ASIC

Australian Securities & Investments Commission

Deloitte Touche Tohmatsu Australia

Audit inspection report for 2018-19

December 2019

About this report

This report summarises findings from our reviews of key areas in audits at Deloitte Touche Tohmatsu Australia (Deloitte) in the 12 months to 30 June 2019.

This report also lists any findings from our reviews of financial reports audited by the firm in the 12 months to 30 June 2019.

Although this report may describe deficiencies identified, this should not be taken to provide assurance that the firm's audits and systems, or audited financial reports, are free of other deficiencies.

This report is intended to communicate our findings in a clear and concise manner to leadership of the firm who are informed auditing and accounting professionals. While there are no restrictions on the firm providing this report to third parties or releasing the report to the public, other readers of this report may not have the full context of this report and the findings summarised herein.

ASIC Information Sheet 224 *ASIC Audit Inspections* and ASIC Report 648 *Audit inspection report for 2018-19* provide further information on our audit firm inspection process.

Background

1 ASIC's audit inspections involve the review of key areas in the audits of listed entities and other public interest entities.

2 This report summarises our findings from audit reviews substantially completed in the 12 months to 30 June 2019, and financial reporting surveillances relating to entities audited by Deloitte completed in the 12 months to 30 June 2019. If it has not already done so, the firm should identify underlying root causes for the matters reported, and for findings from internal and peer reviews, and implement new and improved actions to achieve sustainable improvements in audit quality.

3 More information can be found in detailed comment forms provided separately to the firm (matters in Tables 1 and 2). The comment forms include the firm's response to our findings.

4 This report does not include details of enforcement actions (if any) involving members of the firm that may have been underway or finalised in the 12 month period.

Audit file review findings

5 In our view, the auditor did not obtain reasonable assurance that the financial report was free of material misstatement in 6 of the 19 key areas reviewed in total across 6 audits reviewed at the firm (32% of the key areas reviewed). 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.

6 Table 1 summarises the findings. The firm did not necessarily agree with all of our findings. The findings should not be taken to infer that the financial report was materially misstated, but rather that the auditor did not obtain sufficient evidence to support their opinion.

Table 1: Audit file review findings – risk of material misstatement

Entity	Areas with findings	Findings
Entity A	3 of the 3 key areas reviewed	• *Revenue and receivables* – the auditor did not perform controls or substantive testing on whether customers were billed at contracted rates. The auditor tested only two invoices for the existence of trade receivables. • *Impairment of non-current assets* – the auditor did not adequately consider the estimated useful lives of infrastructure assets. • *Financial instrument valuation* – the auditor did not adequately identify, quantify and evaluate variances in the valuation determined by the audited entity due to differences in prices,

Entity	Areas with findings	Findings
		independently obtain prices from the third party or consider risk exposures in selecting derivates for testing.
Entity B	2 of the 4 key areas reviewed	• *Carrying value of non-current asset* – the auditor did not adequately assess the recoverable amount of a non-current asset to support the reversal of a prior period impairment. • *Investment in associate* – the auditor did not identify that the share of investee profits was incorrectly calculated.
Entity C	1 of the 2 key areas reviewed	• *Financial instrument valuation* – the auditor did not adequately test inputs used in a valuation model or respond to a significant variance identified during the auditor's testing.

Note: There was one finding where, in our view the materiality set for the audit was too high. As determining materiality is not a key area reviewed, the finding was not included in the percentage in paragraph 4 above.

7 Our audit file review findings which did not involve risk of material misstatements are summarised in Table 2. These findings include matters that could be relevant to obtaining reasonable assurance for the audited entity in future or another audited entity.

Table 2: Audit review findings – other

Entity	Findings
Entity A	• *Impairment of non-current assets* – the auditor did not sufficiently evidence the rationale for using a uniform discount rate across three cash generating units, consider the impact of transfer pricing and consider whether individual assets of specific type were impaired.
Entity B	• *Other expenses* – the auditor did not appropriately assess a significant movement in other expenses.
Entity C	• *Fair value of financial instruments* – the auditor did not identify that the accounting policy note in the entity's financial report did not correctly describe the method of valuing certain financial instruments.
Entity D	• *Revenue* - the auditor did not perform tests of detail on revenue earned from sales to overseas customers and relied on common systems and controls operated by the same staff as for sales to Australian customers.

Financial report findings

8 We completed risk-based reviews of aspects of 43 financial reports of listed and other public interest entities audited by the firm in the 12 months to 30 June 2019. There were no material changes to net assets or profit as a result of our inquiries.

