



ASIC
Australian Securities &
Investments Commission

Audit quality measures, indicators and other information 2019–20

Report 678 | December 2020

About this report

This report provides a broad group of audit quality measures, indicators and other information to supplement our audit inspection findings in [Report 677 Audit inspection report: 1 July 2019 to 30 June 2020 \(REP 677\)](#).

It is intended to promote:

- discussion on the measures and indicators that might be used by auditors and audit committees in monitoring initiatives to improve audit quality, and
- good behaviours by auditors and audit committees that support audit quality.

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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 advice on measuring or monitoring audit quality. We encourage audit firms and audit committees to consider approaches to maintaining and improving audit quality that are relevant for the circumstances of each firm and each audit. It is your responsibility to determine your obligations. Measures and indicators in this report are not exhaustive and are not intended to imply that particular measures or indicators should be used by an audit firm or audit committee in measuring and monitoring audit quality.

Introduction

What is audit quality?

In our view, audit quality refers to matters that contribute to the likelihood that the auditor will:

- › achieve the fundamental objective of obtaining reasonable assurance that the financial report as a whole is free of material misstatement, and
- › ensure material deficiencies detected are addressed or communicated through the audit report.

Why is audit quality important?

The quality of financial reports is key to confident and informed markets and investors. The objective of the independent audit is to provide confidence in the quality of financial reports. Improving audit quality is essential to continued confidence in the independent assurance provided by auditors.

Measures, indicators and other information

In the 12 months to 30 June 2020, we reviewed key areas in 53 audits of financial reports of listed entities and other public interest entities prepared under Chapter 2M of the *Corporations Act 2001*. While a limited number of audits and audit areas are selected on a risk basis for

review, the results from our reviews are the best available measure of audit quality.

This report also presents:

- › other output measures that are directly influenced by the quality of audits
- › input indicators about individual factors that may contribute to audit quality, and
- › information on the assessments or perceptions of audit committee chairs and investors of audit quality.

The input indicators in this report are not intended to provide a complete representation of the inputs relevant to supporting audit quality. The indicators used in monitoring initiatives to improve audit quality and the optimal level for each indicator will vary from firm to firm and audit to audit.

Audit committees should consider the specific audit team, their experience, expertise, demonstration of professional scepticism, etc. See also [Information Sheet 196](#) *Audit quality: The role of directors and audit committees* (INFO 196).

The measures and indicators presented in future reports may change as we reassess the relevance and usefulness of each measure and indicator.

ASIC findings

Overall findings

The findings from our audit reviews are instances where, in our view, the auditor did not obtain reasonable assurance in a key audit area that the overall financial report was free of material misstatement. Figure 1 shows our overall adverse findings for the last four inspection periods for all firms and the largest six firms.

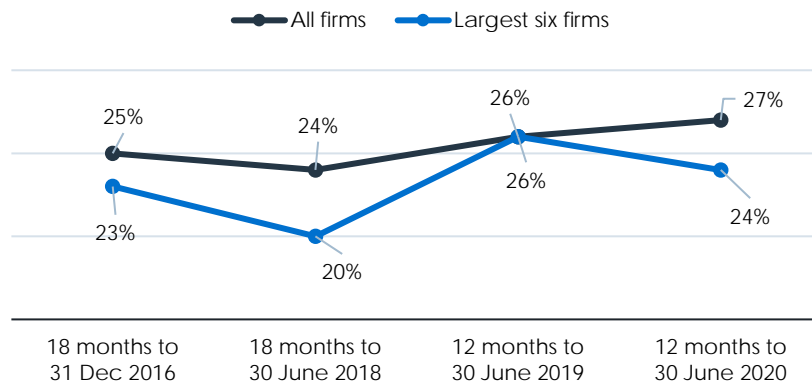
Relevance

This is a direct measure of audit quality produced by a regulator who is independent of the profession.

Limitation

We select a limited number of audits and audit areas on a risk basis so caution should be exercised in extrapolating from the results to the entire population of audited entities.

Figure 1: Adverse inspection findings



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

Key audit areas with adverse findings

Figure 2 shows the percentages of audits reviewed in the 12 months to 30 June 2020 and the 12 months to 30 June 2019 with adverse findings in none, one, two, three and four or more key areas. We generally reviewed three to four key areas in an audit.

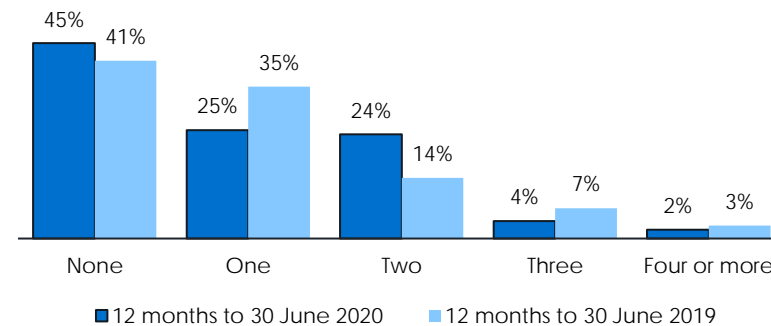
Relevance

Audits with adverse findings in more than one area will generally be more deficient.

Limitations

Figure 2 does not show the relative severity of the individual findings. However, [REP 677](#) contains considerable information to assist in assessing the nature and severity of findings. Our [individual firm inspection reports](#) describe each finding.

Figure 2: Percentages of key audit areas reviewed on a file that had adverse findings



Note: See Table 2 for the data shown in this figure (accessible version).

Financial report misstatements

Figure 3: shows the percentage of audit files reviewed where ASIC had findings and where audited entities made material changes to net assets and profits in the relevant financial report or in a subsequent financial report which we believe related to concerns identified by ASIC. These matters are generally also included in 'ASIC surveillances' in Figure 4.

Change

The decrease in the percentages in Figure 3 over time was due to a change in ASIC's approach. From 2018 we reviewed financial reports and raised questions with an audited entity before reviewing the audit file. We also excluded areas from audit file reviews where an entity had made material changes to net assets and profit following our inquiries.

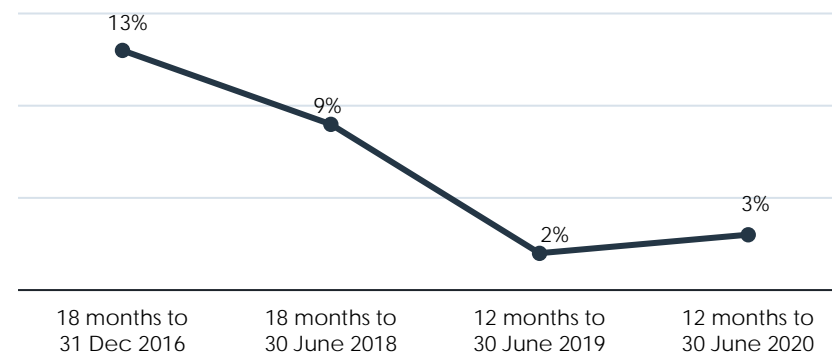
Relevance

Material changes to audited financial reports may reflect the relative severity of ASIC audit findings.

Limitations

This measure does not identify where audit work is insufficient to support the auditor's opinion even if no material misstatement has been identified. Only a portion of files with findings were followed up by ASIC with the companies concerned.

Figure 3: Audits reviewed where the financial report was materially misstated



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

Further information on the ASIC inspection findings and process can be found in [REP 677](#) and [Information Sheet 224 ASIC audit inspections \(INFO 224\)](#).

Other output measures

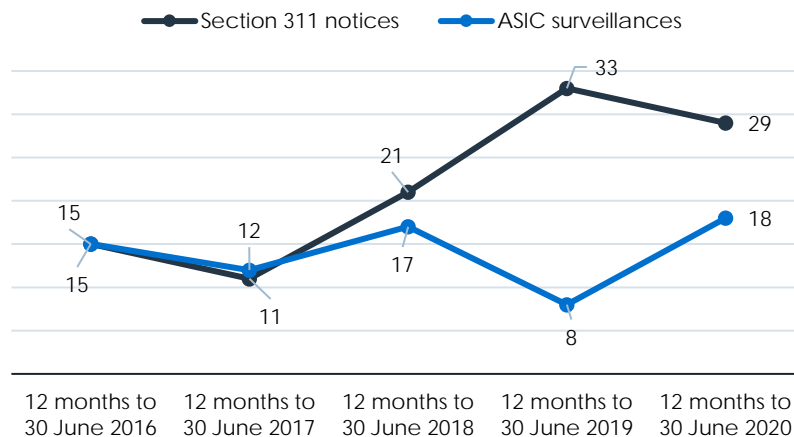
Adjustments to issued financial reports

Figure 4 shows the number of material adjustments to previously reported net assets and profit for listed entities as identified from:

- › notices lodged by auditors under section 311 of the *Corporations Act 2001*, and
- › material changes to net assets and profits resulting from ASIC financial reporting surveillances.

There is no duplication of matters between these two sources.

Figure 4: Adjustments to financial reports



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

Relevance

These adjustments are matters not identified or addressed during a previous audit. The matter may have been subsequently identified by the company or ASIC rather than an auditor.

Limitations

Matters are only included from two sources. The measure may also be a lag indicator because it relates to past completed audits.

Adjustments initiated by auditors

The largest six firms caused 78 material adjustments correcting net assets and net profit after tax prior to the release of the financial reports of ASX 300 listed entities for financial years that ended from 1 April 2019 to 31 March 2020.

Auditing standards require auditors to report identified errors to audit committees and directors. The firms reported 1,041 non-trivial errors in the financial reports to audit committees or directors.

Relevance

The identification and adjustment of material misstatements indicates where auditors are effective in improving financial reports.

Limitations

The data was provided by the firms and has not been subject to independent verification.

Input indicators

Staff mix

Figure 5 shows the proportion of partner, manager and staff time on audits of Australian incorporated or formed ASX 300 listed entities by the largest six firms (including audits of foreign operations by network firms) for years ended 1 April 2019 to 31 March 2020. On average, 9,000 audit hours were spent on each of these audits. The figures for the preceding 12-month period were almost identical.

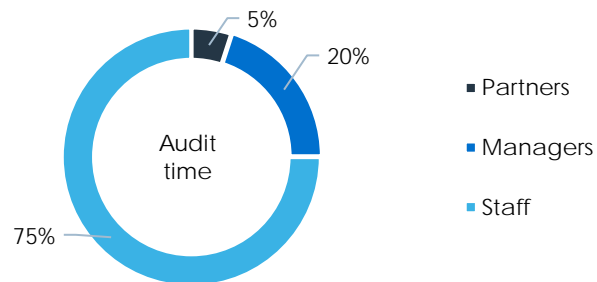
Relevance

This may indicate whether adequate experience and expertise is applied to audits. The hours reflect overall audit effort.

Limitations

The appropriate audit hours and mix of partners, managers and staff will vary with the nature and complexity of each audit and each audited entity. The data was provided by the firms and has not been subject to independent verification.

Figure 5: Staff mix on ASX 300 listed entity audits



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

Training



Audit partners and audit managers of the largest six firms completed an average of 61 hours of structured training in financial reporting, audit or ethics in the 12 months to 30 June 2020 (compared with 42 hours in the 12 months to 30 June 2019). The increase is likely to be at least partly attributable to training relating to financial reporting and auditing under COVID-19 conditions.

Relevance

The hours may indicate whether partners and managers keep up to date with changing requirements. Members of the large professional accounting bodies must undertake 120 hours of continuing professional education over three years, with at least 50% being structured (e.g. courses).

Limitations

The relevance or quality of training undertaken and the appropriate training needed is not measured. The data was provided by the firms and has not been subject to independent verification.

Audit fees to net profit after tax, net assets and market capitalisation

Figure 6 shows audit fees as a percentage of net profit after tax, net assets and market capitalisation for ASX 300 listed entities for years ended 1 April 2019 to 31 March 2020. The figures for the previous 12 months were almost identical.

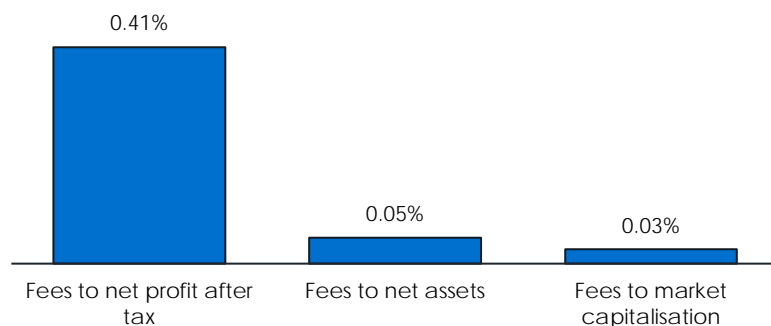
Relevance

The figures may indicate the adequacy of audit fees. For further information, see [INFO 196](#).

Limitations

The appropriate fees depend on the size and complexity of each audited entity/group.

Figure 6: Audit fees to net assets, net profit after tax and market capitalisation for ASX 300 listed entities



Note: See Table 6 for the data shown in this figure (accessible version).

Fees for services provided to audited entities

Figure 7 shows total fees payable to auditors of ASX 300 listed entities for years ended 1 April 2019 to 31 March 2020. The fees are shown by category of service—audit services, assurance services that are required by legislation to be provided by the auditor, other assurance services and agreed-upon procedures, and non-assurance services (e.g. taxation). The overall average proportion of fees for non-assurance services to audit fees was 21%. The proportion was 50% or more for 59 of the 300 entities and 100% or more for 22 of the entities.

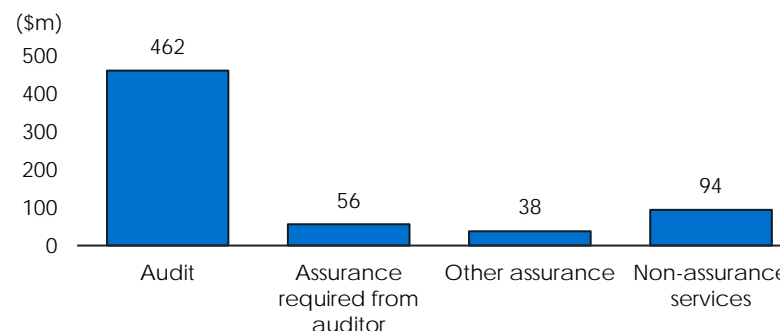
Relevance

The level or nature of non-assurance services may be perceived to affect the independence and objectivity of the auditor in some cases.

Limitations

In considering whether fees for non-audit services are appropriate in any specific case, both the size of the fee and the nature of the services need to be considered.

Figure 7: Fees payable to auditors of ASX 300 listed entities



Note: See Table 7 for the data shown in this figure (accessible version).

Other information

Surveys

The Financial Reporting Council (FRC) and Auditing and Assurance Standards Board surveyed audit committee chairs (2020) and institutional investors (2019) on audit quality. Chartered Accountants Australia and New Zealand (CA ANZ) surveyed retail investors on confidence in audited financial reports in 2020. The full reports can be seen on the [FRC](#) and [CA ANZ](#) websites.

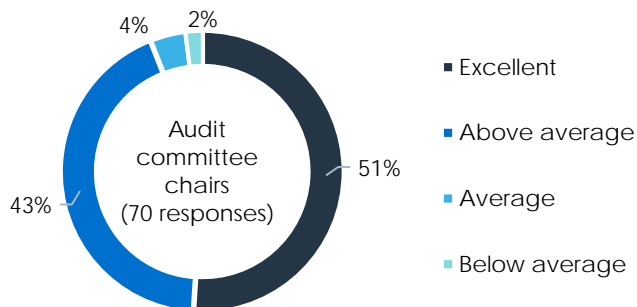
Relevance

The survey results reflect sentiment and perceptions of audit quality.

Limitations

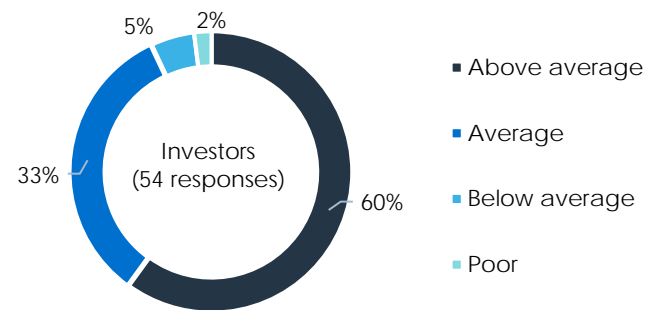
'Audit quality' was not defined for the surveys. Investors may depend on public information to measure audit quality.

Figure 8: Survey of audit committee chairs



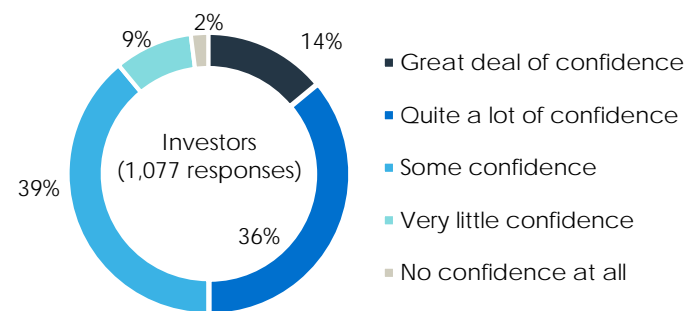
Note: See Table 8 for the data shown in this figure (accessible version).

Figure 9: Survey of institutional investors



Note: See Table 9 for the data shown in this figure (accessible version).

Figure 10: Survey of retail investors



Note: See Table 10 for the data shown in this figure (accessible version).

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 1: Adverse inspection findings

Period	Overall percentage	Largest six firms percentage
18 months to 31 December 2016	25%	23%
18 months to 30 June 2018	24%	20%
12 months to 30 June 2019	26%	26%
12 months to 30 June 2020	27%	24%

Note: This is the data shown in Figure 1.

Table 2: Percentages of key audit areas reviewed on a file that had adverse findings

Number of areas with findings	12 months to 30 June 2020	12 months to 30 June 2019
None	45%	41%
One	25%	35%
Two	24%	14%
Three	4%	7%
Four or more	2%	3%

Note: This is the data shown in Figure 2.

Table 3: Audits reviewed where the financial report was materially misstated

Period	Percentage
18 months to 31 December 2016	13%
18 months to 30 June 2018	9%
12 months to 30 June 2019	2%
12 months to 30 June 2020	3%

Note: This is the data shown in Figure 3.

Table 4: Adjustments to financial reports

Period	Section 311 notices	ASIC surveillances
12 months to 30 June 2016	15	15
12 months to 30 June 2017	11	12
12 months to 30 June 2018	21	17
12 months to 30 June 2019	33	8
12 months to 30 June 2020	29	18

Note: This is the data shown in Figure 4.

Table 5: Staff mix on ASX 300 listed entity audits

Category	Percentage
Partners	5%
Managers	20%
Staff	75%

Note: This is the data shown in Figure 5.

Table 6: Audit fees to net profits, net profit after tax and market capitalisation for ASX 300 listed entities

Audit fee ratio	Percentage
Fees to net profit after tax	0.41%
Fees to net assets	0.05%
Fees to market capitalisation	0.03%

Note: This is the data shown in Figure 6.

Table 7: Fees payable to auditors of ASX 300 listed entities

Fee category	\$ million
Audit	462
Assurance required from auditor	56
Other assurance	38
Non-assurance services	94

Note: This is the data shown in Figure 7.

Table 8: Survey of audit committee chairs

View of audit quality	Percentage
Excellent	51%
Above average	43%
Average	4%
Below average	2%

Note: This is the data shown in Figure 8.

Table 9: Survey of institutional investors

View of audit quality	Percentage
Above average	60%
Average	33%
Below average	5%
Poor	2%

Note: This is the data shown in Figure 9.

Table 10: Survey of retail investors

View of audit quality	Percentage
Great deal of confidence	14%
Quite a bit of confidence	36%
Some confidence	39%
Very little confidence	9%
No confidence at all	2%

Note: This is the data shown in Figure 10.

Key terms and related information

Key terms

ASIC	Australian Securities and Investments Commission
ASX 300 listed entity	An entity with securities listed on the Australian Securities Exchange that is within the top 300 such entities by market capitalisation. In this report a reference to an ASX 300 listed entity refers to only those entities incorporated or formed in Australia where the group audit is conducted by an Australian audit firm or authorised audit company
finding	An instance where in a key area of an audit ASIC concluded that an auditor did not obtain reasonable assurance that the financial report as a whole was free of material misstatement
INFO 196 (for example)	An ASIC information sheet (in this example numbered 196)
key audit area	An area of an audit selected for review by ASIC on a risk basis that generally relates to a financial statement line
largest six firms	Large firms that audit listed entities with the largest aggregate market capitalisation, which may operate through national partnerships, an authorised audit company or a national network of firms
REP 677 (for example)	An ASIC report (in this example numbered 677)

Related information

ASIC documents

[INFO 196](#) *Audit quality: The role of directors and audit committees*

[INFO 224](#) *ASIC audit inspections*

[REP 677](#) *Audit inspection report: 1 July 2019 to 30 June 2020*