



ASIC

Australian Securities & Investments Commission

BDO firms in Australia

Audit inspection report

18 months to 30 June 2018

May 2019

About this report

This report summarises findings from our reviews at the BDO firms in Australia (BDO) including:

- key areas in audits where our reviews were substantially completed in the 18 months to 30 June 2018; and
- firm processes to identify and address root causes of audit deficiencies and project management of audits.

This report also lists findings from our reviews of financial reports audited by the firm in the 18 months to 30 June 2018.

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 607 *Audit inspection report for 2017-18* provide further information on our audit firm inspection process.

Background

- 1 The objective of ASIC's audit inspection program is to work cooperatively with audit firms to promote improved audit quality. We focus primarily on the review of key areas in the audits of listed entities and other public interest entities.
- 2 This report summarises our findings from substantially completed reviews of audits, good practice recommendations on root cause analysis and project management, and financial reporting surveillances relating to BDO and the entities it audits in the 18 months to 30 June 2018. If it has not already done so, the firm should identify underlying root causes for the matters reported, and for findings from internal and global firm reviews, and consider 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) or in a media release available from the ASIC website (www.asic.gov.au) (matters in Table 4 and paragraph 10). The comment forms include the firm's response to our findings.

Audit review findings

- 4 In our view, the auditor did not obtain reasonable assurance that the financial report was free of material misstatement in 1 of the 12 key areas reviewed in total across 3 audits (8% of the key areas reviewed). Audits and audit areas were selected for review on a risk basis.
- 5 Table 1 summarises these 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 review findings – risk of material misstatement

Entity	Areas with findings	Findings
Entity C	1 of the 4 key areas reviewed	<ul style="list-style-type: none"> • <i>Impairment of mine</i> property - the discount rate used for one mine property was lower than the ranges provided by internal and external experts. The auditor did not consider comparable entity discount rates. The financial report did not include disclosures relating to impairment of mine properties disclosures, including sensitivity analysis.

- 6 Our audit file review finding which did not involve risk of material misstatements are summarised in Table 2. These finding 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 C	<ul style="list-style-type: none"> <i>Rehabilitation provision</i> – the auditor did not assess the appropriateness of using an expert's report prepared in 2015 for one mine property that had moved from exploration to production from 1 July 2017.

Root cause analysis and project management

- 7 We reviewed the firm's approach to root cause analysis of internal review and external inspection findings, and its approach to project management of audit engagements and monitoring progress against milestones. Table 3 summarises our good practice recommendations.

Table 3: Root cause analysis and project management – Good practice recommendations

Area	Good practice recommendations
Root cause analysis	<ul style="list-style-type: none"> Consideration could be given to moving to a centrally coordinated national root cause analysis process (independent of the internal reviewers and engagement partners) to ensure root causes of internal and external findings are consistently and properly identified and addressed. A timetable for interviewing engagement team members as internal and external file reviews with findings are completed could be adopted. The root cause analysis policy framework to provide specific guidance and training on methodology and processes to responsible personnel could be enhanced. The root cause analysis findings could be better linked to remedial actions on individual audits and the firm's audit quality action plan to address audit quality. A post-implementation review could be undertaken at an appropriate time to evaluate the effectiveness of the root cause analysis and identify possible areas for improvement.
Project management	<ul style="list-style-type: none"> Consideration could be given to additional common milestones for public interest entity audit engagements and/or agreeing key specific milestones for each such engagement. The robustness and integrity of milestone data could be tested through internal monitoring and engagement quality control processes. Progress against standard milestones could be monitored by the firm's head of assurance or independent quality team with authority to act where milestones are not achieved.

Financial report findings

- 8 We completed risk-based reviews of aspects of 31 financial reports of listed and other public interest entities audited by the firm in the 18 months to 30 June 2018. Following our inquiries, two entities made material changes to net assets or profits as summarised in Table 4. More information can be found in media releases available from the ASIC website (www.asic.gov.au). We did not review the relevant areas of the audit in our audit firm inspections.

Table 4: Financial report findings – media releases issued

Entity	Year end	Findings
AusTex Oil Limited	31 December 2016	The company impaired oil and gas assets by \$6.2 million in the subsequent half year financial report.
Pacific Star Network Limited	30 June 2016	The company announced in January 2017 that it would impair publishing mastheads and goodwill arising from the acquisition of Morrison Media by \$4.5 million.

- 10 In accordance with its obligations as auditor of Webjet Limited, BDO notified ASIC of a suspected contravention of the Corporations Act 2001 by company in its accounting for revenue in connection with a contract with Thomas Cook. Following ASIC's inquiries, the company decided to adopt an accounting treatment consistent with BDO's view in its financial report for the year ended 30 June 2017.