Annual financial reporting and audit surveillance report 2022–23

Report 774 | October 2023

About this report

This is the first report that summarises findings from our reviews of both financial reports and audit files for the period 1 July 2022 to 30 June 2023. 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 including investors, company directors (including audit committees), accounting firms, professional accounting bodies and auditors.

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Executive summary

Overview

This report outlines the findings from our financial reporting and audit surveillance program for the period 1 July 2022 to 30 June 2023 (surveillance period).

We have implemented an integrated approach to conducting financial reporting and audit surveillances. Our new approach focuses on the entire financial reporting chain. It is designed to provide pertinent information to relevant stakeholders and help improve financial reporting and audit quality.

We now routinely select audit files for surveillance where a change has been made to financial information or the financial report or where we have concerns that a financial report may have a risk of material misstatement. This is because there is a strong link between problems in a financial report and problems with the quality of audit work undertaken on the financial report.

We regulate about 29,000 entities that are required to lodge financial reports with ASIC. This includes over 1,900 ASX-listed entities and over 27,000 unlisted entities. We also regulate 3,200 registered company auditors and authorised audit companies. More than 500 registered company auditors and authorised audit companies audit one or more listed entities.

We reviewed 180 financial reports of ASX-listed entities and other large unlisted entities, selected using a risk-based approach, and 15 related audit files at 11 audit firms in the surveillance period.

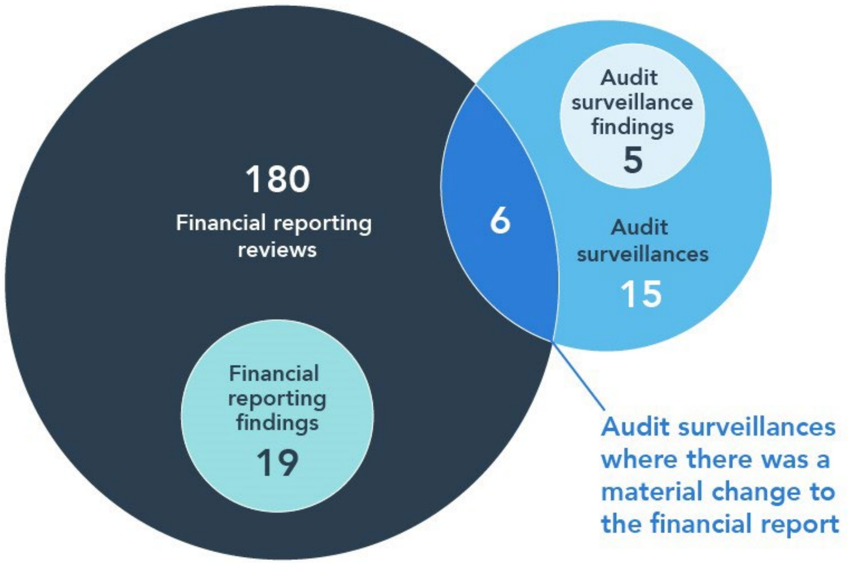
ASIC will continue to take strong enforcement action where auditors fail to comply with the law. Examples of enforcement action taken by ASIC include:

- one auditor convicted for failing to comply with auditing standards
- one auditor charged with contravening the *Corporations Act 2001* (Corporations Act), and
- two auditors' registrations suspended for deficient audits.

See Appendix 1 for further details on our enforcement actions.

Our key findings

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



Of the 180 financial reports reviewed we commenced 55 surveillances covering 93 issues. From the 55 surveillances conducted, 25 entities made adjustments to previously released financial information after we raised concerns with their financial report.

These financial reporting reviews then led to our 15 audit surveillances. We reported audit findings to 11 entities and nine audit firms. In six of the 15 audit surveillances we had both audit and financial reporting findings.

Adjustments totalling $215 million were made to previously released financial information as a result of our financial reporting and audit surveillances in the surveillance period. Details of these are included in Appendix 2.

The majority of our findings from financial report surveillances related to insufficient disclosure of material business risks in the operating and financial review (OFR), impairment of assets, revenue recognition and other financial report disclosures. This report also includes our findings in relation to the adequacy of disclosures regarding the possible impact of applying the new insurance accounting standard.

The key audit areas with audit findings continued to relate to impairment of non-financial assets and asset values and revenue and receivables. Our previous report, Report 743 *Audit inspection report: 1 July 2021 to 30 June 2022* (REP 743), included case studies of good practice on impairment of asset and revenue recognition and related disclosures.

This report also outlines the importance of auditor reporting obligations to ASIC under company law and how we use this information.

Our key messages

Our integrated financial reporting and audit surveillance approach is designed to provide pertinent information to relevant stakeholders and help improve financial reporting and audit quality.

It is concerning that we continue to identify financial reporting findings and audit findings in relation to impairment of assets and revenue recognition.

The findings from this report and our future focus areas for financial reporting and audit are relevant to all stakeholders in the financial reporting chain. We urge all stakeholders to make a concerted effort to make improvements in these areas, see Media Release (23-149MR) *ASIC highlights focus areas for 30 June 2023 reporting* (6 June 2023).

As the largest number of financial reporting surveillance findings related to inadequate OFR disclosures this year our report includes factors for directors (including audit committees) and financial report preparers to consider for better OFR disclosures.

From 1 July 2022, we commenced routine communication of audit findings to directors of the companies from our audit surveillances. We expect company directors (including audit committees) and auditors to constructively discuss our findings and take action to improve financial reporting and audit quality.

Based on our financial reporting findings and audit findings, specific areas of focus for financial report preparers, directors (including audit committees), audit firms and auditors are outlined below.

Directors and preparers of financial reports

Audit quality supports financial reporting quality, and it is in the interest of directors (including audit committees) and preparers of financial reports to support the audit process. The financial reporting and audit findings in this report indicate they can do this by ensuring:

- that OFR disclosure is not generic and appropriately reflects the entity's individual circumstances and the business environment in which it operates—see 'Considerations for good OFR disclosures' below
- that management produces quality and timely financial information which is supported by robust position papers with appropriate analysis and conclusions referencing relevant accounting standards
- adequate resources, skills and expertise are applied to promote quality in the reporting process—position papers should be prepared for directors (including audit committees), particularly in areas that have significant estimation uncertainty and judgement (e.g. asset values, revenue recognition and provisions) and support the conclusions reached
- effective and clear communication with the auditor including risks affecting the information in the financial report and providing all information and explanations that may be relevant to the financial report and audit in a timely manner
- that a robust process is in place for the selection of the auditor, appropriate audit fees are set and there are clear communication channels between the auditor and the audit committee to support financial reporting and audit quality.

Company directors (including audit committees) and management have a critical and ongoing role in supporting quality audits. For further 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 and auditors should carefully review the financial reporting and audit findings in this report and ensure there is adequate focus on these areas in future audits. Audit firms should:

- promote a strong culture focused on audit quality, with accountability at all levels of partners and staff
- focus on effective communication with, and where relevant education of, directors (including audit committees) and management of audited entities enabling them to document their positions including detailed analysis and conclusions with reference to accounting standards, particularly in areas of judgement and estimation uncertainty
- ensure that the audit is adequately resourced with the right skills and expertise and there are robust supervision and review processes in place to identify and address contentious issues early to minimise deadline pressures at the conclusion of the audit
- conduct effective quality reviews of audits and remediate findings by obtaining the audit evidence necessary to form an audit opinion on the financial report
- focus on identifying and addressing the root causes of audit findings
- develop and implement action plans to address the identified root causes and continually monitor and revise those plans to ensure they are effective and sustainable.

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.

Statistics

Key statistics at a glance

1,900
Population of ASX-listed entities

180
Financial reports reviewed

55
Surveillances conducted

25
Financial reporting findings

123
Auditors of disclosing entities

15
Audit surveillances

11
Audit surveillances with findings

6
Surveillances with both financial reporting and audit findings

22
Industry groups covered by financial reports reviewed

13
Industry groups covered by audit surveillances

24
Audit firms covered by financial reports reviewed

11
Audit firms covered by audit surveillances

Note 1: The 180 financial report reviews comprised 156 ASX-listed entities and 24 large unlisted entities.

Note 2: The 55 financial report surveillances comprised 53 ASX-listed entities and 2 large unlisted entities.

Overview of ASIC's surveillance program

Background

The overall objective of our financial reporting and audit surveillance program is to promote confident and informed participation by investors and consumers in the financial system.

Our financial reporting and audit surveillances aim to improve the quality of financial reporting and ensure financial reports have been prepared in accordance with the law. They also aim to promote continuous improvement in audit quality.

We release our financial reporting and audit areas of focus every six months: see Media Release (22-124MR)*ASIC highlights focus areas for 30 June 2022 reporting* (1 June 2022) and Media Release (22-333MR) *ASIC highlights focus areas for 31 December 2022 reporting* (1 December 2022).

These focus area 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.

Population and our coverage

The total number of ASX-listed entities during the year was about 2,360. This includes exchange traded funds and entities that are incorporated in foreign jurisdictions. These 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 1,900.

In addition, over 27,000 unlisted entities are required to lodge financial reports with ASIC.

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

Our financial reporting surveillance activity involved the review of 180 financial reports, of which 156 were ASX-listed entities and 24 were large unlisted entities that were considered to be of public interest, covering years ended from 31 March 2022 to 28 February 2023.

Our large unlisted entity reviews comprised a limited review of transition disclosures for the new insurance standard (see 'Limited scope review—AASB 17 *Insurance Contracts* transition disclosures') and selections based on breach reports and other available intelligence.

We also reviewed 15 ASX-listed entity audit files where a change had been made to the financial report following our financial report surveillance or where we considered there may be a risk of material misstatement. Our audit surveillances were of audits of financial reports covering years ended from 30 June 2021 to 31 December 2022.

Surveillance approach

Figure 2: Financial reporting and audit surveillance approach

Our financial report 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 report reviews also consider other information published by the entity related 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. Currently, an entity is not made aware that we have undertaken a review of their financial report unless we commence a financial reporting surveillance.

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. A list of the financial reporting media releases issued in the surveillance period can be found at Appendix 2.

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).

Further details about our audit surveillances can be found in Information Sheet 224 *ASIC audit surveillances* (INFO 224) which is being updated to be consistent with the program as outlined in this report.

Key changes to our surveillance approach

A number of key changes were made to our financial reporting and audit surveillance programs following an internal strategic review in October 2022. These changes include:

- integrating the two programs into a single financial reporting and audit surveillance program
- further refining our risk-based targeting of financial reports making better use of internal and externally available data
- reviewing higher risk financial reports, irrespective of the audit firm
- routinely selecting audit files for surveillances based on the results of the financial report reviews
- focusing audit surveillances on the key audit areas primarily relating to the most significant issues from the financial report reviews, and
- publishing a report that includes financial report findings and a summary of all individual audit findings, providing greater transparency of thematic audit quality findings than was apparent in prior reporting.

The changes to our surveillance approach and reporting will provide a better overview of the financial reporting chain and will emphasise to key stakeholders—such as financial report preparers, directors (including audit committees) and auditors—their accountability for the quality of the financial report and the quality of the audit process.

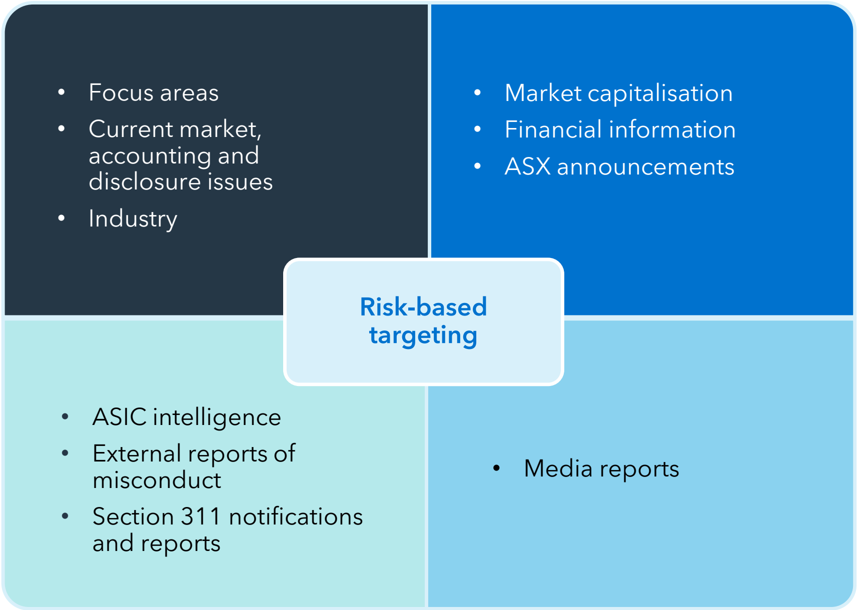
For further details about the changes to the program and how findings will be reported, see Appendix 3.

Financial reporting surveillances

Selection of financial reports

We target financial reports for review using a risk-based approach. Figure 3 shows the key inputs into our targeting.

Figure 3: Components of risk-based targeting



Note: Figure 3 is explained in the following paragraphs (accessible version).

Our data-led targeting for both ASX-listed and large unlisted entities is informed by our focus areas and a range of market data; current market, accounting and disclosure issues; and ASIC intelligence.

We use market data, such as an entity's market capitalisation and its reported financial information, and relevant ASX announcements to perform financial analysis and identify ratios and trends that highlight potential risks with a financial report. This analysis allows us to focus on higher risk entities that trigger multiple targeting criteria that are aligned with our areas of focus.

In addition to the analysis of market data, we also consider ASIC intelligence, such as reports of misconduct by external parties and reports received from auditors under their company law reporting obligations.

Other considerations including specific industries, such as the transition disclosures for the new insurance standards covered in this report and media reports, are also included in the targeting.

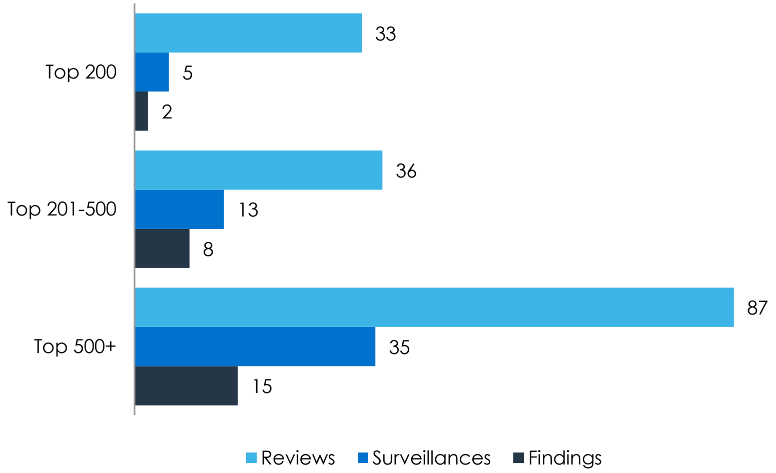
This data-led risk-based approach ensures our focus is directed to those potentially deficient financial reports where there is more likely to be harm to consumers and investors.

Each financial reporting surveillance is categorised as:

- Open—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.
- 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 and we issued a media release.

Reviews by market capitalisation

Figure 4: Financial reporting reviews, surveillances and findings by market capitalisation (ASX-listed entities)



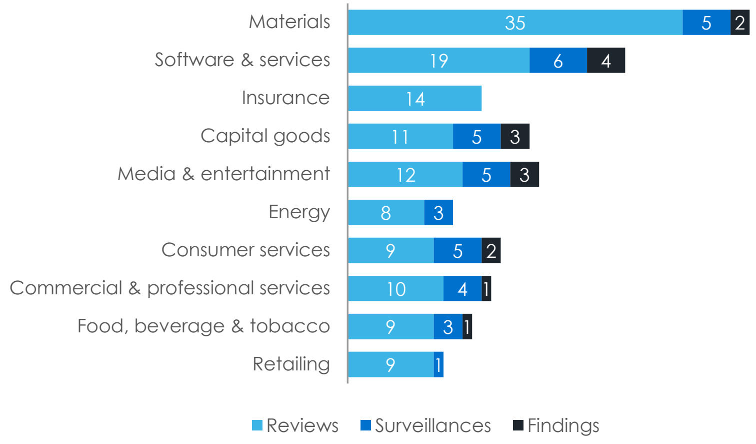
Note: See Table 9 for the data shown in this figure (accessible version).

Figure 4 shows the breakdown by market capitalisation of the 156 listed entities' financial reports reviewed, 53 financial report surveillances undertaken and 25 findings in the surveillance period.

It also shows that there were more surveillances and findings in the top 500 plus companies compared to companies in the top 200 and the 201–500 category.

Reviews by industry

Figure 5: Top 10 industry reviews, surveillance and findings



Note: See Table 10 for the data shown in this figure (accessible version).

Figure 5 shows the number of financial reports reviewed, financial report surveillances undertaken and findings in the surveillance period for the top 10 Global Industry Classification Standard (GICS) industry groups.

Over three-quarters of our reviews were of entities from the following GICS industry groups. For each of these industries, in addition to our overall focus on the adequacy of disclosure in the OFR, we also focused on the following specific areas.

Materials

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

Software and services

Entities in this industry include cyber security services, blockchain and cryptocurrency, cloud computing and artificial intelligence. We continued to focus on aspects of revenue recognition, the disclosure of accounting policies, and disclosure about cyber risks.

Insurance

We focused on the disclosure of a new accounting standard for insurance contracts, see 'Limited scope review—AASB 17 *Insurance Contracts* transition disclosures' below, for companies with life, general, reinsurance and health insurance business lines.

Capital goods

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

Media and entertainment

This industry includes entities ranging from traditional media and advertising entities to those with emerging business models such as online marketplaces, where we focused on impairment risks and aspects of revenue recognition which can be complex.

Energy

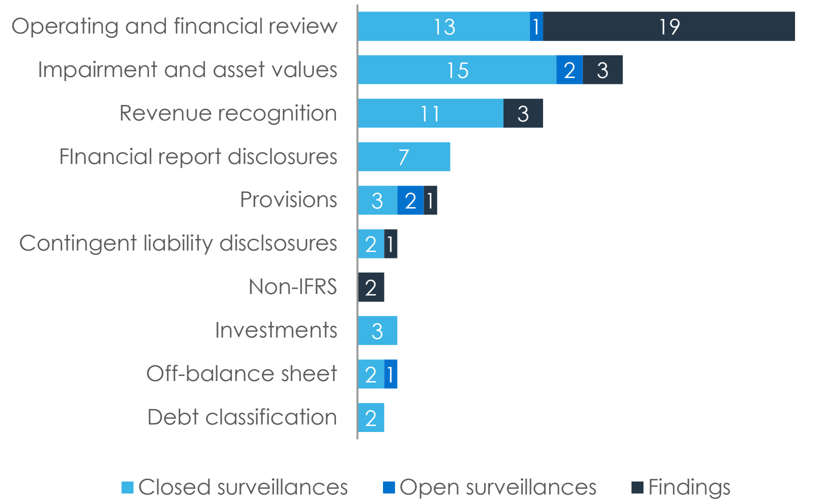
Our reviews in this industry focused on oil and gas producers where impairment and rehabilitation risks exist and disclosures about industry changes and sustainability (such as climate change and greenwashing) are particularly relevant.

Commercial and professional services; Consumer services; Food, beverage and tobacco; and Retailing

Our focus was on macroeconomic impacts arising from post-COVID activity, such as consumer sentiment, changes in interest rates, supply chain risks, and changes to workplace patterns.

Surveillances by issue

Figure 6: Issues raised in financial reporting surveillances



Note: See Table 11 for the data shown in this figure (accessible version).

During the surveillance period, we contacted 55 entities and raised 93 issues. Where multiple issues are identified from our financial report reviews, they are raised with the entity. Most of the surveillances related to disclosure in the OFR impairment testing, revenue recognition, and financial report disclosures.

There were 25 findings covering 29 issues where ASIC issued a media release because the company amended its financial report or financial information in a subsequent reporting period. See Appendix 2 for a list of the financial reporting media releases issued in the surveillance period. Not all issues raised with the company resulted in a financial reporting finding.

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. Refer to 'Audit surveillances' for details of our key findings from audit surveillances.

Operating and financial review

We had 33 surveillances where we contacted listed entities to communicate our concerns on the adequacy of their disclosures, particularly in relation to strategies and prospects and material business risks. Following our surveillances, 19 of these entities made additional or improved disclosures.

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. Entities that are of particular risk are those that are newly listed, regularly raise funds, or have more complex business models.

Later in the report, we have included factors that directors can consider to improve their operating and financial review disclosures.

Although an OFR is not required to be audited, auditing standards require auditors to read the OFR to ensure there are no material inconsistencies with the audited financial report and that the OFR contains no material misstatements of fact. Regulatory Guide 247 *Effective disclosure in an operating and financial review* (RG 247) provides further information.

Impairment and asset values

We had 20 surveillances where we contacted entities about their impairment testing, mainly of goodwill and other intangible assets. Three entities made impairment adjustments following our surveillances.

Directors (including members of audit committees) should question the need for, and adequacy of, asset impairment and the adequacy of related disclosures. Information Sheet 203 *Impairment of non-financial assets: Materials for directors* (INFO 203) discusses director responsibilities in connection with testing of non-financial assets for impairment in the financial report of a company.

Revenue recognition

We had 14 surveillances where we contacted entities about their recognition of revenue including disclosure of accounting policies. Following these surveillances, three of these entities made adjustments to either their revenue recognition or disclosure of their accounting policy.

Financial report disclosures

We had seven surveillances where we contacted entities about financial report disclosures including going concern, operating segments and non-audit service fee disclosures. All these matters were closed without further action following the responses and information provided by the entities to our inquiries.

Provisions

We had six surveillances where we contacted entities about the need for and adequacy of provisions. One entity recorded a provision after our surveillance activity.

Non-IFRS profit information and contingent liability disclosure

We had two surveillances where we contacted entities about their presentation of non-IFRS profit information. One surveillance resulted in improved disclosure of adjustments made to calculate the non-IFRS profit measure. In the second surveillance, another entity removed its use of a non-IFRS profit measure in the statement of profit and loss.

We also had one surveillance where the listed entity involved in a complex and prolonged legal matter increased their contingent liability disclosure which was previously insufficient and did not include all total possible obligations for overseas taxes.

Considerations for good OFR disclosures

Since 2020, ASIC has increased its focus on the OFR, recognising the important role that narrative disclosures play in complementing the financial report. Increased uncertainty in recent times has resulted in a greater expectation from investors for clear disclosure of the underlying drivers of results, as well as risks, management strategies and future prospects.

Based on our findings from reviewing OFR disclosures in the surveillance period, we set out below some factors to consider to help listed entities improve their OFR disclosures and comply with legal requirements.

Self-contained, scattered disclosures (CEO, Chair reports)

Entities will often take advantage of individual reports prepared by, for example, the CEO or the Chair and include commentary about financial performance, strategies and risks within these reports. It is important entities ensure that, where applicable, sufficient commentary is also included as part of the directors' report. The OFR should be a self-contained section in the annual report and cannot be incorporated solely by cross-referencing to other reports.

Newly listed companies

In our view, one of the higher risk group of companies are those that are newly listed and may not be familiar with additional listing requirements, such as the OFR. Writing an OFR is not a straightforward task for many entities and can present a particular challenge for those doing it for the first time. Entities should consider relevant content of their initial public offering document and other investor presentations to ensure that disclosure in the OFR does not omit or is not at odds with matters included in these documents.

Key transactions with no comments

As part of reviewing the financial report, we pay particular attention to key transactions occurring during the reporting period and that the OFR provides supporting commentary that adequately 'tells the story'. Key transactions may be simple (such as entering into a new lease agreement) or complex (such as issuing debt with equity conversion features), but both will impact the current and future financial position, and mean that carrying out the entity's strategy has associated risks.

Unique/complex business model/industry

Similarly, we seek to understand the entity's business model and the industry within which it operates. We expect that the OFR will provide an adequate explanation of the key features of the business model and industry. In some instances, we may look to an entity's peers to compare and contrast their disclosures. In this context, as a matter of better practice, entities should be proactively benchmarking their disclosure with peer companies in their industry.

Fundraising activity

As part of reviewing the OFR we consider the content and relevance of any recent fundraising documents released by the entity. Fundraising disclosure is a key aspect of corporate governance and there are minimum statutory disclosure requirements particularly related to business models and risks. The OFR provides an important opportunity to 'bring together' and update these related disclosures and risks ensuring they are consistent with recent fundraising documents where relevant. Disclosure elsewhere cannot be used as a substitute for the OFR.

Limited scope review—AASB 17 *Insurance Contracts* transition disclosures

Background

ASIC has previously called on insurers to respond to the new accounting standard for insurance contracts AASB 17 *Insurance Contracts* (AASB 17) which is effective for reporting periods beginning on or after 1 January 2023. See Media Release (20-286MR) *Insurers urged to respond to new accounting standard* (17 November 2020) and 22-333MR.

We performed a limited scope review of the 31 December 2022 full-year financial reports of 14 insurers (12 large unlisted and two listed entities) to evaluate the disclosures regarding known or reasonably estimable information relevant to assessing the possible impact of applying the new standard. Details of our review are included in Appendix 4.

Key findings from our reviews

We noted that:

- all entities except one provided disclosure of a transition method to apply the new measurement model under AASB 17
- there was a mix of transition methods across all insurers with no observable trend based on the business line. However, the fair value method was most common to the reinsurance business line
- all entities provided disclosure of a measurement model with a mix of models across all insurers. The premium allocation approach was common across general insurers
- six insurers (five life insurers) did not disclose any estimate of the financial impact of adopting AASB 17
- eight entities disclosed the estimate of the financial impact with reasons driving the impacts, and two of these provided some particularly good disclosure.

Key messages for insurers

We encourage directors and preparers of financial reports for insurance entities to make meaningful disclosures to ensure investors and other financial report users are informed of the impact of the new standard, particularly in relation to quantifying the expected financial impact.

We will continue to focus on reporting by insurers as part of the financial reporting and audit surveillance program.

Audit surveillances

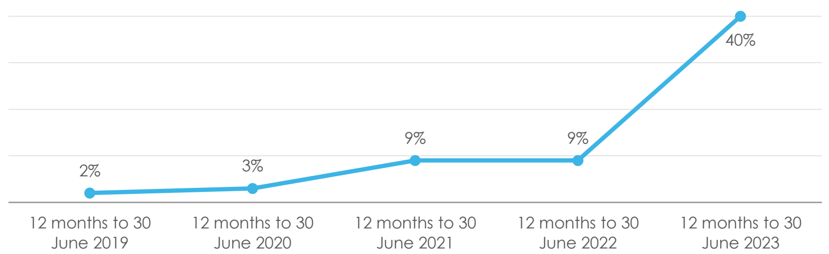
Selection of audit files

We routinely select audit files for review where a change has been made to the financial report following our financial report 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. Figure 2 describes our approach to targeting and selecting financial reports for review and audit surveillance.

In the surveillance period, 14 of the 15 audit surveillances conducted were primarily based on financial reporting surveillance targeting and findings and one audit surveillance was selected based on other available data.

Figure 7 shows that six of the 15 audit surveillances conducted had findings from both our audit surveillance and our surveillance of the entity's financial report. This was the primary reason for selecting these six audit surveillances.

Figure 7: Audits surveillances where there was a material change to the financial report



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

The significant increase in audit surveillances where there was a material change to the financial report in this surveillance period is due to the changes in our targeting and selection approach. Audit surveillances focus on key audit areas in audit files where we identified risks with the financial report.

Overall findings

Our audit surveillances led to findings being reported to 11 entities and nine audit firms. We closed four audit surveillances with no findings.

Table 1 demonstrates that we continue to have the largest number of audit findings on impairment of non-financial assets and the audit of revenue and receivables. We also identified audit findings in the audit of inventories, provisions and investments and financial instruments.

Table 1: Audit findings to 30 June 2023

Key audit area	Reviewed	Audit findings
Impairment of non-financial assets and asset values	45%	39%
Revenue and receivables	36%	33%
Inventory and cost of goods sold	10%	11%
Provisions	6%	11%
Investments and financial instruments	3%	6%
Total	**100%**	**100%**

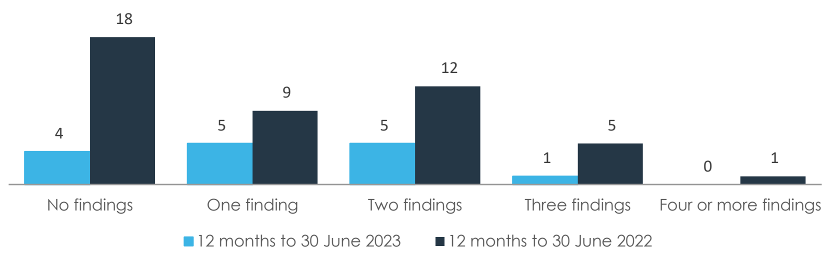
An audit finding is where, in our view, auditors did not obtain reasonable assurance that the financial report as a whole was free of material misstatement. Findings from our reviews of audits do not necessarily mean that the financial reports audited were in fact materially misstated. Rather, the auditor 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. Further details about this process can be found in INFO 224.

In our previous report, REP 743, we included case studies providing examples of good practice when auditing revenue and receivables and impairment of non-financial assets.

On average we review two to three key audit areas on each audit surveillance. Figure 8 shows the number of findings for each audit surveillance in this surveillance period and the last surveillance period. For example, four of the 15 surveillances had no findings in this surveillance period while the remaining 11 surveillances had one or more findings.

The findings in this surveillance period are lower in each instance as we performed a significantly lower number of audit surveillances in this surveillance period compared to last period.

Figure 8: Number of audit surveillances with the number of findings



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

Reporting findings to company directors

From 1 July 2022, the Chair of ASIC authorises the release of reports of audit findings to the directors of the company reviewed.

Our rationale for communicating audit findings that we identify to the company's directors is to help the directors (including audit committees) to take action to address deficiencies in an entity's financial report and improve systems and processes supporting financial reporting. The directors should also engage with the auditor about steps the company and the auditor will take to improve audit quality.

Further information about the matters that we would generally communicate to company directors and the process we will follow is included in RG 260.

Audit committees should ask audit firms about the results of our reviews of audit files, how the firm has addressed the matters raised and whether the company can assist the auditor to address the matters raised. Refer to INFO 196 for more information.

Detailed audit surveillance findings

A summary of each individual finding reported to audit firms and company directors is detailed in each of the key audit area sections below.

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

Impairment of non-financial assets and asset values

We had seven findings relating to impairment of non-financial assets: see Table 2.

Deficiencies identified included:

- not testing whether key assumptions in cash flow models are reasonable or supported by independent evidence
- accepting valuation methodologies that may not have been appropriate or reliable
- not properly considering indicators of impairment
- not confirming existence of and rights to digitals assets, and
- not adequately testing capitalised expenditure.

Table 2: Finding summaries—Impairment of non-financial assets and asset values

Finding
Impairment of goodwill—The auditor did not obtain sufficient evidence over goodwill impairment testing. The auditor did not adequately evaluate the comparability of the relevant entities used in the fair value less cost of disposal approach where the auditor relied on revenue multiple of these entities. The auditor did not request the entity to prepare a discounted cash flow or value in use approach when there was insufficient data to support the use of the market approach.
Impairment of goodwill—The auditor did not obtain sufficient evidence to support the reasonableness of key assumptions used in testing the valuation of goodwill.
Impairment of intangible assets—The auditor did not identify that the entity had used an inappropriate valuation technique to estimate the fair value of the combined cash generating unit and accordingly failed to identify that goodwill was materially misstated at year end.
Impairment testing of offshore segment—The auditor did not obtain sufficient evidence about the valuation model, judgements and significant assumptions used to test for impairment.
Intangible assets—The auditor did not adequately challenge the entity's conclusion that there were no impairment indicators.
Digital assets—The auditor did not perform sufficient audit procedures to support the existence of and rights to digital assets held by a custodian. In addition, reports on controls from the auditor of the custodian reviewed by the auditor did not cover nine months of the financial year.
Capitalisation of software costs—The auditor did not obtain sufficient evidence over the reasonableness of salaries capitalised as software development costs. The auditor did not use an adequate sample size or perform sufficient audit procedures over the accuracy of capitalised salaries.

Revenue and receivables

Six findings were identified in revenue and receivables testing including:

- failing to test that revenue transactions occurred and were recorded accurately
- failing to identify a material misstatement
- assessing risk of material misstatement as lower than appropriate
- failing to understand the nature of the revenue cycle
- not sufficiently reviewing the work of an overseas auditor.

We also noted deficiencies in testing expected credit losses and cost of goods sold.

Table 3: Finding summaries—Revenue and receivables

Finding
Revenue—The auditor did not obtain sufficient evidence over the occurrence of revenue, and the accuracy of inputs used to drive the revenue.
Revenue—The auditor did not obtain sufficient evidence over the occurrence and accuracy of management fee, lending fee and interest revenue. The auditor did not adequately assess and test the fees and interest calculations in accordance with contract terms and relevant accounting standards. The auditor did not adequately test and did not detect a material restatement in relation to accounting for loan establishment fees.
Revenue/ Deferred revenue/ Receivables—Trade receivables and deferred revenue balances were materially misstated.
Revenue and contract liabilities—education agent commissions—We are concerned the auditor's risk identification and assessment for agent commissions was inadequate. The auditor failed to establish an appropriate understanding of a material class of transactions and to demonstrate sufficient professional scepticism to identify the possibility that a material misstatement due to fraud could exist when paying commissions where the recipients and associated processes were not understood.
Revenue and trade receivables—The auditor did not sufficiently evaluate the work performed by the component auditor to enable an experienced auditor, with no previous connection to the audit, to understand the nature, timing and extent of audit procedures performed.
Trade receivables—The auditor did not obtain sufficient evidence over trade receivables due to insufficient evaluation of expected credit loss (ECL) allowance.

Inventory and cost of goods sold

In two audit surveillances our findings in inventories and costs of goods sold were in relation to how the group auditor did not sufficiently review the work performed by overseas auditors to ensure that inventory and/or cost of goods sold balances were valued correctly.

Table 4: Finding summaries—Inventory and cost of goods sold

Finding
Inventory—The auditor did not perform sufficient audit procedures to review and understand the company's costing approach and consequently did not obtain sufficient evidence to support that the valuation of inventory offshore was measured at weighted average cost in accordance with the company's accounting policy.
Inventory and cost of sales—The auditor did not sufficiently evaluate the work performed by the component auditor to enable an experienced auditor, with no previous connection to the audit, to understand the nature, timing and extent of audit procedures performed.

Provisions

We identified findings in both audit surveillances where we reviewed provisions as a key audit area.

In both cases the auditor did not challenge the accounting policy for recognising provisions, including applicable legislative requirements impacting the provision and instead disclosing contingent liabilities.

Table 5: Finding summaries—Provisions

Finding
Provisions for fines and litigation not recorded—The auditor did not adequately challenge the decision by the entity not to record provisions for fines and litigation, and instead disclose contingent liabilities.
Provisions and contingent liabilities—The auditor did not obtain sufficient evidence about penalties for possible breaches of legislation and adequately assess the need for a provision.

Investments and financial instruments

We had one finding relating to investments and financial instruments where the auditor did not test the calculation of expected credit losses on loan receivables was reasonable and in accordance with the accounting standard.

Table 6: Finding summary—Investments and financial instruments

Finding
Expected credit losses (ECL) on loan receivables—The auditor did not obtain sufficient evidence over the adequacy of ECL. The auditor did not adequately evaluate and independently test the reasonableness of the methods, assumptions and data used in the collateral valuation reports and had not adequately tested the ECL policies in accordance with AASB 9 *Financial Instruments* (AASB 9).

Other audit findings

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

Table 7: Finding summaries—Other audit findings

Finding
Supervision and review of component auditor work—The auditor should have more clearly documented their evaluation and conclusions from their review of the component auditor's work which was included in the audit file, including whether the nature and extent of the procedures performed by the component auditor was adequate.
Loss allowance for trade receivables—The auditor did not evaluate the impact of the entity's departure from the accounting standards in using an incurred loss model rather than an expected credit loss model to estimate the loss allowance for trade receivables. The auditor did not report this matter to management or those charged with governance for corrective action as necessary.
Compliance with laws and regulations and regulatory compliance covenant testing—The auditor did not perform adequate procedures to conclude on compliance with laws and regulations having a direct effect on the financial report and regulatory covenant compliance.

Systems of quality management

From 15 December 2022, all firms providing any level of audit and assurance services need to comply with 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).

From our review of 15 audit files in the surveillance period we reported one quality management finding to an audit firm.

Table 8: Finding summary—Systems of quality management

Finding
Final audit file assembly and audit work paper modifications after audit surveillance notification—The audit file was not assembled and archived in a timely manner. In addition, the auditor modified audit working papers to further describe the work undertaken after ASIC advised its intent to review the audit file.

The firm agreed to perform a detailed root cause analysis, review systems and process for audit file assembly and archival, and reinforce the importance of audit file integrity to partners and staff and the consequences for non-compliance.

We did not perform any thematic quality management reviews in this surveillance period.

External panel

We consulted an independent external panel on the method of classifying and reporting aggregate 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 concurred with our findings and conclusions.

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

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

International

ASIC is currently a member of the International Forum of Independent Audit Regulators' (IFIAR), where we collaborate with other audit regulators on audit quality and regulatory practice.

Each year IFIAR requests and we report on the results of our audit surveillances on the largest six firms (BDO, Deloitte Touche Tohmatsu, Ernst & Young, Grant Thornton, KPMG and PricewaterhouseCoopers). The nature and significance of our findings are consistent with those of audit regulators in other jurisdictions, as reflected in the results of the IFIAR Survey of inspection findings 2022 (PDF 880 KB) (published 15 March 2023).

ASIC has an arrangement to assist the Public Company Accounting Oversight Board of the United States to review Australian auditors registered with them. We conducted one joint audit surveillance in the surveillance period and our audit findings are included in our reported statistics in this report.

Auditor reporting obligations: An ASIC perspective

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.

Regulatory Guide 34 *Auditor's obligations: Reporting to ASIC* (RG 34) sets out our guidance on the obligations for auditors to notify or report to us contraventions and suspected contraventions under the Corporations Act.

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 auditor notifications in connection with an audit or review of a financial report.

Why are the section 311 notifications and reports important?

Auditor reporting obligations in connection with an audit or review of a financial report 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. Sometimes, information may come to the auditor's attention from outside the audit or review that gives rise to reasonable grounds to suspect that a contravention of the Corporations Act has occurred.

We expect auditors to be vigilant and apply professional scepticism by making appropriate inquiries where circumstances require it. This helps to support the effective regulation of companies and protects stakeholders who rely on or transact with them.

We incorporate the notifications and reports as part of our risk-based targeting for financial reporting surveillance. The notifications are also used to identify issues that require a specific reactive response—for example, where we contact either the auditor and/or the entity for further information.

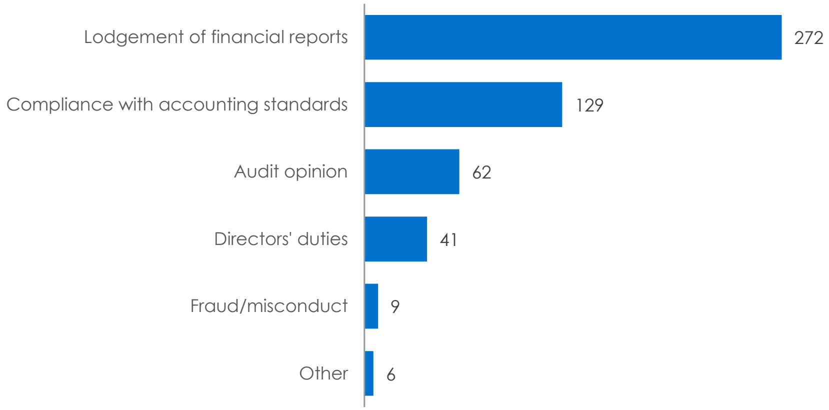
In addition, auditor notifications and reports help us to identify thematic trends that may require a broader regulatory response and allow for the efficient and effective sharing of information within ASIC.

How many section 311 notifications and reports does ASIC receive?

During the year we received over 500 notifications and reports from auditors, with just over half being for contraventions or suspected contraventions relating to failure to lodge financial reports.

Figure 9 shows a breakdown of the type of notifications received, excluding the impact of AFS licensee notifications.

Figure 9: Category of section 311 auditor notifications and reports received



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

What does ASIC do with the 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.

The financial reporting and audit team reviews notifications and reports which 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.

Where the team has formed the view that the contravention or suspected contravention reported by the auditor is significant and unresolved, we may contact the company and undertake a financial report surveillance or take other appropriate regulatory action.

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

Surveillance activity in response to section 311 notifications and reports

During the year, in addition to the 55 financial report surveillances and 15 audit surveillances, we completed five surveillances in response to section 311 auditor notifications and reports. Three related to a modified audit opinion, one related to allegations of fraud, and one related to an alleged failure to assist the auditor.

Examples of some of the above matters that we finalised in the surveillance period are as follows:

- *Audit opinion (modified) notification*—relating to a proprietary company that was a subsidiary of a larger group. Our inquiries revealed that the parent entity of this larger group did not prepare a consolidated financial report as required by accounting standards. In response to our concerns, the parent company prepared and lodged a consolidated financial report for the group.
- *Audit opinion (modified) notification*—relating to a proprietary company that prepared a special purpose financial report,

despite the recent introduction of accounting standards that now require all 'for-profit' entities to prepare general purpose financial reports. In response to our concerns, the company prepared and lodged an amended general purpose financial report.

- *Alleged fraud notification and report*—relating to a subsidiary of a large international group. The subsidiary was a large proprietary company and had financial reporting obligations in Australia. We obtained information from both the auditor and the company about the circumstances, including a forensic accounting report into the matter, and reviewed the company's subsequent financial report to evaluate whether the matters had been sufficiently disclosed.
- *Access to company records notification and report*—relating to allegations about the auditor not being given access to all information to enable it to perform a sufficient assessment of a company's ability to continue as a going concern. We contacted the auditor and sought additional information about the circumstances arising during the engagement.

Failure to lodge financial reports

Contraventions concerning the failure to lodge a financial report consistently represent the majority of section 311 notifications and reports received by ASIC each year. Of the 272 received in the year, 253 related to unlisted entities and 19 related to listed entities.

For listed entities, we consider targeted follow-up on a case-by-case basis. Due to ASX reporting requirements and oversight, these entities will generally resolve their non-lodgement without any ASIC intervention.

For unlisted entities, ASIC conducts follow-up together with enforcement where circumstances warrant it. During the surveillance period, 51 entities were subject to enforcement action for failing to lodge a financial report: see Media Release (23-033MR) *ASIC prosecutes fifteen companies for failing to lodge financial reports* (20 February 2023) and Media Release (23-264MR) *ASIC obtains over $700,000 in penalties for financial reporting failures* (28 September 2023).

Appendix 1: Financial reporting and audit enforcement outcomes

22-198MR: *Former auditor of Big Un Limited convicted for failing to comply with auditing standards* (1 August 2022)

22-240MR: *Grant Thornton and auditor charged over 2018 audit of iSignthis* (1 September 2022)

23-170MR: *Accountant charged with falsifying signatures on audit documents* (26 June 2023)

23-252MR: *Companies Auditors Disciplinary Board finds BDO audit partner failed to meet minimum standards* (12 September 2023)

23-262MR: *Company auditor suspended for 12 months over deficient audits* (27 September 2023)

Our enforcement actions relating to misconduct underway are also included in ASIC's enforcement update reports which are available on our website.

Appendix 2: List of financial reporting surveillance media releases

22-332MR: *ASIC calls for greater focus on material business risk disclosure in annual reports* (30 November 2022)

> BlueBet Holdings Limited, Little Green Pharma Ltd, hipages Group Holdings Limited, Australian Strategic Materials Limited and Australian Agricultural Company Limited updated their OFRs with additional material business risks

23-018MR: *ASIC calls for improved material business risk disclosure in annual reports* (10 February 2023)

> MedAdvisor Limited, Alcidion Group Limited, WOTSO Property and Webcentral Limited updated their OFRs to include additional disclosure of material business risks. WOTSO also improved disclosure of its use of non-IFRS financial information

23-044MR: *Star provides $150 million for fines and penalties after ASIC raises concerns* (28 February 2023)

23-049MR: *Southern Cross Media removes non-IFRS profit measure following ASIC review* (3 March 2023)

23-052MR: *IDP Education adjusts contingent liability disclosure following ASIC review* (7 March 2023)

23-053MR: *Emeco writes down value of a trade receivable and improves business risk disclosure* (7 March 2023)

23-054MR: *N1 Holdings restates revenue and improves business risk disclosure following ASIC review* (7 March 2023)

23-058MR: *ASIC continues its focus on improved material business risk disclosure in annual reports* (10 March 2023)

> DomaCom Limited, Dubber Corporation Limited, Family Zone Cyber Safety Limited, Maas Group Holdings Limited, SILK Laser Australia Limited and Zelira Therapeutics Limited updated their OFRs to include additional business risks. Separately, DomaCom Limited also improved disclosure about the recognition of upfront platform fees

23-066MR: *Adslot writes down goodwill following ASIC review* (15 March 2023)

23-080MR: *Tasman Resources and Eden Innovations write down intellectual property assets following ASIC review* (24 March 2023)

23-097MR: *Atomos Limited derecognises trade receivables and deferred revenue* (14 April 2023)

23-213MR: *ASIC review improves risk disclosures for Namoi Cotton and Fluence Corporation, including sustainability-related risks* (10 August 2023)

Appendix 3: Changes to financial reporting and audit surveillance programs

Financial reporting

Area	New approach from 1 July 2022	Old approach to 30 June 2022
Scope and targeting	Listed entities and unlisted entities with public interest determined based on enhanced risk-based targeting with improved use of internal and external data	Listed entities and unlisted entities with public interest determined based on risk targeting
Overall findings	Annual report on Financial Reporting and Audit surveillance program findings	Media release in June and December following completion of reviews
Analysis of findings	Report includes analysis of industries reviewed, the reason for selection and an analysis of entities reviewed by market capitalisation	Not covered in media releases

Audit

Area	New approach from 1 July 2022	Old approach to 30 June 2022
Scope and targeting	Audit files selected from financial reporting enhanced risk-based targeting, the findings of the financial reporting reviews and other available intelligence, irrespective of the audit firm	Spread of largest six audits based on market cap of audited companies and audits of other firms selected from the pool of financial reporting targets
Overall findings	Annual report on Financial Reporting and Audit surveillance program findings, without percentage measure of negative findings	Annual Audit Inspection Report including percentage measure and summary of negative findings
Largest six firm findings	A summary of each individual finding for all firms is now included in the report for greater transparency of all findings. Individual largest six firm reports discontinued	Only included in individual largest six firm reports published annually including percentage and summary of negative findings. Details of individual non-largest six findings not published

Appendix 4: Limited scope review—AASB 17 *Insurance Contracts* transition disclosures

Background

In November 2020, we called on insurers to respond to the new accounting standard for insurance contracts AASB 17 *Insurance Contracts* (AASB 17), which is effective for reporting periods beginning on or after 1 January 2023: see 20-286MR for more information.

In our December 2022 focus areas media release (22-333MR), we further highlighted the importance of disclosing the impacts of applying AASB 17, given 31 December 2022 represented the end of the first comparative period that will be reported once the standard is effective.

Scope of our reviews

We performed a limited scope review of the 31 December 2022 full-year financial reports of 14 insurers (12 large unlisted and two listed entities) to evaluate the disclosures regarding known or reasonably estimable information relevant to assessing the possible impact of applying the new standard. This is a requirement of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* (AASB 108).

AASB 108 does not specify how much detail entities should disclose when assessing the impact of standards that have been issued but are not yet effective, and it is therefore left to the entity's judgement. However, we considered it reasonable for the market to expect that insurers would be in a position to quantify and disclose the impact of AASB 17's application in the notes to their 31 December 2022 financial reports, so we targeted this industry specifically.

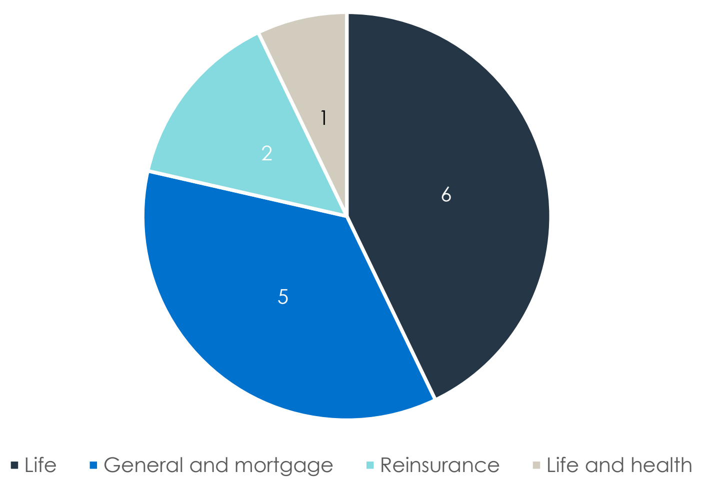
AASB 17 requirements on recognition and measurements of insurance contracts can significantly affect the reported financial results of insurers.

Selection of insurers to review

We reviewed listed and unlisted insurers who are considered 'publicly accountable' under accounting standards and therefore must prepare a 'Tier 1' financial report. 'Tier 1' financial reports must comply with the accounting standards in full, including all disclosures.

Figure 10 shows the business lines of the full-year financial reports we reviewed for the year ended 31 December 2022.

Figure 10: Insurance reviews by business line



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

Key findings from our reviews

Transition method

There are three transition methods insurers can use to apply the new measurement model under AASB 17:

- retrospective
- modified retrospective, and
- fair value.

Insurers need to ensure that the requirements for applying the relevant method are met.

We noted that all entities except one provided disclosure of a transition method. However, there was a mix of methods across all insurers with no observable trend based on the business line. We observed that fair value was most common to the reinsurance business line.

Measurement model

Insurers need to consider all relevant facts and circumstances in determining whether to apply the General Measurement Model (GMM) or the simplified Premium Allocation Approach (PAA) to each portfolio of insurance contracts. Insurers can only use PAA if the liability for a group of contracts would not be materially different from applying GMM at the inception of the group, or if the coverage period of each contract in the group is one year or less.

We noted that all entities provided disclosure of a measurement model, with a mix of models across all insurers. Adoption of PAA is common across general insurers. GMM is more common for life insurers with PAA, and variable fee approach (VFA) is used for certain business lines.

Disclosure of estimated financial impact of adopting AASB 17

It is reasonable for the market to expect that quantitative information will be available and disclosed for the comparative year that will be affected in a future financial report. Information that there will be no material impact may also be important information for the market.

Financial impacts are volatile depending on the nature of the business lines. Entities disclosed estimated financial impacts ranging from an increase of 10% to a decrease of 65% in net assets at the transition day. Common drivers of financial impacts include:

- change of valuation model to GMM
- adoption of risk adjustment
- recognition of loss of onerous contracts due to more granular reporting requirements, or
- determination of discount rate.

We noted that six of the 14 insurers did not disclose any estimate of financial impact. In our view, this is disappointing. Five of these entities were life insurers.

Of the eight entities that did disclose the estimate of the financial impact, all of them provided some quantification of the impact with explanations and reasons for the impacts, and two of these provided some particularly informative disclosures which included reconciliations showing the impact of each key component of the new standard adoption.

Other key matters

Our review also focused on the key matters we highlighted in 20-286MR, as being important for insurers to consider. In these areas we observed:

- seven insurers will use a bottom-up approach to determine the rate to discount future cash flows
- four insurers will record the impact of the discount rate to other comprehensive income rather than profit and loss, and
- four insurers expect to determine the risk adjustments based on a confidence level.

Across other areas, we observed that there were no, or limited, disclosures about separation of product components, loss-making products, insurance acquisition costs, and the impact on APRA regulatory capital. We also observed that most entities did not make any meaningful disclosures in relation to these areas. However, we acknowledge that disclosure may not be relevant depending on the insurer's business lines.

Key messages for insurers

We encourage directors and preparers of financial reports for insurance entities to make meaningful disclosures to ensure investors and other financial report users are informed of the impact of the new standard particularly in relation to quantifying the expected financial impact.

We will continue to focus on reporting by insurers as part of the financial reporting and audit surveillance program and evaluate the nature and extent of disclosures made by entities.

We will continue to assess the implementation of the new insurance standard by undertaking risk-based targeting and reviews of the financial reports of insurers

Appendix 5: Accessible versions of figures

Table 9: Financial reporting reviews, surveillances and findings by market capitalisation (ASX listed entities)

Category	Reviews	Surveillances	Findings
Top 200	33	5	2
Top 201-500	36	13	8
Top 500+	87	35	15

Note: This is the data shown in Figure 4.

Table 10: Top 10 industry reviews, surveillances and findings

Industry	Reviews	Surveillances	Findings
Materials	35	5	2
Software and services	19	6	4
Insurance	14	0	0
Capital goods	11	5	3
Media and entertainment	12	5	3
Energy	8	3	0
Consumer services	9	5	2
Commercial and professional services	10	4	1
Food, beverage and tobacco	9	3	1
Retailing	9	1	0

Note: This is the data shown in Figure 5.

Table 11: Issues raised in financial reporting surveillances

Issue	Closed Surveillances	Open Surveillances	Findings
Operating and financial review	13	1	19
Impairment and asset values	15	2	3
Revenue recognition	11	0	3
Financial report disclosures	7	0	0
Provisions	3	2	1
Contingent liability disclosure	2	0	1
Non-IFRS profit information	0	0	2
Investments	3	0	0
Off-balance sheet	2	1	0
Debt classification	2	0	0

Note: This is the data shown in Figure 6.

Table 12: Audit surveillances where there was a material change to the financial report

Period	Percentage
12 months to 30 June 2019	2%
12 months to 30 June 2020	3%
12 months to 30 June 2021	9%
12 months to 30 June 2022	9%
12 months to 30 June 2023	40%

Note: This is the data shown in Figure 7.

Table 13: Number of audit surveillances with the number of findings

Number of areas with findings	12 months to 30 June 2023	12 months to 30 June 2022
No findings	4	18
One finding	5	9
Two findings	5	12
Three findings	1	5
Four or more findings	0	1

Note: This is the data shown in Figure 8.

Table 14: Category of section 311 auditor notifications and reports received

Issue	Number
Lodgement of financial reports	272
Compliance with accounting standards	129
Audit opinion	62
Directors' duties	41
Fraud/misconduct	9
Other	6

Note: This is the data shown in Figure 9.

Table 15: Insurance reviews by business line

Business line	Reviews
Life	6
General and mortgage	5
Reinsurance	2
Life and health	1

Note: This is the data shown in Figure 10.

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
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	*Corporations Act 2001*, 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
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

last year	Files reviewed in the 12 months to 30 June 2022 which covered audits of financial reports for the financial years ending from 31 December 2019 to 31 December 2021
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
professional accounting bodies	Chartered Accountants Australia and New Zealand, CPA Australia and the Institute of Public Accountants
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)
surveillance period	Financial reports and audit files reviewed in the 12 months to 30 June 2023. This includes reviews of financial reports covering years ended from 31 March 2022 to 28 February 2023 and audits of financial reports for years ended from 30 June 2021 to 31 December 2022