



ASIC
Australian Securities &
Investments Commission



Grant Thornton Australia Limited

Audit inspection report

1 July 2021 to 30 June 2022

Report 747 | October 2022

About this report

This report sets out our findings from reviewing audit files at Grant Thornton Australia Limited for the period 1 July 2021 to 30 June 2022 and better practices for Grant Thornton to consider in its approach to root cause analysis.

Introduction

This report includes:

- › findings from reviews that we completed in the 12 months to 30 June 2022 (this year) of key audit areas in selected financial report audits of listed entities and one large unlisted entity conducted by Grant Thornton Australia Limited (Grant Thornton, the firm)
- › financial reporting surveillance findings relating to entities audited by Grant Thornton this year, and
- › better practice considerations from the application of Grant Thornton's policies, systems and processes for conducting root cause analysis.

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 underway or finalised in the 12-month period relating to audits (if any) involving members of the firm. For details, refer to the [periodic updates](#) of our enforcement outcomes
- › 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.

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 during the period covered by this report.

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. The panel agreed with our approach to measuring and reporting our findings.

Further details about our audit inspection program this year can be found in [Report 743 Audit inspection report: 1 July 2021 to 30 June 2022](#) (REP 743), including a glossary of key terms. [Report 739 Root cause analysis: Audit firm thematic review](#) (REP 739) outlines good practices in place at some of the largest six firms and better practice recommendations for performing root cause analysis. [Information Sheet 224 ASIC audit inspections](#) (INFO 224) provides further information on our audit firm inspection process.

Our findings

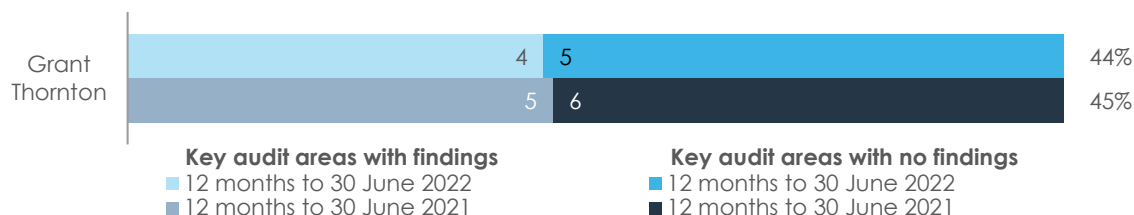
Grant Thornton did not, in our view, obtain reasonable assurance that the financial report was free of material misstatement (negative findings) in four of the nine key audit areas reviewed

(44%) across three audits of the firm this year. This compares to five of the 11 key audit areas reviewed (45%) across three audits for the 12 months ending 30 June 2021 (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. We had no negative findings from our review of the one unlisted entity.

The continuing high level of negative findings warrants deliberate and concerted action by the firm.

Figure 1: Negative findings from reviews of key audit areas in audit files



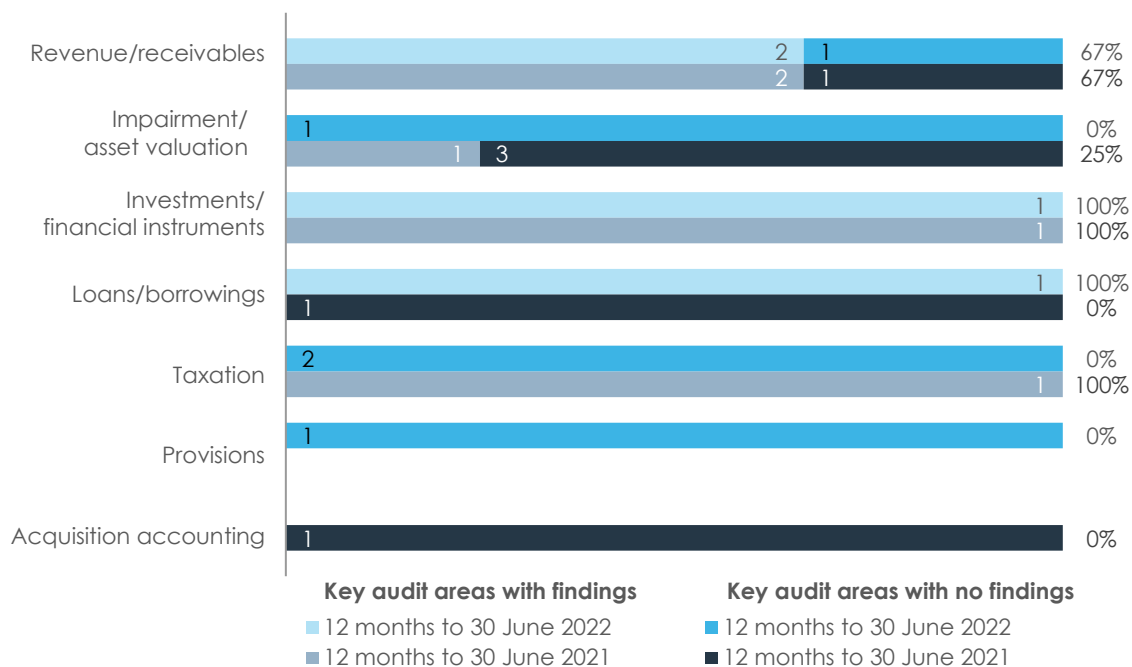
Note: See Table 3 for the data shown in this figure (accessible version).

The firm did not agree with all of our findings. The findings do not necessarily mean 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 relates to the audit of revenue and receivables.

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 2022 and the 12 months to 30 June 2021



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 A	3 of 3 key audit areas reviewed	<ul style="list-style-type: none"> › <i>Revenue</i>—The auditor did not test that automated and change management controls were operating effectively and did not obtain sufficient evidence over the accuracy and cut-off of interest and fee income. For interest income, the control test of one re-performed by the auditor was not representative of the loan portfolios and the auditor did not sufficiently investigate an identified testing variance. The substantive analytical procedure performed was not sufficiently precise to detect a material misstatement as it contained calculation errors and omitted a key revenue stream. For fee income, the auditor did not test the reasonableness of a key assumption and the accuracy of the effective interest rate calculation › <i>Allowance for expected credit losses</i>—The auditor did not adequately test the accuracy and completeness of data and challenge the reasonableness of the assumptions used in the expected credit loss calculations comprising the collective, macroeconomic adjustment and overlay provision › <i>Borrowings</i>—The auditor did not obtain sufficient evidence to confirm the completeness, accuracy and existence of borrowings. There was no evidence of loan confirmations being performed for a significant portion of the total borrowings and insufficient test of detail on other significant loan balances
Entity B	1 of 3 key audit areas reviewed	<ul style="list-style-type: none"> › <i>Revenue</i>—The audit approach adopted by the auditor (in the absence of controls testing) to rely on annual reconciliations between the different internal and external systems with significant reconciling items did not provide sufficient appropriate audit evidence over sales revenue. The test of detail performed by the auditor did not provide assurance over the accuracy of revenue

During the period covered by this report an auditor independence matter was self-reported by the firm. Details of this quality control deficiency, which is not classified as a risk of material misstatement, is outlined in Table 2.

Table 2: Auditor independence finding

Finding
<p><i>Auditor rotation</i>—The firm's quality control systems did not identify that the audit quality reviewer needed to rotate off this listed entity engagement after five consecutive years, until after the engagement was complete and the engagement file had been archived</p>

Financial report findings

We completed risk-based reviews of aspects of nine financial reports of entities audited by the firm this year. Following our inquiries, no entities made material changes to net assets, profits or information previously provided to the market.

Root cause analysis

We performed a detailed review of the firm's approach to root cause analysis by reviewing a sample of two root cause analyses conducted by the firm, and related observations based on benchmarking the largest six firms' processes in conducting root cause analysis at the audit engagement level.

While the firm had implemented a range of good practices in its root cause analysis (RCA) processes, our additional better practice recommendations are summarised below for the firm's consideration:

- › An overarching root cause analysis firm policy, extracting from existing policies, that brings together all the requirements and current tools and templates of the firm's RCA program, including a methodology to evidence the RCA process including interviews, analyses and outcomes could be beneficial.
- › Interviews should include all engagement team members in the area under review including experts, specialists and engagement quality control reviewers. Meeting agendas or other methods should be used to encourage discussion.
- › Audit quality data, including on project milestones (where available), should be consistently applied when performing root cause analysis.
- › Real-time reviews should be conducted to ensure matters arising from a root cause analysis are actioned in subsequent audits.
- › A comprehensive review should be conducted of the listing of common root causes that considers the flexibility of tailoring the list to assist in the identification of new root causes.
- › Time codes should be established for capturing time spent on root cause analysis.
- › Annual RCA training should be implemented to develop best methods and practices for the root cause analysis team.
- › The RCA program should be led by a senior manager and may benefit from increased independent oversight by senior leadership.

The firm should continue to explore the wide range of underlying root causes in its RCA program on both negative findings and positive outcomes, to ensure that the real root causes are identified and actioned including the robustness and adequacy of the professional scepticism and supervision and review that contribute to the findings.

[REP 739](#) summarises thematic findings from our review of root cause analysis by audit firms on audit file quality occurrences for the period 1 July 2020 to 31 December 2021. This report also outlines good practices in place at some of the largest six firms and further better practice recommendations for performing root cause analysis.

Improving audit quality

The continuing high level of negative findings from our limited reviews warrants deliberate and concerted action by Grant Thornton. The firm needs to focus on identifying and addressing the real root causes for the matters reported from our audit file reviews, 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 743](#) 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	FY 2021–22 Key audit areas with findings	FY 2021–22 Key audit areas reviewed	FY 2021–22 Percentage	FY 2020–21 Key audit areas with findings	FY 2020–21 Key audit areas reviewed	FY 2020–21 Percentage
Grant Thornton	4	9	44%	5	11	45%

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 2022 and the 12 months to 30 June 2021

Key audit areas	FY 2021–22 Key audit areas with findings	FY 2020–21 Key audit areas reviewed	FY 2021–22 Percentage	FY 2020–21 Key audit areas with findings	FY 2020–21 Key audit areas reviewed	FY 2020–21 Percentage
Revenue/receivables	2	3	67%	2	3	67%
Impairment/asset valuation	0	1	0%	1	4	25%
Investments/financial instruments	1	1	100%	1	1	100%
Loans/borrowings	1	1	100%	0	1	0%
Taxation	0	2	0%	1	1	100%
Provisions	0	1	0%	0	0	0%
Acquisition accounting	0	0	0%	0	1	0%
Total	4	9	44%	5	11	45%

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.