



ASIC

Australian Securities & Investments Commission

Grant Thornton Australia Limited

Audit inspection report 18 months to 30 June 2018

May 2019

About this report

This report summarises findings from our reviews at Grant Thornton Australia Limited (Grant Thornton) 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 completed financial reporting surveillances, relating to Grant Thornton 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 For more information refer to the 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) (for the matter in paragraph 9). 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 4 of the 20 key areas reviewed in total across 5 audits reviewed at the firm (20% 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 A	2 of the 4 key areas reviewed	<ul style="list-style-type: none"> • <i>Software development costs</i> – the auditor obtained insufficient evidence that software development costs capitalised by the entity met the specific criteria for deferral as an asset in accounting standards. • <i>Revenue</i> - the auditor did not evaluate the adequacy of the work performed by component auditors on revenue and deferred revenue.
Entity B	1 of the 3 key areas reviewed	<ul style="list-style-type: none"> • <i>Business combination</i> - the auditor's did not adequately evaluate whether it was appropriate to include in the cost of an intangible asset both a payment to company A for a product licence agreement and a payment to company B for the expertise of individuals.

Entity	Areas with findings	Findings
Entity C	1 of the 4 key areas reviewed	<ul style="list-style-type: none"> <i>Revenue</i> - the auditor did not perform procedures on accuracy, occurrence and cut-off for several revenue streams.

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 5 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 C	<ul style="list-style-type: none"> <i>Impairment testing</i> – the auditor did not properly assess whether management tested the sensitivity of its impairment model to changes in assumptions and inputs. <i>Deferred tax disclosure</i> – the auditor did not adequately review the financial report to identify disclosure deficiencies.
Entity D	<ul style="list-style-type: none"> <i>Revenue and receivables</i> - the auditor did not adequately scope, design and perform procedures for non-significant group components which were material in aggregate. <i>Impairment testing</i> – while there was sufficient headroom, there were several deficiencies in the auditor's testing of goodwill impairment, including on disclosures in the financial report. <i>Cash</i> – the auditor did not adequately test some cash balances.

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

Area	Good practice recommendations
	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 33 financial reports of listed and other public interest entities audited by the firm in the 18 months to 30 June 2018.
- 9 ASIC raised concerns with ██████████ about the recoverable amount of exploration and evaluation assets recognised in its financial report for the year ended 30 June 2017 at US\$56 million, Grant Thornton had previously issued an audit report with a disclaimer of opinion on ██████████ financial report for the year ended 30 June 2017 which stated that the company had not tested the assets for impairment. ██████████ changed its accounting policy and derecognised the assets in the financial report for the half-year ended 31 December 2017 (refer media release available from the ASIC website - www.asic.gov.au). _____