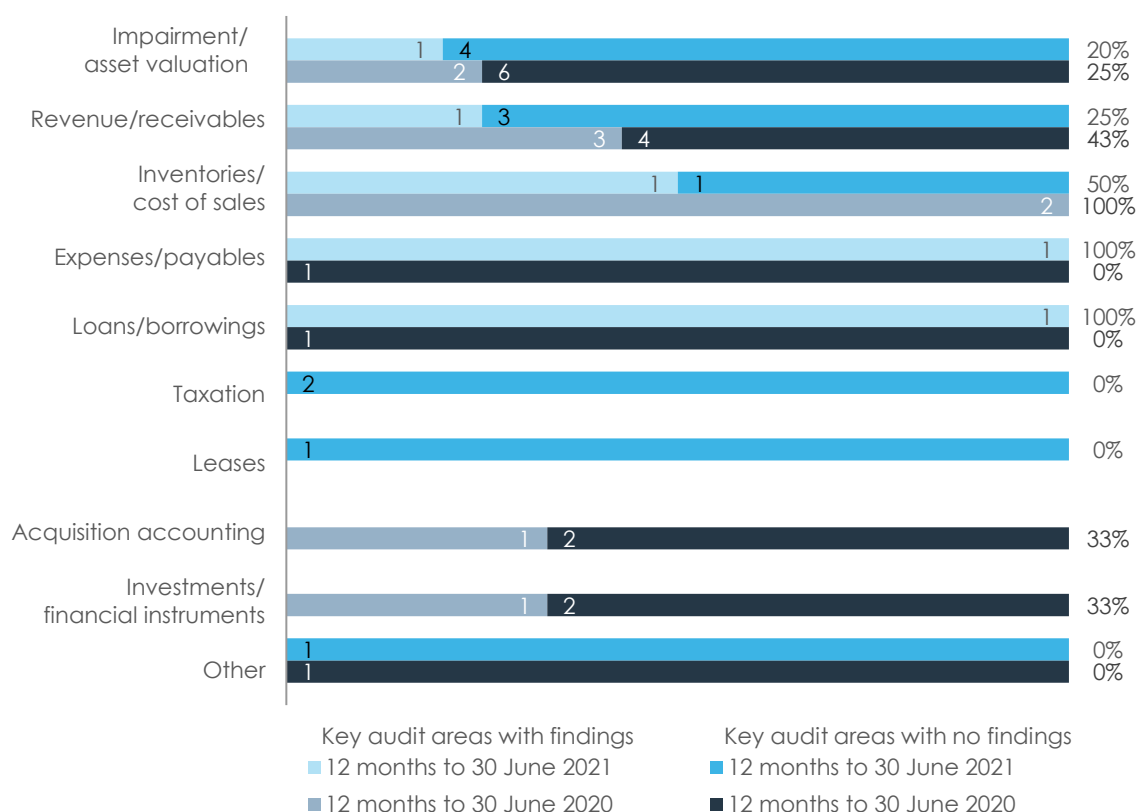
**Note:** See Table 3 for the data shown in this figure (accessible version).

The firm did not agree with all of our findings. The findings do not necessarily mean that 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, the audit of revenue and receivables, inventories and cost of sales, expenses and payables, and loans and borrowings.

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

**Note 2:** Other key audit areas include deconsolidation and share-based payments.

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 4 key audit areas reviewed	› <i>Royalty liability</i> —the auditor did not evaluate the reasonableness of the discount rate and forecast commodity prices used in the calculation of the liability estimate or carry forward a prior year independent expert's report to support management's forecast production and sales volumes
Entity B	2 of 5 key audit areas reviewed	› <i>Loans and borrowings/going concern</i> —the auditor did not detect a material misstatement in loans and borrowings and in finance costs due to a deficiency in review of loan agreements. The auditor did not gather sufficient appropriate audit evidence to assess whether material uncertainty existed over the company's ability to repay or reschedule loans and borrowings on their maturity in two to three years after year end or to find other sources to replace them › <i>Inventories</i> —the auditor did not test the cost of inventories for a major part of the business and did not test the elimination of profits in inventory relating to intragroup sales
Entity C	1 of 3 key audit areas reviewed	› <i>Revenue</i> —the auditor did not set expectations that were sufficiently precise in a substantive analytical procedure (SAP) or demonstrate that prior year average revenue per customer was a sufficiently plausible relationship to predict current year revenue and did not perform specific substantive tests over revenue cut-off
Entity D	1 of 2 key audit areas reviewed	› <i>Processing plant impairment testing</i> —the auditor did not obtain sufficient appropriate evidence and exercise an appropriate level of professional scepticism to evaluate a number of key assumptions, judgements and estimates used in the entity's DCF model

## Financial report findings

We completed risk-based reviews of aspects of 43 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 2. More information can be found in media releases available from the ASIC website.

**Table 2: Financial report findings—media release issued**

Entity	Year end	Findings
Elixinol Global Limited	31 December 2019	The company wrote down goodwill, inventories, and other assets by \$60 million in its financial report for the half-year ended 30 June 2020 See <a href="#">Media Release (20-214MR)</a> ASIC notes reporting changes (17 September 2020)

## 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 Deloitte. 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 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 and 2 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 3: 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
Deloitte	5	17	29%	9	26	35%

**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 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
Impairment/asset valuation	1	5	20%	2	8	25%
Revenue/receivables	1	4	25%	3	7	43%
Inventory/cost of sales	1	2	50%	2	2	100%
Expenses/payables	1	1	100%	–	1	0%
Loans/borrowings	1	1	100%	–	1	0%
Taxation	–	2	0%	–	–	–
Leases	–	1	0%	–	–	–
Acquisition accounting	–	–	–	1	3	33%
Investments/financial instruments	–	–	–	1	3	33%
Other	–	1	0%	–	1	0%
<b>Total</b>	<b>5</b>	<b>17</b>	<b>29%</b>	<b>9</b>	<b>26</b>	<b>35%</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.