



ASIC
Australian Securities &
Investments Commission



BDO firms in Australia

Audit inspection report

1 July 2019 to 30 June 2020

Report 679 | December 2020

About this report

This report sets out our findings from reviewing audit files at BDO firms in Australia from 1 July 2019 to 30 June 2020, and recommendations from reviews of governance and accountability.

Introduction

This report summarises findings from:

- reviews that we substantially completed in the 12 months to 30 June 2020 of key areas in selected financial report audits of listed entities and other public interest entities conducted by BDO firms in Australia (BDO)
- our reviews of aspects of BDO's approach to firm governance and accountability for audit quality, and
- financial reporting surveillances completed by us in the 12 months to 30 June 2020 relating to listed entities and other public interest entities audited by BDO.

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 that may have been underway or finalised in the 12-month period relating to audits (if any) involving members of the firm, and
- is intended to communicate our findings in a clear and concise manner to leadership of the firm who are informed auditing and accounting professionals. Other readers of this report may not have the full context of this report and the findings summarised in it.

[Information Sheet 224](#) ASIC audit inspections and [Report 677](#) Audit inspection report: 1 July 2019 to 30 June 2020 provide further information on our audit firm inspection process.

Our findings

In our view, BDO did not obtain reasonable assurance that the financial report was free of material misstatement in two of the 10 key areas that we reviewed in total across three audits by the firm, being 20% of the key areas reviewed by us. This compares to 29% for the 12 months ending 30 June 2019.

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.

Table 1 summarises the findings. The firm did not necessarily agree with all of our findings. The findings do not necessarily mean that the financial report was materially misstated, but rather that the auditor did not have a sufficient basis for their opinion.

Table 1: Audit review findings—Risk of material misstatement

Entity	Areas with findings	Findings
Entity B	Two of three key areas reviewed	<p><i>Financial assets</i>—The auditor did not adequately test all relevant assumptions, forecasts and company circumstances supporting the fair value of financial instruments, evaluate the work of management’s valuation expert and evaluate whether the entity had significant influence over an investee.</p> <p><i>Equity accounted investments</i>—The auditor did not adequately test all assumptions, forecasts and circumstances relevant to the impairment testing of the investments.</p>

Our audit file review findings which did not involve a risk of material misstatement 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	<i>Receivables</i> —A substantive analytical procedure performed by the auditor on receivables did not achieve the planned level of assurance.

Firm governance and accountability

During the six months to 31 December 2019, we reviewed aspects of the firm’s approach to firm governance and accountability for audit quality. Our better practice recommendations are included in Table 3.

Table 3: Better practice recommendations for firm

Area	Better practice recommendations
Firm governance	Clearly articulating the remit of internal governing boards for audit quality, including the authority they have to hold partners and staff accountable for audit quality deficiencies.
Accountability for audit quality	<p>Ensuring that the consequences for engagement partners for deficient audits are transparent to the partner group.</p> <p>Holding engagement quality control reviewers and experts/specialists involved on audit engagements accountable for adverse findings from internal and external quality reviews.</p> <p>Seeking feedback to firm leadership on audit quality from audit committees and non-executive directors of audited entities.</p> <p>Making clearer how ethics, independence and audit quality are part of partner admission criteria.</p>

Financial report findings

We completed risk-based reviews of aspects of 24 financial reports of listed and other public interest entities audited by the firm in the 12 months to 30 June 2020. There were no material changes to net assets or profit as a result of any ASIC inquiries.

Improving audit quality

If it has not already done so, the firm should identify underlying root causes for the matters reported from our audit reviews and financial reporting surveillances, and for findings from internal and global firm reviews, and implement further and improved actions to achieve sustainable improvements in audit quality.

Further information

More information on the matters in Table 1 to Table 3 is contained in detailed comment forms provided separately to the firm. The comment forms include the firm's responses to our findings.

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.