

Parliamentary Joint Committee on Corporations and Financial Services
Response to Question on Notice
Inquiry into the regulation of auditing in Australia

Question

1.

a) Has ASIC recently requested that the Big Four auditing firms provide information regarding their performance metrics, beyond what is supplied in the publicly available transparency reports? For example, information regarding their individual financial performances, charges, staffing numbers and margins.

b) If so, can ASIC please provide, at an individual rather than an aggregated level, the following three figures for each of the Big Four auditing firms:

1. Margin for audit work.
2. Margin for non-audit work.
3. Combined margin.

2. Section 311 of the Corporations Act states that an auditor must notify ASIC in writing if it (a) has reasonable grounds to suspect that a contravention of the Corporations Act has occurred, and (b) believes that the contravention has not been or will not be dealt with appropriately.

Can ASIC please provide data on how many times an auditor has notified ASIC of a suspected contravention under Section 311 of the Corporations Act over the past 10 years?

Answer

- 1a)** Yes, in August 2019, ASIC served Notices under s30A of the Australian Securities and Investments Commission Act on the Australian firms of Deloitte Touche Tohmatsu, Ernst & Young, KPMG and PricewaterhouseCoopers (the Firms) for certain financial information that was not available in past transparency reports of the firms. The Notices did not seek information on staffing numbers. While the Notices did not specifically require information on charges and margins, the documents produced under the Notice may include such information (although the calculation of that information may not be consistent as between firms).
- 1b)** Table 1 outlines the gross margins and gross margin percentages for the Firms for the year ended 30 June 2019 or the year ended 31 May 2019 from documents provided to ASIC in response to the Notices. Note that the figures may be calculated differently for each firm and so extreme care is needed in comparing the figures.

Table 1: Gross margins for Firms for the year ended 30 June 2019 or the year ended 31 May 2019

Firm	Gross margin (gross margin percentage) for audit	Gross margin (gross margin percentage) for non-audit	Gross margin (gross margin percentage) for the firm
Deloitte Touche Tohmatsu			
Ernst & Young			
KPMG			
PricewaterhouseCoopers			

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The gross margins may be calculated differently for each firm. For example, the mix of partner salaries including in the margin and partner distributions excluded from the margin for partners may vary between firms, or partner remuneration may be excluded.

Further, the margins are before other costs that would be taken into account in determining the net profit that would be relevant in understanding the overall performance of audit at the firms.

The gross margins of the firms are not currently public information and ASIC is not empowered to make the information public. Given the otherwise confidential nature of the information and the fact the information may not have been prepared on a consistent basis, we suggest the PJC to treat the information as confidential and deal with it in camera.

Having regard to the confidential nature of the information, we have also informed the Firms of the Question on Notice as a matter of courtesy.

- 2) Table 2 below summarises the number of notifications that auditors have lodged with ASIC reporting suspected contraventions under Section 311 of the Corporations Act over the ten years to 30 June 2019.

Table 2: Section 311 notifications that auditors lodged to ASIC over the ten years to 30 June 2019

Financial year	Listed entities	Unlisted entities	All entities
2018–19	226	621	847
2017–18	119	447	566
2016–17	97	399	496
2015–16	89	176	265
2014–15	147	331	478
2013–14	95	287	382
2012–13	68	253	321
2011–12	57	294	351
2010–11	75	226	301
2009–10	65	274	339
Total	1,038	3,308	4,346

Source: Notifications lodged to ASIC by auditors under s311.