



ASIC
Australian Securities &
Investments Commission

ASIC's oversight of financial reporting and audit 2023–24

Report 799 | October 2024

About this report

This report summarises findings from our financial reporting and audit surveillances and other complementary work for the period 1 July 2023 to 30 June 2024. It highlights areas where the quality of financial reporting and audits can be improved.

This report will be of interest to preparers, reviewers and users of financial information such as auditors, audit committees, company directors, investors, accounting firms, and professional accounting bodies.

Contents

Executive summary	2
Financial reporting surveillance	7
Audit surveillance	12
Focus on auditor quality management and independence requirements	19
Auditor reporting to ASIC	21
Appendix 1: Overview of surveillance approach and file selection	24
Appendix 2: Accessible versions of figures	30
Key terms and related information	33

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.

Executive summary

ASIC is committed to enhancing the integrity and quality of financial reporting and auditing in Australia, and we have been improving and evolving our strategic regulatory approach to this important part of our work. This report describes outcomes from ASIC's financial reporting and audit work program including:

- › findings from our financial reporting and audit surveillance program for the period 1 July 2023 to 30 June 2024 (the surveillance period)
- › enforcement actions against registered company auditors and outcomes relating to company financial reports
- › observations on voluntary sustainability reporting
- › insights from our review of audit firms' implementation of quality management frameworks, and
- › observations on auditor reporting to ASIC.

This report also gives an overview of ASIC's program of work on financial reporting and audit during the period of 1 July 2024 to 30 June 2025. New priority areas in our program for 2024–25 include a focus on financial reporting and audit of registrable superannuation entities, as well as a proactive review assessing auditor compliance with independence and conflict of interest requirements. These will complement the ongoing workstreams in our financial reporting and audit work program.

In our 2023–24 financial reporting and audit surveillance program, we reviewed 188 financial reports and 15 related audit files at 11 audit firms. We summarise the key findings from our surveillance program below.

Operating and financial review (OFR) disclosures

- › In relation to financial reporting, we identified failures to include material business risk disclosures in operating and financial reviews.

Impairment and asset values

- › In relation to financial reporting, we identified inadequate impairment of assets and misclassification of assets as current or non-current.
- › In relation to auditing, we identified auditors who did not always test the accuracy or reasonableness of assumptions, inputs and calculations in models and did not properly consider indicators of impairment.

Revenue and receivables

- › In relation to financial reporting, we identified concerns with recognition of revenue and disclosure of accounting policies, including recognition of revenue as an agent versus a principal.
- › In relation to auditing, we identified that some auditors did not distinguish revenue streams, design appropriate audit procedures and test performance obligations to ensure correct recognition of revenue.

Findings from our financial reporting surveillances resulted in entities making adjustments of \$1,886 million in the surveillance period.

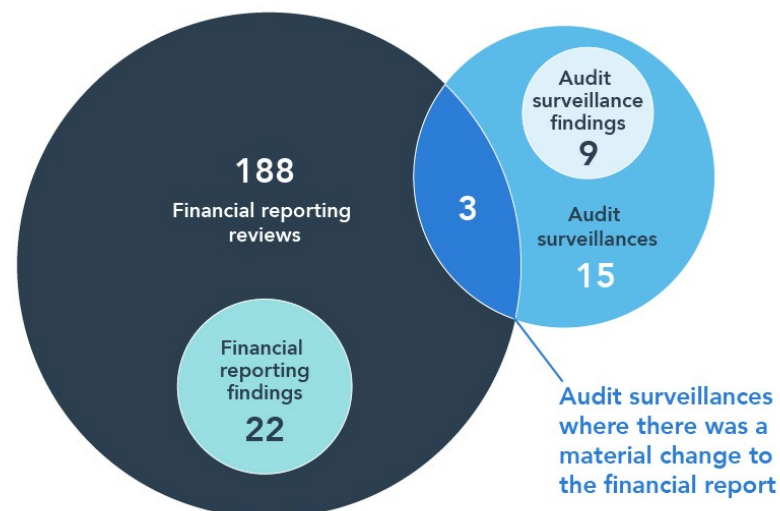
We restricted one entity from issuing a reduced-content prospectus until 21 May 2025 after finding they had not complied with the requirements of AASB 136 *Impairment of assets* ([AASB 136](#)).

We identified findings in 12 audit surveillances at nine audit firms and issued those findings to both the auditor and company.

ASIC took enforcement action against registered company auditors including:

- › the first infringement notices issued for alleged breaches of audit rotation requirements
- › a court enforceable undertaking accepted by ASIC in relation to independence breaches
- › Companies Auditors Disciplinary Board (CADB) proceedings resulting in suspension of an auditor's registration for a year for failing to comply with auditing standards, and
- › CADB proceedings resulting in an order that an audit partner undertake not to perform audit duties for a period. The auditor was unable to audit for a period of seven months.

Figure 1: Financial reporting reviews and audit surveillances where there was a material change to the financial report



Our approach to financial reporting and audit surveillance

We follow a risk-based approach to target financial reports for review. In turn we select audit files for surveillance where a financial report has been subject to a review, and we are concerned that a financial report may have a risk of material misstatement. This is because there is a direct relationship between shortcomings in a financial report and the quality of audit work undertaken on the financial report.

Our integrated approach to financial reporting and audit:

- › is focused on the entire financial reporting chain
- › is designed to foster improved financial reporting and audit quality, and
- › promotes confident and informed participation in the financial system.

Our work involves looking beyond the findings from our financial reporting and audit surveillance program to consider the underlying causes of findings, as well as governance, risk, culture and compliance practices that may raise independence issues and conflicts of interest. It also involves taking enforcement action where we identify poor conduct.

Note: For more information on our surveillance approach see Appendix 1: Overview of surveillance approach and file selection.

Key outcomes for the surveillance period

Adjustments totalling \$1,886 million were made in the surveillance period to previously released financial information as a result of our financial reporting surveillances.

Financial reporting outcome media releases issued during the surveillance period included:

- › Media Release ([23-213MR](#)) ASIC review improves risk disclosures for Namoi Cotton and Fluence Corporation, including sustainability-related risks (10 August 2023)
- › Media Release ([23-270MR](#)) Shine Justice improves disclosure of unbilled disbursements and disbursements funding interest following ASIC review (5 October 2023)
- › Media Release ([23-292MR](#)) Link Group restates 2023 results following concerns raised by ASIC (3 November 2023)
- › Media Release ([24-051MR](#)) Data#3 announces change to accounting policy for indirect software revenue recognition following ASIC review (20 March 2024)
- › Media Release ([24-086MR](#)) Southern Steel Group Pty Limited re-lodges FY23 financial report with comparatives (26 April 2024)
- › Media Release ([24-107MR](#)) LPI Australia restates 2022 accounts following concerns raised by ASIC (21 May 2024)
- › Media Release ([24-110MR](#)) ASIC restricts Energy World Corporation Ltd from issuing a reduced-content prospectus (23 May 2024).

In addition, the following entities made or agreed to make changes to their OFR disclosures:

- › Advanced Health Intelligence Ltd
- › Brisbane Broncos Limited
- › Centuria Capital Limited
- › Data#3 Limited
- › Elsight Limited
- › Flight Centre Travel Group Limited
- › Freelancer Limited
- › Macquarie Technology Group Limited
- › Mader Group Limited
- › Unnamed—in external administration
- › Monadelphous Group Limited
- › The Original Juice Co. Ltd
- › Pilot Energy Limited
- › Smart Parking Limited
- › Syntara Limited
- › Weebit Nano Ltd.

ASIC takes enforcement action where auditors fail to comply with the law. During the surveillance period this included:

- › Media Release ([23-252MR](#)) *Companies Auditors Disciplinary Board finds BDO audit partner failed to meet minimum standards* (12 September 2023)
- › Media Release ([23-262MR](#)) *Company auditor suspended for 12 months over deficient audits* (27 September 2023)
- › Media Release ([24-066MR](#)) *Head of audit at William Buck Victoria pays \$20,625 penalty for audit rotation issues* (5 April 2024)
- › Media Release ([24-116MR](#)) *Auditor and audit firm admit to independence failures* (29 May 2024).

Our ongoing enforcement actions relating to misconduct are also included in ASIC's [enforcement update reports](#) on our website.

Key expectations

All stakeholders in the financial reporting chain are expected to carefully consider the findings in this report and our future focus areas: see Media Release ([24-101MR](#)) *ASIC announces 30 June 2024 focus areas and expanded program to support financial reporting and audit quality* (15 May 2024). In particular:

Audit committees, directors and preparers of financial reports

Audit committees, directors and preparers of financial reports have a critical and ongoing role in supporting quality financial reporting and audits and it is in their interest to support the audit process. Key foundational building blocks to support high-quality outcomes include:

- › **high-quality and timely financial information** supported by robust position papers with appropriate analysis and conclusions referencing relevant accounting standards
- › **adequate resources, skills and expertise** being applied in the reporting process. Comprehensive contemporaneous position papers should support the conclusions reached, particularly in areas that have significant estimation uncertainty and judgement (e.g. asset values, revenue recognition and provisions)
- › **clear, effective communication with the auditor** addressing risks affecting the information in the financial report, and
- › **robust auditor selection** with accountable procedures, appropriate audit fees and clear communication channels between the auditor and the audit committee.

Note: For more information, see Information Sheet 196 *Audit quality—The role of directors and audit committees* ([INFO 196](#)) and Information Sheet 223 *Audit quality—The role of others* ([INFO 223](#)).

Audit firms and auditors

All audit firms (regardless of size) and auditors should carefully review the findings in this report and focus on these areas in future audits. To support the delivery of quality audit services, audit firms and auditors should:

- › **promote a strong culture** focused on ethics, independence and audit quality, with accountability at all levels of partners and staff
- › **prepare transparency reports** that are clear and concise and inform the market about the firm's audit quality
- › **effectively communicate** to audited entities that they should present, analyse and document their conclusions supported by relevant specific accounting standards, particularly in areas of judgement and estimation uncertainty
- › **adequately resource audits** with the right skills and expertise, including robust supervision and review, to identify and address contentious issues early and minimise deadline pressures
- › **conduct effective quality reviews** of audits using appropriately skilled engagement quality reviewers
- › **remediate findings** to ensure sufficient audit evidence is obtained in future audits
- › **identify and address the root causes** of audit findings, and
- › **develop, implement, continually monitor and revise** action plans to ensure they are effective and sustainable.

Note: Information Sheet 222 *Improving and maintaining audit quality* ([INFO 222](#)) outlines considerations and examples of initiatives for audit firms to improve and maintain audit quality.

Financial reporting surveillance

Financial reporting surveillances by issue

Figure 2: Issues raised in financial reporting surveillances (all entities)



Note: See Table 12 for the data shown in this figure (accessible version).

During the surveillance period, we contacted 39 entities and raised 61 issues. Where multiple issues are identified from our financial reporting reviews, they are raised with the entity. Most of the surveillances related to disclosure in the OFR, impairment testing, non-IFRS profit information, and financial report disclosures.

Twenty-five entities have made changes relating to 27 issues in their current or subsequent financial reports. We are still conducting surveillances on seven entities with 13 issues, with the remaining matters closed without further action following the responses and information provided by the entities to our inquiries.

We reviewed 15 audit files where a change had been made to the financial report following our review or where we considered there may be a risk of material misstatement.

Operating and financial review

ASIC has focused on the OFR in our surveillance program in recent years because the information is of particular importance to retail investors who often do not have the resources available to their institutional counterparts.

Section 229A of the Corporations Act requires an OFR to be prepared by all listed entities as part of the directors' report.

The purpose of the OFR is to provide information that shareholders would reasonably require to make an informed assessment of the entity's business strategies, prospects and performance.

Our financial reporting surveillances show that many entities still need to significantly improve the information they report in the OFR for the benefit of investors and other users.

During the surveillance period the main deficiency we noted was a failure to provide balance in the reporting by disclosing material business risks. A less common deficiency was information that is dispersed throughout the company's financial report or other public announcements.

We contacted 20 listed entities to communicate our concerns on the adequacy of their disclosures, particularly on material business risks. Following our surveillances, 16 of these entities made additional or

improved disclosures. These entities are named above: see Key outcomes for the surveillance period.

What you should do—Operating and financial review

To provide balance, it is important to discuss material business risks that may affect the achievement of outcomes described.

OFR disclosures should be appropriate to the entity's individual circumstances and the business environment and not be generic.

Monitoring and reporting risk is an important duty of directors. A well-developed and structured report on material business risks and their relationship to achieving business plans:

- › can be one of the most informative pieces of information for retail investors, and
- › is an excellent way for smaller companies to bring structure and accountability to risk management practices.

Well-developed risk management and reporting processes will also help with the implementation of sustainability reporting standards.

Note: For more guidance, see Regulatory Guide 247 *Effective disclosure in an operating and financial review* ([RG 247](#)).

Impairment and asset values

We contacted 10 entities about 14 valuation and classification of asset values and impairment testing issues. Three entities made adjustments to their financial reports following our surveillances:

- › one entity reclassified an asset from current to non-current assets

- › one entity reclassified cash held in term deposits of more than three months to non-current assets, and
- › one entity impaired assets.

What you should do—Impairment and asset values

In order for financial reports to recognise and present assets that are appropriately valued in accordance with relevant accounting standards, preparers of financial reports should:

- › appropriately classify assets between current and non-current
- › have appropriate asset valuations, and
- › make impairment adjustments on a timely and appropriate basis.

Non-IFRS profit information

We contacted five entities about their presentation of non-IFRS profit information. Following our surveillances:

- › three entities improved their non-IFRS profit disclosures
- › one entity included a reconciliation of the non-IFRS profit measure, and
- › one entity removed a non-IFRS profit measure.

Financial report disclosures

We contacted five entities about financial report disclosures including:

- › prior year comparative information
- › going concern
- › operating segments, and
- › laws and regulations disclosures.

One entity subsequently relodged their financial report with the required prior year comparatives.

Revenue recognition

We contacted four entities about their recognition of revenue, including disclosure of accounting policies. Following these surveillances, one entity made an adjustment to their accounting policy for recognising revenue as an agent versus a principal.

Share based payments

We contacted three entities about their accounting and/or disclosures for share based payments. One entity will amend their next financial report by reclassifying vesting expenses from options to restricted shares.

Group accounting, tax accounting and lease accounting

We contacted three entities about their group accounting including consolidation accounting, accounting for movements in subsidiary values and not lodging consolidated accounts.

We contacted two entities about tax accounting—one related to large variations between the tax expense and tax payments, and the other related to items on the tax reconciliation.

We contacted two entities about their lease accounting during the surveillance period. One surveillance relates to lease accounting in a franchise operation, and one relates to the application of AASB Interpretation 12 *Service concession arrangements* ([Interpretation 12](#)).

Previously grandfathered companies

A subset of large proprietary companies was exempt from lodging financial reports with ASIC if they complied with certain conditions. That concession was withdrawn by legislation in August 2022.

We reviewed 14 previously grandfathered large proprietary companies during the surveillance period.

Although these companies are privately owned, many of them are very large and important to the Australian economy. There are various stakeholders who may have an interest in their financial reports and ASIC wants to ensure that their financial reporting is held to the same standards as their public company counterparts.

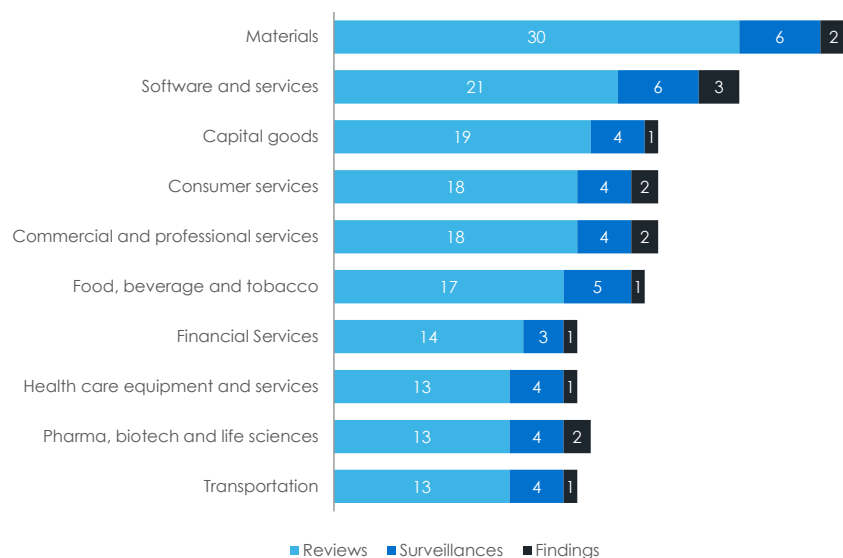
Our early work indicates that financial reporting by previously grandfathered companies is generally prepared to a standard equivalent to other reporting companies, but we noted some obvious errors. For example, one company failed to include comparative financial information in its financial report.

Further, we are not confident that all grandfathered companies (and other large proprietary companies) are now lodging financial reports. We will continue to work to ensure that all companies are complying with their lodgement obligations.

Financial reporting reviews by industry

Figure 3 below shows the number of financial reports reviewed, financial reporting surveillances undertaken and findings in the surveillance period for the top 10 industry groups from the Global Industry Classification Standard.

Figure 3: Top 10 industry reviews, surveillance and findings (all entities)



Note: See Table 13 for the data shown in this figure (accessible version).

Materials

Exploration and mining of metals and mining services companies comprise the majority of this industry. We had a continued focus on impairment risks due to volatility in commodity prices and disclosures made about sustainability and climate risks.

Software and services

We continued to focus on aspects of impairment where entities are not yet profitable, revenue recognition, capitalisation of development costs, and the disclosure of accounting policies.

Capital goods

Entities in the industry predominantly provide construction and engineering services and equipment to the mining and infrastructure industries. We focused on aspects of revenue recognition which is often based on complex contractual arrangements and the disclosure of accounting policies.

Consumer services; commercial and professional services; and food, beverage and tobacco

Our focus was on asset valuations, both real and financial (such as receivables), adjusting to post-COVID cost pressures, rising interest rates and changes in spending habits due to inflation.

Financial services

Revenue, expected credit losses and financial asset values were a focus for this industry which includes entities that provide financial services and consumer finance.

Health care equipment and services; and pharmaceutical, biotechnology and life sciences

We focused on capitalisation of development costs, potential impairment, and going concern where entities have not yet reached commercial viability.

Transportation

Entities in this industry can have high levels of debt including significant leased assets. Our focus was on impairment of non-current assets and lease accounting.

Sustainability reporting

We have been monitoring the voluntary reporting of listed companies on sustainability and climate change. Of the 157 listed company financial reports that were reviewed, 56 contained disclosures on risks arising from climate change. Thirty-nine entities described the framework they used for sustainability reporting: see Table 1.

Table 1: Sustainability reporting frameworks used

Sustainability reporting framework	Times used
Taskforce on Climate-Related Financial Disclosures (TCFD)	28
Global Reporting Initiatives	9
UN Sustainable Development Goals	6
IFRS/ISSB sustainability disclosure standards	3
<i>National Greenhouse and Energy Reporting Act 2007</i>	3
Other	5

Note: Some entities use more than one sustainability reporting framework.

Governance and sustainability performance indicators were included as part of remuneration conditions for 41 entities. Only six companies had sustainability and governance disclosures voluntarily reviewed by their auditor.

We also reviewed voluntary TCFD reporting of a selection of very large, listed companies and, while areas for improvement were observed, we did not identify any concerns about misleading or deceptive disclosure.

Our reviews included the sustainability and climate-related disclosures made to investors by a range of ASX-listed companies, including but not limited to reviews of annual and sustainability reports, investor presentations and market announcements.

Our findings from this surveillance project will be used to inform our ongoing work to support the introduction and administration of the mandatory climate-related financial disclosure regime, which will apply to these large companies first.

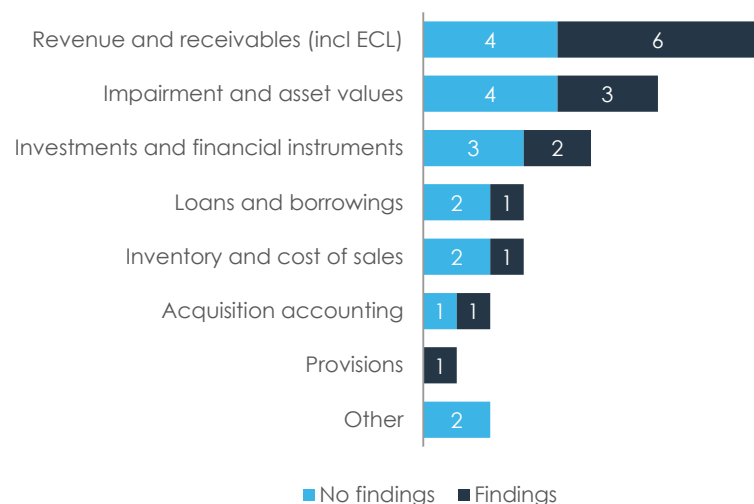
Audit surveillance

Findings by key audit area

The largest number of audit findings from our audit surveillances this surveillance period related to the audit of revenue and receivables. We also had audit findings on the audit of impairment and asset values, investments and financial instruments, and loans and borrowings. Figure 4 shows a breakdown of all audit findings.

Our 15 audit surveillances, which we selected based on potential concerns arising from our financial reporting work, identified findings in 12 surveillances at nine audit firms. We closed three audit surveillances with no findings.

Figure 4: Audit surveillance findings by key audit area

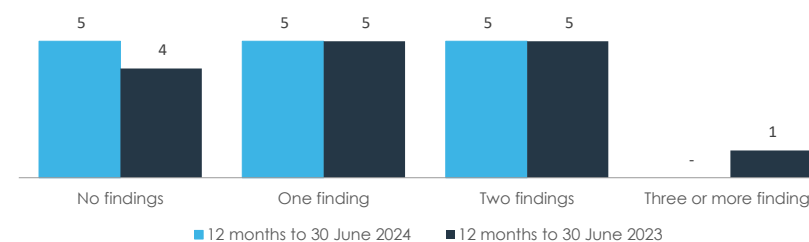


Note: See Table 14 for the data shown in this figure (accessible version).

An audit finding is where we concluded auditors did not obtain reasonable assurance that the financial report as a whole was free of material misstatement. Findings from our reviews of audits do not necessarily mean that the financial reports audited were in fact materially misstated. Rather, the auditor did not comply with the requirements of some of the auditing standards and therefore did not have a sufficient basis to support their opinion on the financial report.

On average we review two to three key audit areas on each audit surveillance. Figure 5 shows the number of findings for each audit surveillance in this surveillance period and the last surveillance period. For example, five of the 15 surveillances had no findings where there was a risk of material misstatement in this surveillance period while the remaining 10 surveillances had one or more.

Figure 5: Number of audit surveillances with the number of findings



Note 1: For the 12 months to 30 June 2024, the five audit surveillances with no findings include two audit surveillances with other audit findings where there was no risk of material misstatement.

Note 2: See Table 15 for the data shown in this figure (accessible version).

Detailed audit surveillance findings

We have included below a summary of each individual finding from our surveillances by each of the key audit areas.

Detailed comment forms outlining our findings, the audit firms' responses and remediation action have separately been provided to directors of the company.

Revenue and receivables

Six findings were identified for revenue and receivables, including where auditors:

- › did not test whether performance obligations had been satisfied so that the revenue could be correctly recognised in the financial year
- › did not sufficiently review the work of an overseas component auditor, and
- › did not sufficiently understand the nature of different revenue streams and design respectively appropriate audit procedures.

Table 2: Finding summaries—Revenue and receivables

Finding
<i>Revenue and receivables</i> —The auditor did not obtain sufficient evidence in relation to sales discounts/rebates, revenue cut-off, and did not perform adequate procedures to support the risk assessment conclusion relating to the expected credit loss provision.
<i>Revenue and receivables</i> —The auditor did not adequately evaluate the work performed by the component auditor and the auditor did not obtain sufficient appropriate audit evidence to support the revenue recognition of key revenue streams.

Finding

Revenue—The auditor did not adequately evaluate the appropriateness of the revenue recognition policy across the different revenue streams and test that revenue was recognised in accordance with accounting standard requirements.

Revenue and trade receivables—The auditor did not perform sufficient substantive procedures to obtain sufficient appropriate evidence in relation to revenue recognition. The auditor solely relied on a revenue reconciliation procedure and did not perform test of details over relevant attributes of a sample of revenue transactions.

Revenue—The auditor did not obtain sufficient appropriate audit evidence to support the revenue recognition of key revenue streams. The auditor did not adequately test that services are performed, goods are delivered, and did not adequately verify whether the weights charged to customers are correct.

Revenue—The auditor did not appropriately assess revenue recognition, design appropriate audit procedures and, consequently, did not obtain sufficient evidence that revenue was recognised correctly.

What you should do—Audit of revenue and receivables

When auditing revenue and receivables, auditors should:

- › test whether performance obligations have been satisfied to ensure that revenue can be correctly recognised in the financial year
- › sufficiently review and evidence their review of work done on revenue by overseas component auditors, and
- › obtain a sufficient understanding of the nature of different revenue streams and design appropriate audit procedures.

Consideration should be given to the requirements of AASB 9 *Financial instruments* ([AASB 9](#)) and AASB 15 *Revenue from contracts with customers* ([AASB 15](#)) when performing audit procedures over revenue and receivables.

Impairment of non-financial assets and asset values

We had three findings relating to impairment of non-financial assets. Deficiencies identified included:

- › not testing whether key assumptions in cash flow models are reasonable
- › not properly considering indicators of impairment, and
- › not adequately testing accuracy of key inputs and calculations in statistical models.

We also noted an instance where no sensitivity testing was performed at year end where potential impairment indicators existed at interim and year end.

Table 3: Finding summaries—Impairment of non-financial assets and asset values

Finding

Impairment and asset values—The auditor did not obtain sufficient evidence to support the reasonableness of key assumptions used in assessing the impairment of goodwill of all cash generating units other than those in discontinued operations.

Plant and equipment—The group auditor and the component auditor did not adequately test impairment of plant and equipment because they did not adequately evaluate the identified ongoing manufacturing issues and management's inability to resolve these issues over a significant period of time as an impairment indicator.

Finding

Contract assets—The auditor did not obtain sufficient appropriate audit evidence and exercise sufficient professional scepticism to adequately test that the key inputs and calculations used in the statistical model were accurate. For interest recovery rights, the auditor did not obtain sufficient appropriate evidence regarding recovery rights of incurred interest.

What you should do—Audit of impairment of non-financial assets and asset values

When auditing impairment of non-financial assets and asset values, auditors should:

- › test whether key assumptions in cash flow models are reasonable
- › properly consider indicators of impairment, and
- › adequately test accuracy of key inputs and calculations in statistical models.

Consideration should be given to the requirements of AASB 13 *Fair value measurement* ([AASB 13](#)) and AASB 136 *Impairment of assets* ([AASB 136](#)) when performing audit procedures over impairment and asset values.

Investments and financial instruments

We had two findings relating to investments and financial instruments where the auditor did not obtain sufficient evidence over the valuation of investments, including testing valuation assumptions and comparable entities.

Additionally, in one instance the auditor did not perform procedures to ensure the investment was accounted for correctly.

Table 4: Finding summaries—Investments and financial instruments

Finding
<i>Investments</i> —The auditor did not obtain sufficient evidence over the valuation of the investment in a significant asset because the auditor did not test the entity's valuation model and assumptions and did not adequately evaluate the comparability of the entities used as the primary valuation method by the auditor.
<i>Investments</i> —The auditor did not obtain sufficient appropriate audit evidence and did not perform adequate procedures for the appropriate accounting treatment and valuation of investments for a 100% owned subsidiary.

Loans and borrowings

In one audit surveillance the auditor did not adequately assess going concern and the associated financial report disclosures.

Table 5: Finding summary—Loans and borrowings

Finding
<i>Borrowings and going concern</i> —The auditor did not adequately assess the appropriateness of the going concern assumption and disclosure of a material uncertainty about going concern, including the impact of a subsequent event related to possible non-compliance with a loan covenant.

Inventory and cost of goods sold

We had one finding relating to inventories and costs of goods sold where the auditor did not understand the costing methodology or test net realisable value.

Table 6: Finding summary—Inventory and cost of goods sold

Finding
<i>Inventory</i> —The auditor did not perform sufficient audit procedures to understand the company's costing approach including obtaining sufficient appropriate evidence for determining that the net realisable value did support the valuation of inventory.

Acquisition accounting

A finding was identified where the auditor did not test the work of an expert including inputs to and calculations in a valuation model.

Table 7: Finding summary—Acquisition accounting

Finding
<i>Business combination including valuation of options</i> —The auditor did not adequately assess and test the reasonableness of management's expert's inputs to and the accuracy of the option valuation model and consequently did not obtain sufficient evidence over the valuation of the options.

Provisions

The auditor did not adequately test the reasonableness of key assumptions and accuracy of calculations in the provision model.

Table 8: Finding summary—Provisions

Finding
<i>Remedial and rectification provisions</i> —The auditor and its experts did not obtain sufficient appropriate audit evidence and did not adequately test the reasonableness of key assumptions and whether the calculations in the provision model were accurate.

Other audit findings from our audit surveillances

Systems of quality management

From our review of 15 audit files in the surveillance period, we identified two quality management findings.

Table 9: Finding summaries—Systems of quality management

Finding
<p><i>Independence</i>—There is a long association between the auditor and the entity which could result in familiarity and/or self-interest threats to independence that could influence the auditor's judgement. The auditor should consider the importance of safeguards such as rotation, engagement quality review and independent internal quality reviews.</p>
<p><i>Assembly of the final audit file</i>—The audit file was not assembled and locked down on a timely basis being no more than 60 days after the date of the audit report. The auditor continued filing audit documentation, referencing, completing checklists and accessing audit working papers in the 2023 audit to assist in the 2024 audit. We are concerned the firm's quality control systems and processes failed in relation to the assembly and archiving the audit file.</p>

What you should do—Unlisted companies: Independence

Where an auditor has been involved in an audit over a long period of time with an unlisted audit client, it can result in familiarity and/or self-interest threats to independence that could influence the auditor's judgement.

Safeguards to manage these threats include:

- › rotating the auditor

- › having an appropriate reviewer who is not a member of the engagement team, and
- › independent internal quality reviews of the engagement.

ASIC considers it best practice to consider the factors in APES 110 *Code of ethics for professional accountants (including independence standards)* ([APES 110](#)), in particular Section 540 *Long association of personnel (including rotation) with an audit client*.

What you should do—Finalisation of the audit file

Firms must have systems of quality management in place to ensure that audit files are locked down on a timely basis and not modified once they have been finalised.

Auditing Standard ASA 230 *Audit documentation* ([ASA 230](#)) requires the auditor to finalise the audit file within 60 days of signing the audit report.

Unless exceptional circumstances arise to require additional audit procedures, auditors should not add new workpapers or modify existing workpapers without:

- › documenting the specific reasons, and
- › specifying the date and person completing and reviewing the workpapers.

Further, no workpapers should be deleted from the audit file before the end of the seven-year retention period prescribed by section 307B of the Corporations Act.

Other audit findings do not relate to a risk of material misstatement but warranted reporting to the auditor and, in some cases, to company directors. These findings could lead to an audit finding in the future or highlight situations where the firm or company needs to improve its current processes and practices.

Table 10: Finding summaries—Other audit findings

Finding
<p><i>Revenue and receivables</i>—The auditor did not adequately document the role of an overseas member firm as an engagement team member, whether tests for revenue approval were met and services were performed, and the assessment of low risk for cut-off testing.</p>
<p><i>Goodwill and impairment</i>—The auditor did not perform sufficient audit procedures such as sensitivity analysis at year end when conducting their impairment assessments of two cash generating units. There were indicators of potential impairment; however, no sensitivity analysis was performed at year end to respond to the risk of potential impairment that existed at interim as well as at year end. As such, the auditor should have requested management to apply value-in-use methodology and prepare a discounted cash flow model to determine that the carrying value of the cash generating units were not impaired.</p>
<p><i>Inventories</i>—The auditor's approach to testing controls on a rotational basis is not in accordance with the auditing standard requirements.</p>
<p><i>Cash and cash equivalents</i>—The auditor did not perform adequate substantive audit procedures to test that the classification and disclosure of term deposits of \$285 million was appropriate as cash equivalents instead of financial assets. The term deposits had longer maturity periods of greater than three months and the auditor did not test whether they should be classified as investments rather than short-term cash commitments as required by accounting standard AASB 107 <i>Statement of cash flows</i> (AASB 107) and whether the classification and disclosure complied with the company's accounting policy.</p>
<p><i>Journal entry testing</i>—The auditor did not clearly document how the sample size and sampling methodology used to test journal entries could sufficiently and appropriately address the risk of management override through general journal entries.</p>

What you should do—Use of experts and engagement team expertise

The agreement between the auditor and its expert may take various forms and typically includes an engagement letter or, when there is no formal written agreement, a planning memorandum or other related workpapers.

When determining the need for an expert in auditing key audit areas, the auditor should clearly document the nature and extent of the involvement of the expert.

The nature of the documentation may vary from firm to firm and may also depend on the nature of the firm's system of quality management and related policies and procedures.

What you should do—Communication with those charged with governance

Auditors should communicate effectively and openly with those charged with governance including, where possible, with audit committees, without company management present.

Where entity accounting policies deviate from the requirements of accounting standards, auditors should continue to communicate these matters to management and those charged with governance.

Note: For more information, see Information Sheet 196 *Audit quality—The role of directors and audit committees* ([INFO 196](#)).

Looking ahead: 2024–25

As identified in [24-101MR](#), in 2024–25 our financial reporting and audit surveillance program will expand to include:

- › more large proprietary companies previously grandfathered from the requirement to lodge financial reports with ASIC
- › registrable superannuation entities lodging financial reports with ASIC for the first time
- › climate-related risks
- › consolidated entity disclosure statement requirements, and
- › auditor compliance with independence and conflict of interest requirements.

Auditors of registrable superannuation entity financial reports and previously grandfathered companies will also be included in our audit surveillance population.

Previously grandfathered companies

In view of the significant businesses undertaken by large proprietary companies previously exempted from lodging financial reports, we will continue to include this cohort in our surveillance program and follow up instances where non-lodgement or non-compliance occurs.

Registrable superannuation entities

From 1 July 2023, the financial reporting and audit requirements in Chapter 2M of the Corporations Act apply to registrable superannuation entities. We will review a large proportion of the financial reports lodged by these entities with ASIC and undertake surveillance where we identify concerns through our initial review.

Auditors could also be selected for an audit surveillance and will be subjected to increased scrutiny on the quality of their audit work in relation to superannuation entities.

Climate-related risks

Listed and unlisted companies in Australia will be required to specifically report climate-related disclosures from financial years beginning on or after 1 January 2025. Media Release ([24-205MR](#)) *ASIC urges businesses to prepare for mandatory climate reporting* (18 September 2024) contains further information and a link to our dedicated sustainability reporting page.

Auditor compliance with independence and conflict of interest requirements

In the 2024–25 surveillance period we are also conducting a specific data-driven, surveillance project focused on auditors' compliance with independence and conflict of interest requirements.

As part of this surveillance, we are using a range of internal and public data sources to identify potential threats to independence and non-compliance with conflict of interest obligations.

We intend to engage with auditors at scale, using our compulsory information-gathering powers under the Corporations Act, to inquire into the potential issues identified through our data analysis. For some auditors, this may extend to asking for information about the systems and controls they have relied on in their audit engagements to ensure compliance with their independence and conflict of interest requirements.

We will be writing to auditors and CEOs of large audit firms when we release this report to put them on notice of our focus in this area and encourage auditors to self-report non-compliance with independence and conflict of interest requirements to ASIC.

Focus on auditor quality management and independence requirements

Auditors are required to be independent from the entities they audit to safeguard their ability to form an audit opinion without being affected by influences that might compromise that opinion.

Consequently, auditors are required to comply with the legislative requirements and professional standards governing independence and conflicts of interest. ASIC is focusing on auditors' compliance with these requirements to enhance the integrity and quality of financial reporting and auditing in Australia.

Review of firms' implementation of ASQM 1

ASIC conducted a scoping exercise in early 2024 to understand how a select number of audit firms have implemented quality requirements under the framework of auditing standard ASQM 1 *Quality management for firms that perform audits or reviews of financial reports and other financial information, or other assurance or related services engagements* ([ASQM 1](#)), following the first ASQM 1 reporting deadline of 15 December 2023.

Despite being a limited review, the exercise highlighted several issues relating to the risk, governance and compliance practices of audit firms.

Embedding quality management systems is an iterative process that involves continual uplift of existing systems and procedures. ASIC considers that firms have more work to do on their systems of quality management to achieve operational effectiveness.

Table 11: Observations—Evaluation of systems of quality management

Observations

Significant variability was observed as to how firms chose to implement the ASQM 1 framework, with some firms adopting a 'minimum compliance' approach by limiting the application of quality management to a single business division.

We expected firms to see the framework as an opportunity to uplift quality controls across a number of business divisions—not just within audit and assurance. We encourage firms to embrace the spirit of the ASQM 1 objectives by applying quality management requirements *firm-wide* instead of seeing the framework as merely a tick-box exercise in compliance.

In some cases, there was a lack of sophistication and suitability of tools used to manage quality. For example, some firms relied on Excel spreadsheets or reverted to existing tools deployed for audits in order to record and monitor quality findings.

Better practice would be to establish dedicated quality management tools that align with ASQM 1 requirements and establish one 'source of truth' to ensure proper records are kept and reported.

We observed that some firms have limited domestic guidance on how to measure and classify the severity of findings and deficiencies, and a lack of objectivity in assessments.

While 'professional judgement' has a part to play, the absence of clear guidance may risk producing inconsistent and subjective conclusions.

Observations

There were some examples of firms taking a hurried approach to remediation of findings and deficiencies to achieve a favourable conclusion before the reporting deadline.

Firms should take the time necessary to roll out considered and comprehensive action plans that adequately address the root cause and fully rectify the issues at hand. End-to-end action plans are critical to the ongoing success of ASQM 1 as they may prevent potential further deficiencies from arising.

From an oversight perspective, ASIC expects firms to report to their executive management and any relevant committees:

- > all issues as they are identified
- > point in time ratings, and
- > associated action plans.

This will ensure broader design gaps are identified and systems operate as effectively as possible. There should be ample opportunity for debate and challenge when it comes to making final determinations.

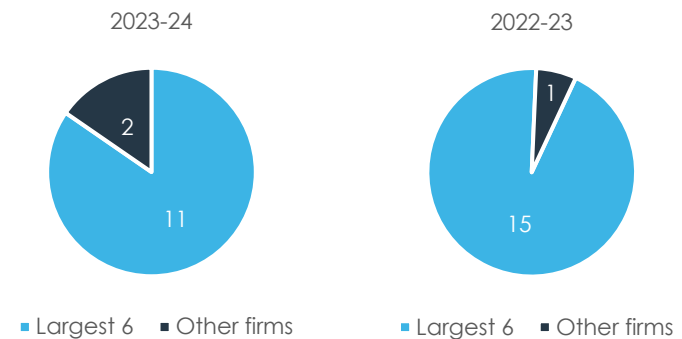
The findings of this exercise, combined with increased public interest in audit quality and international developments in the audit industry, have informed our decision to conduct a surveillance in 2024–25 on auditor compliance with independence and conflict of interest requirements.

Audit versus non-audit service fees

As part of our financial reporting reviews this surveillance period, we analysed audit fees and non-audit service fees reported in the 188 financial reports reviewed. In 13 instances, the non-audit service fees represented more than 100% of the audit fees.

We also reviewed 180 financial reports for 2022–23 and found that in 16 instances the non-audit service fees represented more than 100% of the audit fees. We are concerned that the largest six audit firms were the auditors in 85% and 94% of the instances, respectively, where the non-audit service fees exceeded the value of the audit fees: see Figure 6.

Figure 6: Non-audit service fees greater than audit fees by firm size



Note: See Table 16 for the data shown in this figure (accessible version).

The provision of non-audit services for audit clients may lead to conflict of interest situations, particularly where the value of non-audit services is greater than the audit fees.

An auditor breaches the independence requirements of the Corporations Act if the auditor is aware of a conflict of interest situation and does not rectify it. A conflict of interest situation exists when the auditor is not capable of exercising objective and impartial judgement, or where a reasonable person would conclude, having full knowledge of all facts and circumstances, that there is a conflict of interest.

In light of our preliminary analysis and the requirements of the Corporations Act and auditing standards, ASIC will review audit and non-audit service fees charged to audit clients in our 2024–25 surveillance on auditor compliance with independence and conflict of interest requirements.

Auditor reporting to ASIC

Auditor transparency reports

Transparency reports help to inform the market about audit firms and audit quality, encourage audit firms to increase their focus on audit quality, and provide information to assist those selecting audit firms. We expect firms to take [INFO 196](#) into consideration and include actions which promote a culture of audit quality. This may include:

- › messages from leadership focusing on audit quality
- › education initiatives
- › key focuses in quality reviews, and
- › encouraging consultation on complex audit issues.

During the year, we reviewed a sample of 17 auditor transparency reports for compliance with the requirements in section 332 of the Corporations Act.

Generally, we found all transparency reports complied with the minimum requirements—however, the required information was not always clearly disclosed.

We observed that reports were not easily readable or comparable and had limited usability because:

- › reports contained significant variations in the presentation of information

- › report lengths ranged from 20 to over 80 pages, and
- › required data was not set out clearly and was often contained in images.

Many transparency reports included what could be considered as marketing or sales information, rather than information on audit quality of the firm. While all transparency reports were published on the audit firm websites, not all were easily found, and some were easily confused with firmwide ‘transparency’ reports not related to audit.

Audit firms should consider the purpose of transparency reporting and the needs of users when preparing and issuing their transparency report.

Information Sheet 184 *Audit transparency reports* ([INFO 184](#)) explains the requirements of transparency reports for preparers.

Auditors of registrable superannuation entities, who meet the requirements to publish a transparency report, will be required to lodge their reports for the first time by 31 October 2024.

On 9 September 2024, the lodgement of auditor transparency reports moved from a paper form to an online transaction on the [ASIC Regulatory Portal](#).

Auditor obligations to report to ASIC: Specific considerations

Background

Auditors play an important role as the principal external check on a company's financial report and, as key 'gatekeepers', are uniquely positioned to determine whether there has been a contravention of the Corporations Act. This is recognised by provisions of the Corporations Act which impose obligations on auditors to notify or report to ASIC contraventions and suspected contraventions by companies and/or auditors.

Regulatory Guide 34 *Auditor's obligations: Reporting to ASIC* (RG 34) sets out our guidance on these obligations.

These reporting obligations are a key aspect of the auditor's role and should be included as part of their planning and program of work for each engagement.

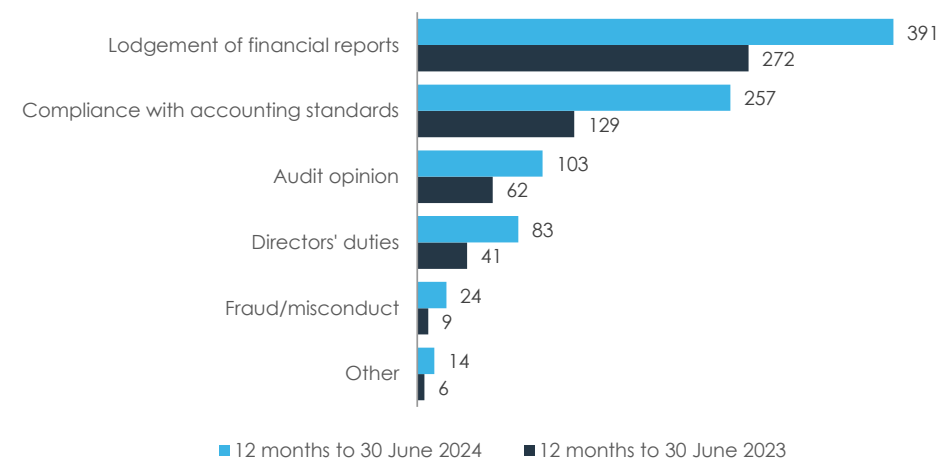
While auditors also have reporting obligations under section 601HG (compliance plan audits) and section 990K (Australian financial services (AFS) licensees) of the Corporations Act, in this section we focus only on section 311 notifications in connection with an audit or review of a financial report. We have set out below information to remind auditors of their obligations and provide insight into how ASIC deals with section 311 notifications.

How many section 311 notifications and reports does ASIC receive?

During the year we received over 850 notifications and reports from auditors, with just over half being for contraventions or suspected contraventions relating to failure to lodge financial reports.

Figure 7 shows a breakdown of the type of notifications received, excluding the impact of AFS licensee notifications.

Figure 7: Category of section 311 auditor notifications and reports received



Note: See Table 17 for the data shown in this figure (accessible version).

What does ASIC do with section 311 notifications and reports?

ASIC assesses each auditor notification and report to determine if the matter requires a regulatory response. The assessment includes regular specific reviews of the notifications and reports to ensure the timely identification of contraventions and suspected contraventions relating to financial reporting.

We review notifications and reports that highlight a modified audit opinion, failure to comply with accounting standards and/or material adjustments of prior-period errors. These are priority matters because they may indicate concerns with the quality of the financial report.

In instances where ASIC has formed the view that the contravention or suspected contravention reported by the auditor is significant and unresolved, we will contact the company and may undertake a financial reporting surveillance or take other appropriate regulatory or enforcement action.

If auditors do not provide sufficient detail in their notification or report for us to understand the nature of the contravention or suspected contravention, we may contact them to further understand the relevant facts and circumstances and help us evaluate the issue.

Auditor rotation breaches

Section 311 notifications from auditors about suspected contraventions of the Corporations Act include reports about auditors that did not comply with their rotation obligations.

Under the Corporations Act, an auditor cannot play a significant role in audit for more than five years and is required to rotate off that audit for two years before being eligible to play a significant role again. The auditor rotation requirements are key to maintaining independence, which is a cornerstone of the audit process. ASIC issued an infringement notice to an auditor for a number of instances of not complying with their rotation obligations: see 'Key outcomes for the surveillance period'.

Auditors need to have appropriate arrangements in place to monitor how long they play a significant role in an audit to ensure they are meeting their rotation obligations, and they need to notify ASIC of any non-compliance with this obligation.

Auditors that have implemented robust systems of quality management and regularly test their system of quality management

are more likely to prevent or detect non-compliance with auditor rotation obligations.

In 2024–25, ASIC will focus on auditor compliance with independence and conflict of interest requirements, including auditor rotation obligations.

Notification of conflict of interest situations

An auditor is also required to notify ASIC about conflict of interest situations that arise when:

- › the auditor, or a professional member of the audit team, cannot exercise objective and impartial judgement in the conduct of the audit, or
- › a reasonable person, with full knowledge of all relevant facts and circumstances, would conclude that the auditor, or a professional member of the audit team, cannot exercise objective and impartial judgement in the conduct of the audit.

The auditor independence requirements in the Corporations Act require auditors to identify, resolve and disclose conflict of interest situations and circumstances involving a relevant relationship as defined in the Corporations Act.

If an auditor becomes aware of a conflict of interest situation or a circumstance involving a relevant relationship with the audit client, the auditor must notify ASIC after seven days if the situation or circumstance is ongoing.

An auditor needs to notify us through the [ASIC Regulatory Portal](#) of any conflict of interest situations: see [Auditor breach notifications and contravention reporting](#).

Appendix 1: Overview of surveillance approach and file selection

Background

We promote improvement in financial reporting and audit quality through direct and open discussions with directors and senior management of entities and auditors.

To assist stakeholders, we release our financial reporting and audit areas of focus every six months: see Media Release ([23-149MR](#)) *ASIC highlights focus areas for 30 June 2023 reporting* (6 June 2023) and Media Release ([24-343MR](#)) *ASIC highlights focus areas for 31 December 2023 reporting* (19 December 2023).

These media releases highlighted asset values, provisions, solvency and going concern assessments, subsequent events and the adequacy of disclosures in the OFR as the key areas of focus for our financial reporting and audit surveillance program.

Surveillance approach

Financial reporting reviews and surveillances

We follow a risk-based approach to target financial reports for review. Once selected, a financial report is subjected to a desk review and the reporting entity is contacted if any concerns are identified.

Our financial reporting reviews focus on the recognition, measurement and disclosure requirements of the Australian

accounting standards and compliance with relevant parts of Chapter 2M of the Corporations Act.

Our financial reporting reviews also consider other information published by the entity that relates to the financial report, such as investor presentations. We focus on ensuring the information in the financial report and any supplementary material is consistent, useful, meaningful and allows users to make informed decisions.

If we identify any area where we consider there may be possible inadequate recognition, measurement or disclosure we commence a financial reporting surveillance. We do not inform an entity that we have undertaken a review of their financial report. If we commence a financial reporting surveillance, we advise the entity at this stage.

Our financial reporting surveillances do not necessarily lead to material restatements or adjustments in every case. Surveillances may conclude without any changes to an entity's financial reporting.

When an entity makes a material change to information previously provided to the market following ASIC surveillance inquiries, we issue a media release. In addition to improving the level of market transparency, these announcements are intended to make directors and auditors of other entities aware of ASIC's concerns so they can correctly account for similar issues.

Note: For a list of the financial reporting media releases issued in the surveillance period, see 'Key outcomes for the surveillance period'.

Figure 8: Financial reporting and audit surveillance approach



Audit surveillances

Our financial report targeting informs our selection of audit files to be reviewed.

Our audit surveillances focus on key audit areas and identifying deficiencies in audit conduct. Audits are required to be conducted in accordance with Australian auditing standards and the relevant parts of Chapter 2M of the Corporations Act.

Where we identify findings in audit surveillances, we report these in writing to the auditor and the directors of the audited entity under revised Regulatory Guide 260 *Communicating findings from audit files to directors, audit committees or senior managers* ([RG 260](#)).

Note: For more details about our financial reporting and audit surveillances, see Information Sheet 224 *ASIC financial reporting and audit surveillances* ([INFO 224](#)).

Refinements to the surveillance program

We continually seek to improve and refine our program approach to the targeting, review and surveillance of entities. Last year we integrated the financial reporting and audit surveillance programs, focusing on the entire financial reporting ecosystem.

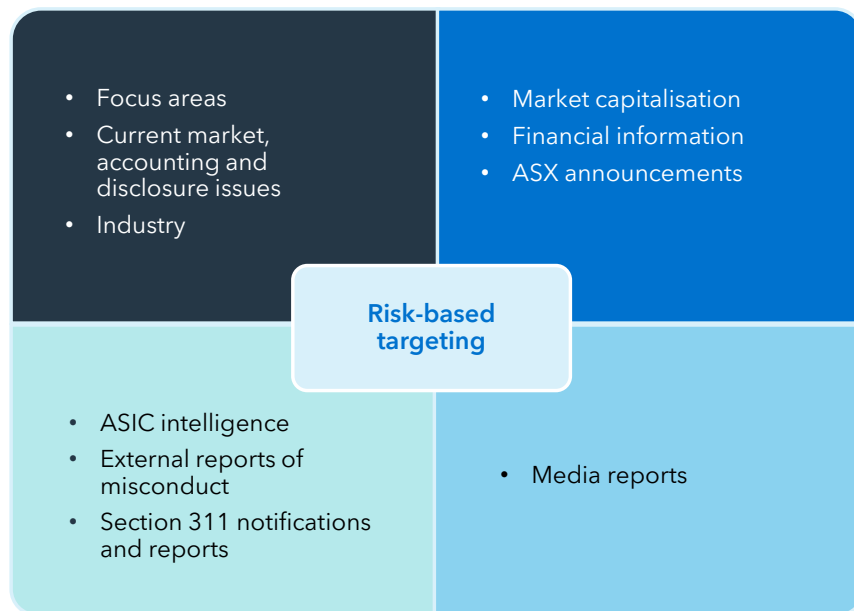
Refinements during the surveillance period included:

- › enhancing our targeting by analysing AI tools for use in identifying entities, and
- › updating financial reporting review processes and procedures to consider voluntary climate reporting financial disclosures.

Selection of financial reports and audit files

Financial reports

Figure 9: Components of risk-based targeting



Note: Figure 9 is explained in the following paragraphs (accessible version).

ASIC uses a range of data sources to inform the selection of financial reports for a desk review. We have developed a screening model that ranks entities according to how likely it is that the financial report is misstated. It is not our intention to assess entities on the quality of their business, but whether the financial performance and position has been reported in accordance with Australian accounting standards and the Corporations Act.

The core inputs for the model are financial reporting metrics from the most recent and historical financial reports. Other factors are taken into consideration such as internal intelligence, reports of misconduct, audit/client mismatches and media reporting.

Each financial reporting surveillance is categorised as follows:

- › *Open*—Inquiries with entities under surveillance are ongoing. For some open surveillances, changes have been agreed on or are expected to be made but future financial reports or financial information is not yet due for lodgement.
- › *Closed*—No further action following consideration of the response and information provided by the company.
- › *Findings*—Company amended its current or subsequent financial report or financial information following our inquiries.

Audit files

We routinely select audit files for review where a financial report has been subject to a financial reporting review and/or a change has been made to the financial report following our financial reporting surveillance activity, or where we have concerns that the financial report may have a risk of material misstatement. In some instances, we select audit files based on other internal or externally available data.

Population and our coverage

Around 29,000 entities are required to lodge financial reports with ASIC. Most entities that we review in any given year are chosen from those listed on ASX. We also select some non-listed entities that are important to the economy but are not traded on public markets, such as large unlisted and proprietary companies.

The total number of ASX-listed entities during the year was about 2,300, including exchange traded funds and entities incorporated in foreign jurisdictions. These exchange traded funds and foreign incorporated entities are not a primary focus for our financial reporting and audit program and are excluded from our risk-based targeting. As a result, the population of ASX-listed entities from which we selected our reviews during the year was about 2,200.

There are about 3,000 registered company auditors and 200 authorised audit companies registered in Australia. Of these, about 500 registered company auditors and 50 authorised audit companies audit one or more listed entities.

Our financial reporting surveillance activity involved the review of 188 financial reports, of which 157 were ASX-listed entities and 31 were large unlisted entities that were considered to be of public interest. These financial reports covered 25 industry groups with years ended from 31 March 2023 to 31 December 2023.

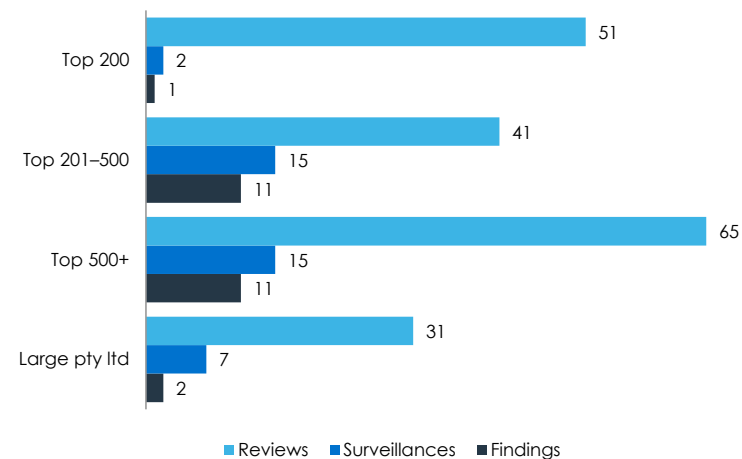
We also reviewed 15 audit files where a change had been made to the financial report following our financial reporting surveillance or where we considered there may be a risk of material misstatement. Our audit surveillances related to audits of financial reports covered 12 industry groups with years ended from 30 June 2022 to 30 June 2023.

Of the 188 financial reports reviewed we commenced surveillances on 39 entities covering 61 issues. From the 39 surveillances conducted, 25 entities made adjustments to previously released financial information after we raised concerns with their financial report.

We had findings in 12 audit surveillances at nine audit firms and in three of the 15 audit surveillances conducted we had both audit and financial reporting findings.

Financial reporting reviews by market capitalisation and net assets

Figure 10: Financial reporting reviews, surveillances and findings by market capitalisation (ASX-listed entities) and unlisted entities

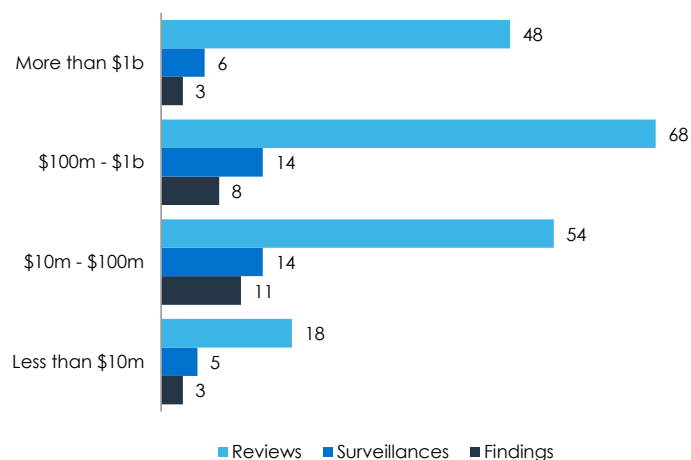


Note: See Table 18 for the data shown in this figure (accessible version).

Figure 10 above shows the breakdown by market capitalisation of the 157 listed entities' financial reports reviewed, 32 financial reporting surveillances undertaken and 23 entities with financial reporting findings in the surveillance period.

We also reviewed 31 large proprietary limited financial reports with seven surveillances commenced and two financial reporting findings.

Figure 11: Financial reporting reviews, surveillances and findings by net assets (all entities)



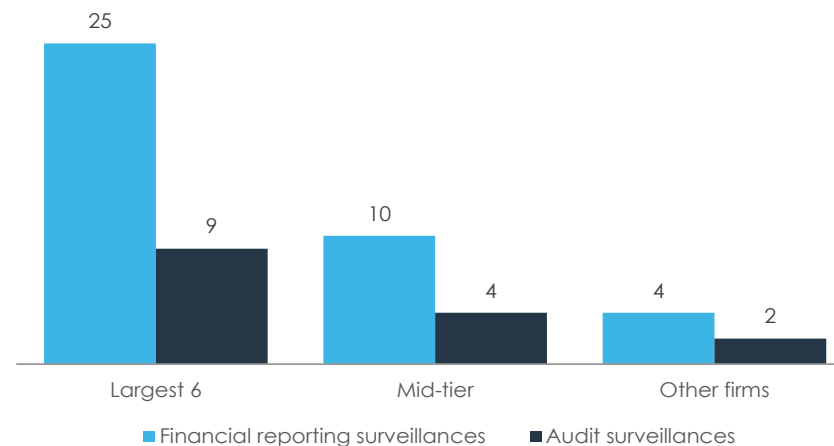
Note: See Table 19 for the data shown in this figure (accessible version).

The breakdown by net assets of the 188 financial reports reviewed, 39 financial reporting surveillances undertaken and 25 entities with financial reporting findings in the surveillance period is shown in Figure 11.

Figure 10 and Figure 11 show that issues and findings are consistent across the population whether considered by market capitalisation or net asset size.

Financial reporting and audit surveillances by audit firm size

Figure 12: Financial reporting and audit surveillances by firm size



Note: See Table 20 for the data shown in this figure (accessible version).

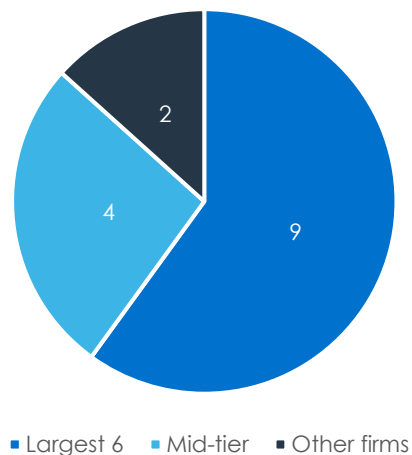
Most of the financial reporting and audit surveillances we performed during the surveillance period were on financial reports audited by the largest six firms.

Audit surveillances by firm size

During the surveillance period we conducted 15 audit surveillances selected from the outcomes of our financial reporting reviews and surveillances.

Nine of the audit surveillances were performed on audit files from the largest six firms, with four from mid-tier firms and two from other firms.

Figure 13: Audit surveillances by firm size



Note: See Table 21 for the data shown in this figure (accessible version).

External panel

We consulted an independent external panel on the method of classifying and reporting findings from our audit surveillances and the panel agreed with our overall methodology and approach.

As part of its own review process, the panel discussed and tested the conclusions reached on a small sample of our audit findings. For each of these findings, we provided the panel with an anonymised comment form which included the firm's detailed response to our findings. Based on the information provided to them, the panel challenged and concurred with our findings and conclusions.

The panel also reviewed and provided feedback on drafts of this report, including the analysis, presentation and conclusions of our surveillance findings.

The panel consisted of Mr Peter Day and Mr Des Pearson AO. Both panel members have extensive qualifications and experience in business, accounting and audit, and are considered independent of the audit firms and professional accounting bodies.

Appendix 2: Accessible versions of figures

Table 12: Issues raised in financial reporting surveillances (all entities)

Issue	Closed issues	Open issues	Findings
Operating and financial review	2	2	16
Impairment and asset values	7	4	3
Non-IFRS profit information	0	0	5
Financial report disclosures	2	2	1
Revenue recognition	3	0	1
Share based payments	2	0	1
Group accounting	2	1	0
Tax accounting	1	1	0
Lease accounting	0	2	0
Other	2	1	0

Note: This is the data shown in Figure 2.

Table 13: Top 10 industry reviews, surveillances and findings (all entities)

Industry	Reviews	Surveillances	Findings
Materials	30	6	2
Software and services	21	6	3
Capital goods	19	4	1
Consumer services	18	4	2
Commercial and professional services	18	4	2
Food, beverage and tobacco	17	5	1
Financial services	14	3	1
Health care equipment and services	13	4	1
Pharmaceuticals, biotechnology and life sciences	13	4	2
Transportation	13	4	1

Note: This is the data shown in Figure 3.

Table 14: Audit surveillance findings by key audit area

Key audit area	No findings	Findings
Revenue and receivables (incl ECL)	4	6
Impairment and asset values	4	3
Investments and financial instruments	3	2
Loans and borrowings	2	1
Inventory and cost of sales	2	1
Acquisition accounting	1	1
Provisions	0	1
Others	2	0

Note: This is the data shown in Figure 4.

Table 15: Number of audit surveillances with the number of findings

Number of areas with findings	12 months to 30 June 2024	12 months to 30 June 2023
No findings	5	4
One finding	5	5
Two findings	5	5
Three or more findings	0	1

Note: This is the data shown in Figure 5.

Table 16: Non-audit service fees greater than audit fees by firm size

Surveillance period	Largest 6	Other firms
2023–24	11	2
2022–23	15	1

Note: This is the data shown in Figure 6.

Table 17: Category of section 311 auditor notifications and reports received

Issue	12 months to 30 June 2024	12 months to 30 June 2023
Lodgement of financial reports	391	272
Compliance with accounting standards	257	129
Audit opinion	103	62
Directors' duties	83	41
Fraud/misconduct	24	9
Other	14	6

Note: This is the data shown in Figure 7.

Table 18: Financial reporting reviews, surveillances and findings by market capitalisation (ASX-listed entities) and unlisted entities

Category	Reviews	Surveillances	Findings
Top 200	51	2	1
Top 201–500	41	15	11
Top 500+	65	15	11
Large proprietary limited	31	7	2

Note: This is the data shown in Figure 10.

Table 19: Financial reporting reviews, surveillances and findings by net assets (all entities)

Category	Reviews	Surveillances	Findings
More than \$1 billion	48	6	3
\$100 million - \$1 billion	68	14	8
\$10 million - \$100 million	54	14	11
Less than \$10 million	18	5	3

Note: This is the data shown in Figure 11.

Table 20: Financial reporting and audit surveillances by firm size

Firm category	Financial reporting surveillances	Audit surveillances
Largest 6	25	9
Mid-tier	10	4
Other firms	4	2

Note: This is the data shown in Figure 12.

Table 21: Audit surveillances by firm size

Firm category	Number of surveillances
Largest 6	9
Mid-tier	4
Other firms	2

Note: This is the data shown in Figure 13.

Key terms and related information

Key terms

accounting standards	Standards issued by the Australian Accounting Standards Board under section 334 of the Corporations Act
ASIC	Australian Securities and Investments Commission
audit findings	Where in our view auditors did not obtain reasonable assurance that the financial report as a whole was free of material misstatement
auditing standards	Standards issued by the Auditing and Assurance Standards Board under section 336 of the Corporations Act
auditor	An individual registered company auditor performing audits as an individual, director of an authorised audit company or partner of an audit firm
closed financial reporting surveillance	No further action on our financial reporting surveillance following consideration of the response and information provided by the company
Corporations Act	<i>Corporations Act 2001</i> , including regulations made for the purposes of that Act

disclosing entities	Entities that issue enhanced disclosure securities such as publicly listed entities and managed investment schemes
financial reporting chain	The people and processes involved in the preparation, approval, audit, analysis and use of financial reports
financial reporting finding	Where an entity subsequently changed their financial information or restated their financial report, following an ASIC financial reporting surveillance and a media release issued
IFIAR	International Forum of Independent Audit Regulators
INFO 224 (for example)	An ASIC information sheet (in this example numbered 224)
key audit area	An area of an audit selected for review by ASIC on a risk basis that generally related to a financial statement line
large unlisted entities	Entities including unlisted financial institutions, larger unlisted public and proprietary companies (including subsidiaries of foreign companies), registered schemes and disclosing entities

largest six firms	Large firms that audit listed entities with the largest aggregate market capitalisation. These firms may operate through national partnerships, an authorised audit company or a national network of firms. They are the BDO firms in Australia, Deloitte Touche Tohmatsu Australia, Ernst & Young Australia, Grant Thornton Australia Limited, KPMG Australia and PricewaterhouseCoopers Australia
mid-tier firms	Firms, excluding the largest six firms noted above, auditing listed entities that may operate through national partnerships, an authorised audit company or a national network of firms
non-IFRS profit information	Profit information that is calculated on a basis other than International Financial Reporting Standards, or is calculated according to IFRS but is adjusted
OFR	The operating and financial review required by section 229A of the Corporations Act to be prepared as part of the directors' report by all listed entities
open financial reporting surveillance	Inquiries with entities under surveillance are ongoing. For some open surveillances, changes have been agreed or are expected to be made but future financial reports or financial information is not yet due for lodgement

previously grandfathered company	A large proprietary company previously exempt from lodging financial reports with ASIC if it complied with certain conditions
professional accounting bodies	Chartered Accountants Australia and New Zealand, CPA Australia and the Institute of Public Accountants
registrable superannuation entities	A regulated superannuation fund, approved deposit fund or pooled superannuation trust
REP 743 (for example)	An ASIC report (in this example numbered 743)
RG 34 (for example)	An ASIC regulatory guide (in this example numbered 34)
section 311 (for example)	A section of the Corporations Act (in this example numbered 311)
surveillance period	Financial reports and audit files reviewed in the 12 months to 30 June 2024. This includes reviews of financial reports covering years ended from 31 March 2023 to 31 December 2023 and audits of financial reports for years ended from 30 June 2022 to 30 June 2023

Related information

Regulatory guides

Regulatory Guide 34 *Auditor's obligations: Reporting to ASIC* ([RG 34](#))

Regulatory Guide 247 *Effective disclosure in an operating and financial review* ([RG 247](#))

Regulatory Guide 260 *Communicating findings from audit files to directors, audit committees or senior managers* ([RG 260](#))

Information sheets

Information Sheet 184 *Audit transparency reports* ([INFO 184](#))

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

Information Sheet 222 *Improving and maintaining audit quality* ([INFO 222](#))

Information Sheet 223 *Audit quality—The role of others* ([INFO 223](#))

Information Sheet 224 *ASIC financial reporting and audit surveillances* ([INFO 224](#))

Accounting, auditing and ethical standards

AASB 9 *Financial instruments* ([AASB 9](#))

AASB 13 *Fair value measurement* ([AASB 13](#))

AASB 15 *Revenue from contracts with customers* ([AASB 15](#))

AASB 136 *Impairment of assets* ([AASB 136](#))

AASB Interpretation 12 *Service Concession Arrangements* ([Interpretation 12](#))

ASQM 1 *Quality management for firms that perform audits or reviews of financial reports and other financial information, or other assurance or related services engagements* ([ASQM 1](#))

ASA 230 *Audit documentation* ([ASA 230](#))

APES 110 *Code of ethics for professional accountants (including independence standards)* ([APES 110](#))

Media releases

[23-149MR](#) ASIC highlights focus areas for 30 June 2023 reporting (6 June 2023)

[24-343MR](#) ASIC highlights focus areas for 31 December 2023 reporting (19 December 2023)

[24-101MR](#) ASIC announces 30 June 2024 focus areas and expanded program to support financial reporting and audit quality (15 May 2024)

[24-205MR](#) ASIC urges businesses to prepare for mandatory climate reporting (18 September 2024)

Other

ASIC [enforcement outcome reports](#)

[Court enforceable undertakings register](#)