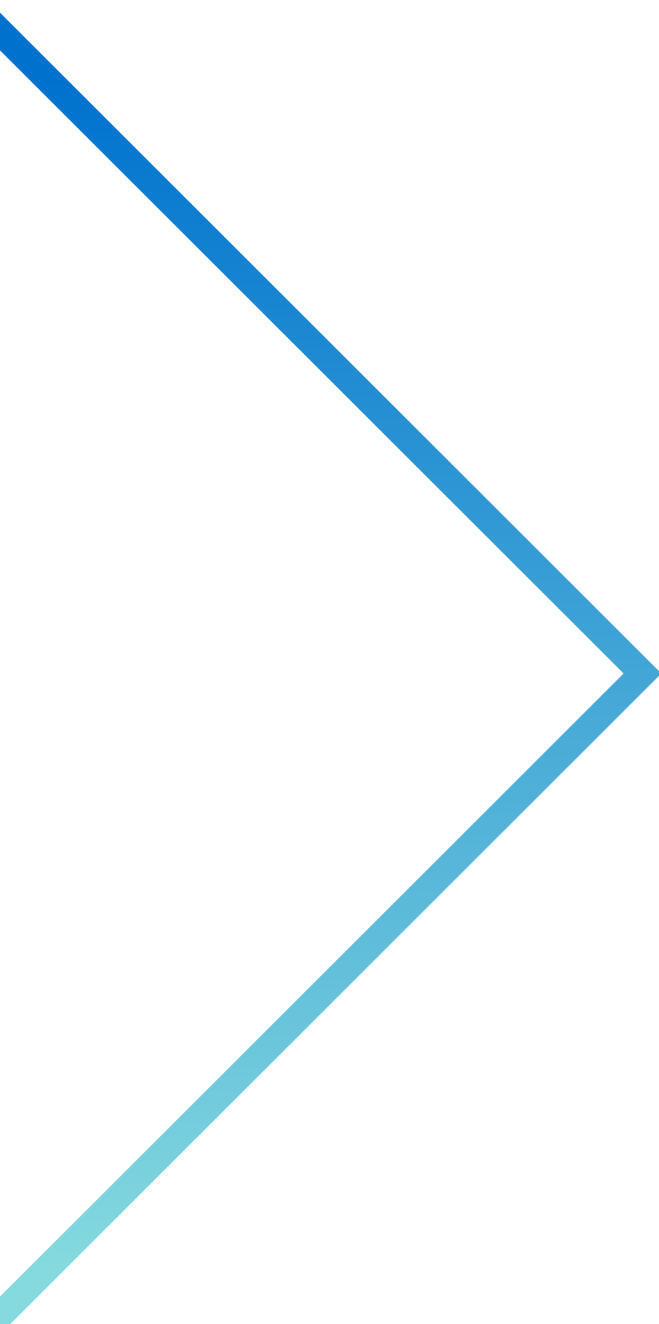




**ASIC**  
Australian Securities &  
Investments Commission



# KPMG Australia Audit inspection report

**1 July 2021 to 30 June 2022**

**Report 748 | October 2022**

## **About this report**

This report sets out our findings from reviewing audit files at KPMG Australia for the period 1 July 2021 to 30 June 2022 and better practices for KPMG to consider in its approach to root cause analysis.

## Introduction

This report includes:

- › findings from reviews that we completed in the 12 months to 30 June 2022 (this year) of key audit areas in selected financial report audits of listed entities and one large unlisted entity conducted by KPMG Australia (KPMG, the firm)
- › financial reporting surveillance findings relating to entities audited by KPMG this year, and
- › better practice considerations from the application of KPMG's policies, systems and processes for conducting root cause analysis.

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 underway or finalised in the 12-month period relating to audits (if any) involving members of the firm. For details, refer to the [periodic updates](#) of our enforcement outcomes
- › is intended to communicate our findings in a clear and concise manner to the leadership of the firm who are informed auditing and accounting professionals. Other readers of this report should recognise they may not have the full context of this report and the findings summarised below, and
- › does not represent a balanced scorecard as our negative findings are based on a limited number of audits focusing on higher risk audit areas and does not report on positive audit quality.

We note that the firm and the entities it audits were required to adapt to remote work arrangements; global, national and local travel restrictions; and other impacts of COVID-19 during the period covered by this report.

We consulted an independent external panel on the method of measuring and reporting our findings. The panel discussed and tested the conclusions reached (including firm responses) on a small number of anonymised findings. The panel agreed with our approach to measuring and reporting our findings.

Further details about our audit inspection program this year can be found in [Report 743 Audit inspection report: 1 July 2021 to 30 June 2022](#) (REP 743), including a glossary of key terms. [Report 739 Root cause analysis: Audit firm thematic review](#) (REP 739) outlines good practices in place at some of the largest six firms and better practice recommendations for performing root cause analysis. [Information Sheet 224 ASIC audit inspections](#) (INFO 224) provides further information on our audit firm inspection process.

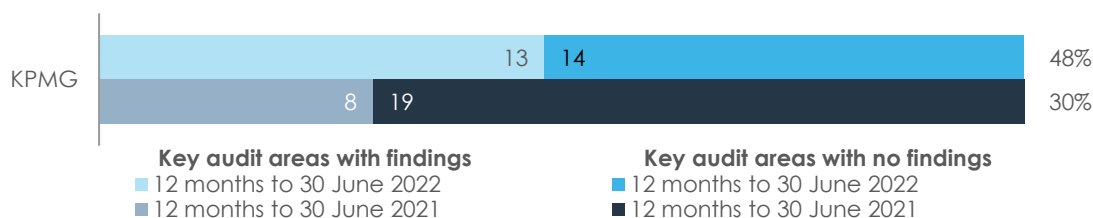
## Our findings

KPMG did not, in our view, obtain reasonable assurance that the financial report was free of material misstatement (negative findings) in 13 of the 27 key audit areas reviewed (48%) across eight audits by the firm this year. This compares to eight of the 27 key audit areas reviewed (30%) across eight audits for the 12 months ending 30 June 2021 (last year). See Figure 1.

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.

The increase in the level of negative findings is of concern and warrants continued deliberate and concerted action by the firm.

**Figure 1: Negative findings from reviews of key audit areas in audit files**



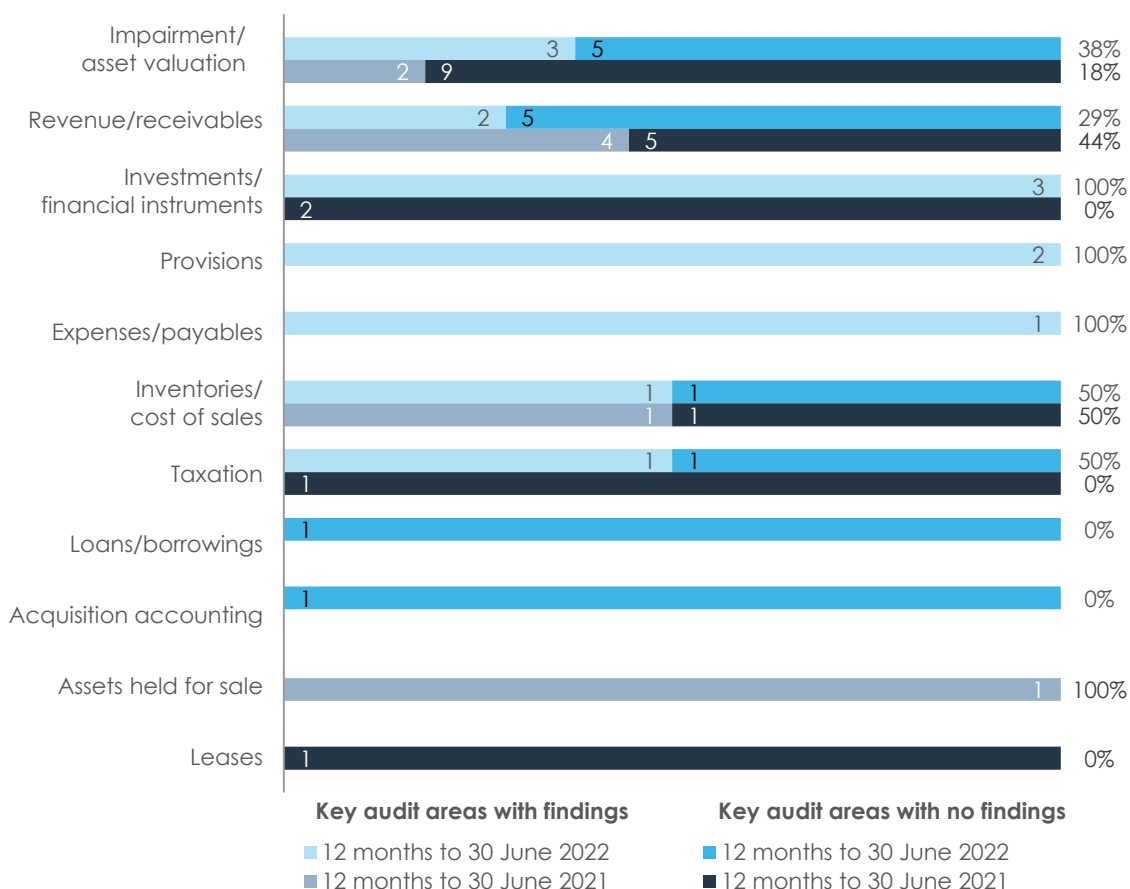
**Note:** See Table 4 for the data shown in this figure (accessible version).

The firm did not agree with all of our findings. The findings do not necessarily mean the financial report was materially misstated. Rather, in our view, the auditor did not have a sufficient basis for their opinion.

The largest number of negative findings relate to impairment testing and audit of investments and financial instruments.

Figure 2 shows the areas we reviewed and the frequency of our findings this year and last year.

**Figure 2: Key audit areas with negative findings, and key audit areas reviewed in the 12 months to 30 June 2022 and the 12 months to 30 June 2021**



**Note:** See Table 5 for the data shown in this figure (accessible version).

Table 1 summarises our findings that were classified as a risk of material misstatement.

**Table 1: Audit review findings—risk of material misstatement**

| Entity   | Areas with findings             | Findings                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|----------|---------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Entity A | 2 of 3 key audit areas reviewed | <ul style="list-style-type: none"> <li>› <i>Impairment of non-financial assets</i>—The auditor did not obtain sufficient evidence over the valuation of the oil and gas assets, including management's basis for key assumptions and company specific risks</li> <li>› <i>Joint arrangement</i>—There is insufficient evidence that the auditor analysed the relevant terms and conditions of an agreement to determine whether the treatment as a joint arrangement was appropriate</li> </ul>                                                                                                                                                                                                                                                     |
| Entity B | 1 of 4 key audit areas reviewed | <ul style="list-style-type: none"> <li>› <i>Impairment of non-financial assets (goodwill)</i>—The auditor did not obtain sufficient evidence to support two key assumptions used in testing the valuation of goodwill and the conclusion that there were no material adjusting subsequent events</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Entity C | 3 of 4 key audit areas reviewed | <ul style="list-style-type: none"> <li>› <i>Deferred tax assets</i>—The auditor did not obtain sufficient audit evidence over the recoverability of deferred tax assets and the adequacy of the entity's disclosure of the nature of evidence supporting recognition, including judgements and assumptions</li> <li>› <i>Valuation of financial assets</i>—The auditor did not sufficiently test key source data and assumptions used to forecast cashflows or test the effective interest rate used to recognise interest income</li> <li>› <i>Services revenue</i>—The auditor did not perform sufficient substantive tests over accrued revenue at year end or sufficiently test the accuracy of amounts invoiced throughout the year</li> </ul> |
| Entity D | 1 of 3 key audit areas reviewed | <ul style="list-style-type: none"> <li>› <i>Revenue and receivables</i>—The auditor did not obtain sufficient appropriate audit evidence to support the completeness of a services income stream and the underlying information that was used to assess the reasonableness of the provision for expected credit losses</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Entity E | 2 of 2 key audit areas reviewed | <ul style="list-style-type: none"> <li>› <i>Contingent liabilities</i>—The auditor did not obtain sufficient audit evidence about the entity's compliance with key legislation and adequately test the disclosure of contingent liabilities and assess the need for a provision</li> <li>› <i>Allowance for expected credit losses</i>—The auditor and their expert did not adequately test the assumptions used in key overlays, forward looking assumptions, and model performance</li> </ul>                                                                                                                                                                                                                                                     |

| Entity   | Areas with findings             | Findings                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|----------|---------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Entity F | 3 of 4 key audit areas reviewed | <ul style="list-style-type: none"> <li>› <i>Contract liabilities</i>—The auditor did not sufficiently test assumptions and source data used for the calculation of some of the contract liabilities</li> <li>› <i>Warranty provision</i>—The auditor did not sufficiently test source data used for the calculation of the warranty provision</li> <li>› <i>Inventories and cost of sales</i>—The auditor did not sufficiently test the inventory costing and the net realisable value provision at year end</li> </ul> |
| Entity G | 1 of 3 key audit areas reviewed | <ul style="list-style-type: none"> <li>› <i>Capitalisation of development costs</i>—The auditor did not obtain sufficient appropriate evidence that development costs were capitalised in accordance with the requirements of accounting standards</li> </ul>                                                                                                                                                                                                                                                           |

Our audit file review findings that 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 D | <ul style="list-style-type: none"> <li>› <i>Revenue and receivables</i>—The auditor did not sufficiently document the auditor's understanding of the revenue recognition process over multiple income streams and the explanation of work performed and audit conclusions made and did not exercise sufficient professional scepticism in relation to assessing and testing a key control over exiting operators in the current financial year</li> </ul> |

## Financial report findings

We completed risk-based reviews of aspects of 20 financial reports of entities audited by the firm this year. Following our inquiries, one entity made material changes to net assets, profits or information previously provided to the market as summarised in Table 3. More information can be found in [media releases](#) available from the ASIC website.

**Table 3: Financial report findings—media release issued**

| Entity                   | Year end     | Findings                                                                                                                                                                                                                                  |
|--------------------------|--------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Collection House Limited | 30 June 2021 | <p>The company derecognised a deferred tax asset of \$51.2 million, of which \$44 million related to unused tax losses</p> <p>See <a href="#">Media Release (22-037MR)</a> Collection House adjusts deferred tax asset (4 March 2022)</p> |

## Root cause analysis

We performed a detailed review of the firm's approach to root cause analysis by reviewing a sample of two root cause analyses conducted by the firm, and related observations based on benchmarking the largest six firms' processes in conducting root cause analysis at the audit engagement level.

While the firm had implemented a range of good practices in its root cause analysis (RCA) processes, our additional better practice recommendations are summarised below for the firm's consideration:

- › The population for root cause analysis should be expanded to include ASIC's other findings noted in Table 2 and a sample of positive quality occurrences. Although the firm has a policy which enables evaluation of files with positive quality occurrences, we did not observe this in the period of our review.
- › Interviews should include all engagement team members in the area under review including experts, specialists and engagement quality control reviewers.
- › Audit quality indicators, for example project milestone data, should be used when performing and concluding on root cause analysis.

The firm should continue to explore the wide range of underlying root causes in its RCA program on both negative findings and positive outcomes, to ensure that the real root causes are identified and actioned, including the robustness and adequacy of the professional scepticism, supervision and review and foundational skills that contribute to the findings.

[REP 739](#) summarises thematic findings from our review of root cause analysis by audit firms on audit file quality occurrences for the period 1 July 2020 to 31 December 2021. This report also outlines good practices in place at some of the largest six firms and further better practice recommendations for performing root cause analysis.

## Improving audit quality

The increase in the level of negative findings from our limited reviews is of concern and warrants continued deliberate and concerted action by KPMG. The firm needs to focus on identifying and addressing the root causes for the matters reported from our audit file reviews, financial reporting surveillances, and for findings from internal and global firm reviews. The firm should continue to evaluate the effectiveness of its current initiatives to improve audit quality and revise them or implement new and improved actions if they are not achieving appropriate outcomes.

## Further information

More information on the matters in Figures 1 and 2 and Tables 1, 2 and 3 is contained in [REP 743](#) and detailed comment forms provided separately to the firm. The comment forms include the firm's responses to our findings.

## Appendix: Accessible versions of figures

This appendix is for people with visual or other impairments. It provides the underlying data for the figures in this report.

**Table 4: Negative findings from reviews of key audit areas in audit files**

| Firm | FY 2021–22<br>Key audit<br>areas with<br>findings | FY 2021–22<br>Key audit<br>areas<br>reviewed | FY 2021–22<br>Percentage | FY 2020–21<br>Key audit<br>areas with<br>findings | FY 2020–21<br>Key audit<br>areas<br>reviewed | FY 2020–21<br>Percentage |
|------|---------------------------------------------------|----------------------------------------------|--------------------------|---------------------------------------------------|----------------------------------------------|--------------------------|
| KPMG | 13                                                | 27                                           | 48%                      | 8                                                 | 27                                           | 30%                      |

**Note:** This is the data shown in Figure 1.

**Table 5: Key audit areas with negative findings, and key audit areas reviewed in the 12 months to 30 June 2022 and the 12 months to 30 June 2021**

| Key audit areas                   | FY 2021–22<br>Key audit<br>areas with<br>findings | FY 2021–22<br>Key audit<br>areas<br>reviewed | FY 2021–22<br>Percentage | FY 2020–21<br>Key audit<br>areas with<br>findings | FY 2020–21<br>Key audit<br>areas<br>reviewed | FY 2020–21<br>Percentage |
|-----------------------------------|---------------------------------------------------|----------------------------------------------|--------------------------|---------------------------------------------------|----------------------------------------------|--------------------------|
| Impairment/asset valuation        | 3                                                 | 8                                            | 38%                      | 2                                                 | 11                                           | 18%                      |
| Revenue/receivables               | 2                                                 | 7                                            | 29%                      | 4                                                 | 9                                            | 44%                      |
| Investments/financial instruments | 3                                                 | 3                                            | 100%                     | 0                                                 | 2                                            | 0%                       |
| Provisions                        | 2                                                 | 2                                            | 100%                     | 0                                                 | 0                                            | 0%                       |
| Expenses/payables                 | 1                                                 | 1                                            | 100%                     | 0                                                 | 0                                            | 0%                       |
| Inventory/cost of sales           | 1                                                 | 2                                            | 50%                      | 1                                                 | 2                                            | 50%                      |
| Taxation                          | 1                                                 | 2                                            | 50%                      | 0                                                 | 1                                            | 0%                       |
| Loans/borrowings                  | 0                                                 | 1                                            | 0%                       | 0                                                 | 0                                            | 0%                       |
| Acquisition accounting            | 0                                                 | 1                                            | 0%                       | 0                                                 | 0                                            | 0%                       |
| Assets held for sale              | 0                                                 | 0                                            | 0%                       | 1                                                 | 1                                            | 100%                     |
| Leases                            | 0                                                 | 0                                            | 0%                       | 0                                                 | 1                                            | 0%                       |
| <b>Total</b>                      | <b>13</b>                                         | <b>27</b>                                    | <b>48%</b>               | <b>8</b>                                          | <b>27</b>                                    | <b>30%</b>               |

**Note:** This is the data shown in Figure 2.

### 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.