

ASIC audit inspections

In respect of key audit areas and associated files where ASIC forms the view that a Deloitte auditor did not obtain reasonable assurance about whether the financial report as a whole is free from material misstatement:

Question 1

Are the auditors involved penalised financially, including through the withholding of performance payments? Could you please provide data on the frequency and value of such penalties over the last five years?

As detailed in our written submission to this Inquiry, audit quality is our key priority, and we are continuing to invest in audit transformation both in Australia and globally, to prioritise continuous audit quality improvement. To that end, audit quality is a key consideration in determining Partner compensation, with our global and local policies requiring that both positive and negative quality outcomes be factored into compensation decisions.

Findings from ASIC inspections are an important input into a Partner's Quality and Risk rating ("Quality Rating") and are considered amongst a variety of other quality measures. In considering ASIC inspections findings we have regard to the nature and severity of the ASIC findings. We also consider whether the findings are indicative of an issue which requires a broader firm response or whether they are unique to the engagement or Partner.

We confirm that over the past five years there have been financial consequences for Partners in relation to poor Quality Ratings. Financial penalties have included reduction in base remuneration, reduction of annual adjustments, and removal of annual adjustments.

We have also imposed non-financial penalties in relation to poor Quality Ratings.

We have many other formal and informal disciplinary options available. There are multiple inputs to any such actions depending on severity, including internal and external inputs (which may include regulatory findings).

Question 2

Are the auditors involved counselled?

Yes, we seek to ensure our audit Partners and staff learn from these interactions by incorporating ASIC's feedback into continuous improvement and audit quality programs. A senior member of the Deloitte Quality and Risk team participates in each file inspection undertaken by ASIC to ensure we have detailed knowledge of the nature and severity of each ASIC finding. Our objective is to ensure that the audit Partner and team learn from the ASIC inspection process, consider what they could have done differently (including a root cause analysis) and, where appropriate, revise their approach on subsequent audits.

Question 3

Are the auditors removed from the file?

We consider all of ASIC's findings in relation to each audit they review. Our response to each finding is dependent on the nature and significance of the ASIC inspection finding.

There are a number of ways we can manage adverse findings. Whilst individual ratings are confidential, we can and have removed Partners from performing audits of public interest entity engagements where we have considered a Partner's overall Quality Rating warranted such action.

Question 4

Are the Partners managing the file penalised financially, including through the withholding of performance payments? Could you please provide data on the frequency and value of such penalties over the last five years?

As detailed in Question 1 above, findings from ASIC inspections are an important input into a Partner's Quality Rating and are considered amongst a variety of other quality measures. In considering ASIC inspections findings we have regard to the nature and severity of the ASIC findings. We also consider whether the findings are indicative of an issue which requires a broader Firm response or whether they are unique to the engagement.

We confirm that over the past five years there have been financial consequences for Partners in relation to poor Quality Ratings. Financial penalties have included reduction in base remuneration, reduction of annual adjustments, and removal of annual adjustments.

We have also imposed non-financial penalties in some circumstances.

Question 5

Are the Partners managing the file counselled?

Yes, we seek to ensure our Partners learn from these interactions by incorporating ASIC's feedback into continuous improvement and audit quality programs. A senior member of the Deloitte Quality and Risk team participates in each file review undertaken by ASIC to ensure we have detailed knowledge of the nature of each ASIC finding, as well as understanding the severity of each finding. Our objective is to ensure that the audit Partner learns from the ASIC inspection process, considers what they could have done differently and where appropriate, revise their approach on subsequent audits.

Question 6

Are the Partners managing the file removed from the file?

We consider all of ASIC's findings in relation to each audit they review. Our response to each finding is dependent on the nature and severity of the ASIC inspection finding.

Question 7

Are there any other actions that Deloitte takes in response?

Depending on the nature and severity of the ASIC finding and our assessment of the casual factors, we will consider if there is a need to revise our policies, processes and guidance or to deliver additional training to our audit practitioners.

The Firm has many other formal and informal disciplinary options available to it. There are multiple inputs to any such actions depending on severity, including internal and external inputs (which may include regulatory findings).