



**ASIC**  
Australian Securities &  
Investments Commission



# Pricewaterhouse- Coopers Australia

## Audit inspection report

**1 July 2020 to 30 June 2021**

**Report 715 | November 2021**

### **About this report**

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

This report:

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

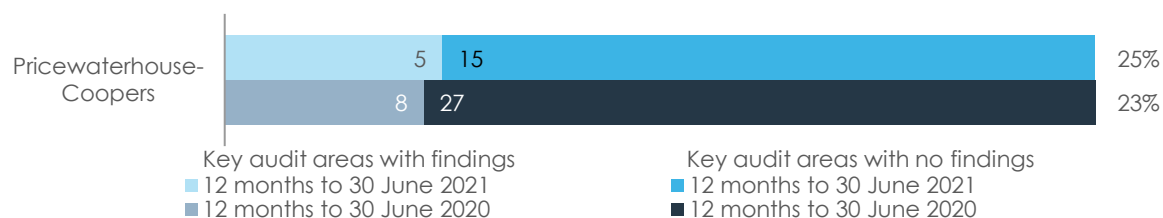
## Our findings

PwC did not obtain reasonable assurance that the financial report was free of material misstatement (negative findings) in five of the 20 key audit areas reviewed (25%) across eight audits by the firm this year. This compares to eight of the 35 key audit areas reviewed (23%) 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**



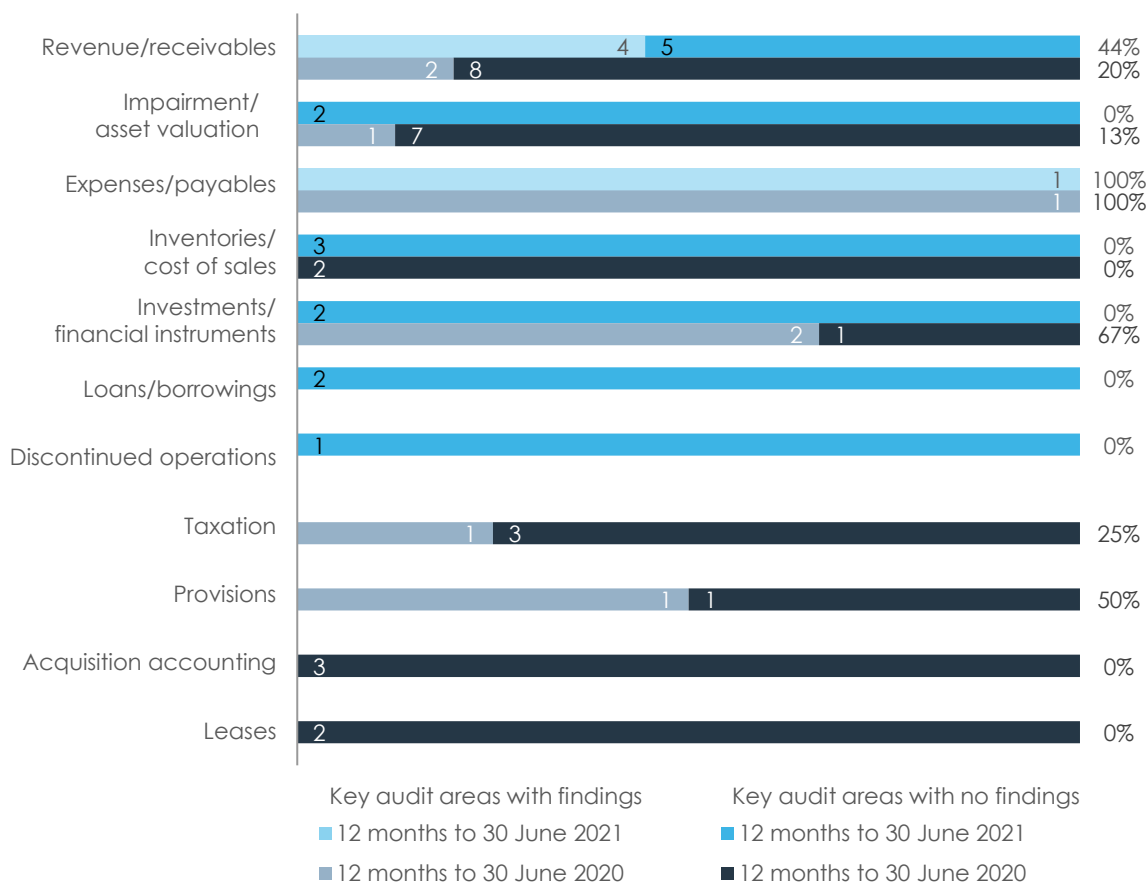
**Note:** See Table 3 for the data shown in this figure (accessible version).

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.

The largest number of negative findings relate to the audit of revenue and receivables including expected credit loss models.

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:** 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 B | 2 of 3 key audit areas reviewed | <ul style="list-style-type: none"> <li>› <i>Provision for expected credit losses</i>—the auditor and their expert did not adequately evaluate valuation models, adequately test data in valuation models, or test key source data and assumptions</li> <li>› <i>Revenue</i>—the auditor did not sufficiently test the effective interest rates used to calculate unearned future income and adequately test the accounting policy for a key revenue stream</li> </ul> |
| Entity D | 1 of 2 key audit areas reviewed | <ul style="list-style-type: none"> <li>› <i>Provision for expected credit losses</i>—the auditor and their expert did not adequately test model monitoring controls and the assumptions used in key overlays and forward-looking adjustments</li> </ul>   |
| Entity F | 1 of 3 key audit areas reviewed | <ul style="list-style-type: none"> <li>› <i>Sales revenue</i>—the auditor did not perform sufficient tests over sales transactions and did not test key assumptions to estimate deferred income under a loyalty program</li> </ul>  |
| Entity G | 1 of 2 key audit areas reviewed | <ul style="list-style-type: none"> <li>› <i>Outstanding claims liability for business interruption insurance</i>—the auditor and their expert did not adequately test the key assumptions used to estimate the liability under COVID-19 conditions</li> </ul>   |

## Financial report findings

We completed risk-based reviews of aspects of 61 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   |
|------------------------|------------------|--|
| Nitro Software Limited | 31 December 2019 | <p>The company reduced both its contract assets and deferred revenue by \$14.7 million in its financial report for the half-year ended 30 June 2020</p> <p>See <a href="#">Media Release (20-214MR)</a> ASIC notes reporting changes (17 September 2020)</p> |

## 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 PwC. 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 PwC. 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 |
| Pricewaterhouse-Coopers | 5                             | 20                       | 25%        | 8                             | 35                       | 23%        |

**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 |
| Revenue/receivables               | 4                             | 9                        | 44%        | 2                             | 10                       | 20%        |
| Impairment/asset valuation        | –                             | 2                        | 0%         | 1                             | 8                        | 13%        |
| Expenses/payables                 | 1                             | 1                        | 100%       | 1                             | 1                        | 100%       |
| Inventories/cost of sales         | –                             | 3                        | 0%         | –                             | 2                        | 0%         |
| Investments/financial instruments | –                             | 2                        | 0%         | 2                             | 3                        | 67%        |
| Loans/borrowings                  | –                             | 2                        | 0%         | –                             | –                        | –          |
| Discontinued operations           | –                             | 1                        | 0%         | –                             | –                        | –          |
| Taxation                          | –                             | –                        | –          | 1                             | 4                        | 25%        |
| Provisions                        | –                             | –                        | –          | 1                             | 2                        | 50%        |
| Acquisition accounting            | –                             | –                        | –          | –                             | 3                        | 0%         |
| Leases                            | –                             | –                        | –          | –                             | 2                        | 0%         |
| <b>Total</b>                      | <b>5</b>                      | <b>20</b>                | <b>25%</b> | <b>8</b>                      | <b>35</b>                | <b>23%</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.