



**ASIC**

Australian Securities & Investments Commission

# **BDO firms in 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 the BDO firms in Australia (BDO) 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 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 BDO firms 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 global firm 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) or in a media release available from the ASIC website ([www.asic.gov.au](http://www.asic.gov.au)) (matter in Table 3). 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

- 4 In our view, the auditor did not obtain reasonable assurance that the financial report was free of material misstatement in 2 of the 7 key areas reviewed in total across 2 audits reviewed at the firm (29% 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.
- 5 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 review findings – risk of material misstatement**

Entity	Areas with findings	Findings
Entity A	2 of the 3 key areas reviewed	<ul style="list-style-type: none"> <li>• <i>Sales revenue</i> – the auditor did not consider all relevant contractual terms and circumstances when evaluating whether revenue could be recognised on hardware delivered and associated implementation costs before year end but before installation of the hardware and related software.</li> <li>• <i>Income tax benefit</i> – the auditor did not obtain an understanding of the composition of research and development expenditure and test it to underlying source documents.</li> </ul>

Note: There was one finding relating to journal entry testing where, in our view, the auditor did not obtain reasonable assurance that the financial report was free of material misstatement. As journal entry testing is not a key area reviewed, the finding was not included in the percentage in paragraph 4 above.

- 6 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 B	<ul style="list-style-type: none"> <li><i>Revenue</i> – the auditor did not obtain the planned assurance from substantive analytical procedures. The auditor’s expectation was based on untested internal management reports and management explanations for differences were not corroborated.</li> </ul>

## Financial report findings

- 8 We completed risk-based reviews of aspects of 23 financial reports of listed and other public interest entities audited by the firm in the 12 months to 30 June 2019. Following our inquiries, one entity made material changes to net assets or profit as summarised in Table 3. More information can be found in a media release available from the ASIC website ([www.asic.gov.au](http://www.asic.gov.au)). We did not review the relevant areas of the audit in our audit firm inspections.

**Table 3: Financial report finding – media release issued**

Entity	Year end	Findings
Mustera Property Group Limited	30 June 2018	The company reclassified its non-controlling interest in Mustera Property Fund from equity to a liability, reducing net assets by \$7.1 million in its financial report for the half-year ended 31 December 2018. The entity also made additional disclosure on transactions with a related party that had occurred during the year ended 30 June 2018.