



ASIC
Australian Securities &
Investments Commission



Pricewaterhouse- Coopers Australia

Audit inspection report

1 July 2019 to 30 June 2020

Report 684 | December 2020

About this report

This report sets out our findings from reviewing audit files at PricewaterhouseCoopers 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 PricewaterhouseCoopers Australia (PwC)
- reviews that we substantially completed in the 12 months to 30 June 2020 on work performed by PwC on client monies in the audit of an Australian financial services (AFS) licensee
- our reviews of aspects of PwC's approach to conflicts of interest, firm governance and 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 PwC.

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, PwC did not obtain reasonable assurance that the financial report was free of material misstatement in eight of the 35 key areas that we reviewed in total across 11 audits by the firm, being 23% of the key areas reviewed by us. This compares to 18% 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 reports audited were materially misstated, but rather that the auditor did not have a sufficient basis to support their opinion.

Table 1: Audit review findings—Risk of material misstatement

Entity	Areas with findings	Findings
Entity A	Two of the four key areas reviewed	<p><i>Prepaid contract funds under management</i>—The auditor did not perform sufficient substantive and control testing to corroborate the value of the assets of a fund.</p> <p><i>Tax accounting</i>—The auditor did not obtain sufficient evidence on the tax accounting applicable to deferred revenue and derecognised receivables in the transition adjustments on the application of the new revenue standard.</p>
Entity B	Two of the three key areas reviewed	<p><i>Revenue and receivables</i>—The auditor did not sufficiently assess the risks of, or test revenue recorded by, out-of-scope entities and did not challenge management’s assumptions in testing expected loss rates.</p> <p><i>Impairment testing of intangibles</i>—The auditor did not test the reasonableness of forecasts and key assumptions in management’s impairment model and the appropriateness of the discount rate.</p>
Entity C	One of the three key areas reviewed	<p><i>Mine decommissioning and restoration provision</i>—The auditor did not adequately test, assess and evaluate whether historical assumptions and the valuation model were reliable.</p>
Entity D	One of the one key area reviewed	<p><i>Valuation of purchased debt portfolio</i>—The auditor did not sufficiently address the risk of errors in the year-end cash flow forecasts, evaluate or respond to observations by the auditor’s actuary or test the credit-adjusted effective interest rate.</p>
Entity E	Two of the two key areas reviewed	<p><i>Claims liability and claims expense</i>—The auditor did not sufficiently test claim data inputs and clerical accuracy of the calculations in the model to determine the accuracy of claims liability and did not adequately evaluate the nature and extent of audit procedures performed by the component auditor.</p> <p><i>NZ premium revenue</i>—The auditor did not adequately evaluate the nature and extent of audit procedures performed by the component auditor.</p>

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 F	<p><i>US tax balances</i>—The auditor did not engage a specialist or expert in the audit of US deferred tax balances.</p>

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 G	<p>The auditor did not:</p> <ul style="list-style-type: none"> adequately test controls over the segregation of client monies, depositing into designated bank accounts, and ensuring withdrawals are for a permitted purpose adequately test controls over the daily and monthly reconciliations of client money liability ledgers to designated bank accounts test the completeness and accuracy of breach registers and breach reporting, and the resolution of complaints.

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 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. Partners making rigorous evaluations of the threats from providing specific non-audit services to audited entities. Improving guidance for consulting with the firm’s independence experts on non-audit services to audited entities and the consultation being clearly documented. Assessing whether the level of total fees earned from non-audit services compared to audit fees for an audited entity as well as the nature of those services causes an actual or perceived conflict.
Firm governance	<ul style="list-style-type: none"> Clarifying the processes for partners and staff to escalate audit quality concerns with appropriate protections. Clearly articulating the remit of internal governing boards for audit quality, including the authority they have to hold partners and staff accountable for audit quality deficiencies.
Accountability for audit quality	<ul style="list-style-type: none"> Having clear measures in partner performance goals and plans. Ensuring sanctions imposed on engagement partners for adverse findings in internal and external quality reviews are sufficient. Ensuring that the consequences for engagement partners for deficient audits are transparent to the partner group. Firm leadership seeking feedback on audit quality from audit committees and non-executive directors of audited entities.
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 36 financial reports of listed and other public interest entities audited by the firm in the 12 months to 30 June 2020. Following our inquiries, two entities made material changes to net assets or profits as summarised in Table 5. More information can be found in [media releases](#) available from the ASIC website. In one case we had reviewed the relevant area of the audit and a finding is included in Table 1 (Entity A).

Table 5: Financial report findings—Media releases issued

Media release	Entity	Year end	Findings
19-221MR	Invocare Limited	31 December 2018	The company recognised a deferred tax asset of \$16.6 million as at 1 January 2018 in its financial report for the half year ended 30 June 2019.
19-256MR	Range International Limited	31 December 2018	The company impaired its non-current assets by US\$5.4 million in its financial report for the half year ended 30 June 2019.

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.