



ASIC
Australian Securities &
Investments Commission



KPMG Australia

Audit inspection report

1 July 2019 to 30 June 2020

Report 683 | December 2020

About this report

This report sets out our findings from reviewing audit files at KPMG Australia from 1 July 2019 to 30 June 2020, and recommendations from reviews of conflicts of interest, governance and accountability.

Introduction

This report summarises findings from:

- reviews that we substantially completed in the 12 months to 30 June 2020 of key areas in selected financial report audits of listed entities and other public interest entities conducted by KPMG Australia (KPMG)
- reviews that we substantially completed in the 12 months to 30 June 2020 on work performed by KPMG on client monies in the audit of an Australian financial services (AFS) licensee
- our reviews of aspects of KPMG's approach to conflicts of interest, firm governance, accountability for audit quality, and
- financial reporting surveillances completed by us in the 12 months to 30 June 2020 relating to listed entities and other public interest entities audited by KPMG.

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 that may have been underway or finalised in the 12-month period relating to audits (if any) involving members of the firm, and
- is intended to communicate our findings in a clear and concise manner to leadership of the firm who are informed auditing and accounting professionals. Other readers of this report may not have the full context of this report and the findings summarised in it.

[Information Sheet 224](#) *ASIC audit inspections* and [Report 677](#) *Audit inspection report: 1 July 2019 to 30 June 2020* provide further information on our audit firm inspection process.

Our findings

In our view, KPMG did not obtain reasonable assurance that the financial report was free of material misstatement in 10 of the 39 key areas that we reviewed in total across 11 audits by the firm, being 26% of the key areas reviewed by us. This compares to 33% for the 12 months ending 30 June 2019.

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.

Table 1 summarises the findings. The firm did not necessarily agree with all of our findings. The findings do not necessarily mean that the financial report was materially misstated, but rather that the auditor did not have a sufficient basis for their opinion.

Table 1: Audit review findings—Risk of material misstatement

Entity	Areas with findings	Findings
Entity A	One of the three key areas reviewed	<i>Revenue</i> —The auditor used a substantive analytical procedure where it was not demonstrated that the inputs used were an appropriate basis for developing an expectation of the population being tested, and the auditor did not set sufficiently precise thresholds for identifying differences from the expectation for investigation.
Entity B	One of the four key areas reviewed	<i>Borrowings</i> —The auditor did not obtain independent confirmations from banks which provided funds under two finance facilities.
Entity C	Three of the four key areas reviewed	<p><i>Environmental provisions</i>—The auditor did not obtain sufficient evidence on the validity and accuracy of the assumptions and estimates used in a management’s expert report prepared in 2014 and did not quantify the cost of additional remediation that was identified during the audit.</p> <p><i>Impairment</i>—The auditor did not:</p> <ul style="list-style-type: none"> • obtain sufficient evidence on the forecast earnings and key assumptions in management’s impairment model for a cash generating unit where in our view there was an impairment indicator • adequately test the financial information or the forecasted earnings in management’s value in use model supporting the valuation of a recently acquired unlisted entity. <p><i>Revenue</i>—The auditor did not obtain sufficient evidence on the accuracy and completeness of revenue recognised for two major categories of sales. The auditor did not test the delivery of goods to customers in one category and did not test transactions to bank statements in the second category</p>
Entity D	One of the four key areas reviewed	<i>Land valuation</i> —The auditor did not obtain sufficient evidence to support recognising all gains and losses on revaluation of venues as relating to land when the carrying amount of venues also included licences, goodwill, buildings and equipment.
Entity E	One of the three key areas reviewed	<i>Receivables</i> —The auditor did not test the aging of one type of receivables, consider whether the receivables classified as overdue were still within credit terms and whether a provision was required.
Entity F	Two of the three key areas reviewed	<p><i>Revenue and deferred revenue</i>—While the auditor tested controls over the extraction of data used in developing an expectation of the population in a substantive analytical procedure, the auditor did not test the underlying data itself or substantively test its extraction.</p> <p><i>Impairment testing</i>—The auditor did not obtain sufficient evidence that the key assumptions supporting the price originally paid for a licenced asset, which was the basis for determining the value of the asset, continued to be relevant when the use of the licence had been delayed.</p>

Entity	Areas with findings	Findings
Entity G	One of the three key areas reviewed	<i>Inventories</i> —The auditor did not quantify the impact of an inconsistent treatment between the parent and a newly acquired entity concerning capitalisation of amortisation and depreciation into the value of inventories.

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 H	<i>Warranty provision</i> —The group engagement file did not reflect the work done by a component auditor on extended warranties in an overseas jurisdiction.

Our findings from the review of work on client monies in the audit of an AFS licensee are summarised in Table 3.

Table 3: Audit review findings—AFS licensee client monies

Entity	Findings
Entity I	The auditor did not: <ul style="list-style-type: none"> adequately test controls over the segregation of client monies, depositing monies into designated bank accounts and ensuring withdrawals were made for permitted purposes, and adequately test controls over the daily and monthly reconciliations of client money liability ledgers to designated bank accounts.

Conflicts of interest, firm governance and accountability

During the six months to 31 December 2019, we reviewed aspects of the firm’s approach to conflicts of interest, firm governance and accountability for audit quality. We also reviewed whether root cause analysis was performed where there were material changes to financial reporting by an entity audited by the firm as a result of ASIC inquiries.

Our better practice recommendations are included in Table 4.

Table 4: Better practice recommendations for the firm

Area	Better practice recommendations
Conflicts of interest	<ul style="list-style-type: none"> Considering the general requirement to be independent not just the specific independence requirements when considering the provision of non-audit services to audited entities. Enhancing quality reviews of non-audit service evaluations for compliance with the independence requirements. Assessing whether the total fees from non-audit services compared to audit fees for an audited entity as well as the nature of those services causes any actual or perceived conflict.

Area	Better practice recommendations
Firm governance	None
Accountability for audit quality	<ul style="list-style-type: none"> • Giving audit quality greater weighting against other performance measures for partners. • Ensuring application of established sanctions imposed on engagement partners for adverse findings in internal and external quality reviews are sufficient. • Holding firm experts/specialists involved on audit engagements accountable for adverse findings from internal and external quality reviews. • Enhancing the firm's partner promotion/admission policy and associated documentation to make it clearer how ethics, independence and audit quality are considered as part of established promotion criteria.
Root cause analysis	<ul style="list-style-type: none"> • Conducting root cause analysis where there is a material change in financial reporting by an entity audited by the firm as a result of ASIC inquiries.

Financial report findings

We completed risk-based reviews of aspects of 47 financial reports of listed and other public interest entities audited by the firm in the 12 months to 30 June 2020. Following our inquiries, one entity made material changes to disclosures as summarised in Table 5. More information can be found in a [media release](#) available from the ASIC website.

Table 5: Financial report finding—Media release issued

Media release	Entity	Year end	Findings
19-270MR	Generation Development Group Limited	30 June 2018	The company changed its disclosure relating to its controlled life insurance company, General Life Limited, in its financial report for the year ended 30 June 2019. This includes consolidating assets, liabilities, revenues and expenses on a line-by-line basis (previously there were three single lines aggregating all policyholder assets, all policyholder liabilities and all policyholder profits), disclosing information on financial instruments held by statutory funds, and disclosing investments by statutory funds in unlisted financial assets as valued by reference to observable inputs rather than quoted prices.

Improving audit quality

If it has not already done so, the firm should identify underlying root causes for the matters reported from our audit reviews and financial reporting surveillances, and for findings from internal and global firm reviews, and implement further and improved actions to achieve sustainable improvements in audit quality.

Further information

More information on the matters in Table 1 to Table 4 is contained in detailed comment forms provided separately to the firm. The comment forms include the firm's responses to our findings.

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.