



ASIC
Australian Securities &
Investments Commission

Committee	Parliamentary Joint Committee on Corporations and Financial Services
Inquiry	Oversight of ASIC, the Takeovers Panel and the Corporations Legislation No.1 of the 46th Parliament
Question No.	018
Date	26 November 2021
Topic	Auditing enforcement
Reference	Spoken, 26 November 2021, Hansard page 14
Committee member	Senator O'Neill

Question

Mr Hughes: Chair, with your indulgence—I also point out that we can provide you with additional information about the enforcement matters that we are pursuing. I'm sure you're aware, Senator, we secured the first criminal conviction of auditors and their practice earlier this year. We can talk to you about the range of matters, without specifying details, that we are concerned about, the work we are doing around transparency of audit inspection reports and the way in which we seek to engage directly with the companies that auditors serve and, in particular, the audit committees. We'd be happy to expand on that briefing for you.

Senator O'NEILL: Thank you. I'd really appreciate having a little more information about audit, if we pick it up on return. That was good, thank you.

Answer

The increased focus on auditor misconduct has seen ASIC's enforcement teams refer a number of matters to the Companies Auditors Disciplinary Board (**CADB**) seeking the suspension or cancellation of an auditor's registration for conduct breaches. There have also been referrals of criminal briefs to the Commonwealth Director of Public Prosecutions (**CDPP**) recommending charges relating to breaching auditing standards..

CADB conduct matters and CDPP referrals

In the last 12 months, ASIC has lodged five applications with the CADB relating to audit quality and auditor independence. In these matters, ASIC contends that the auditor failed to comply with relevant auditing standards. ASIC withdrew one CADB application after the auditor lodged an application to ASIC to cancel their registration. The remaining four applications are proceeding through the CADB.

CADB proceedings are confidential so we are unable to publicly comment on the details of ASIC's live conduct and administrative applications at present. Recent orders and decisions are however published 14 days after hearing, and can be found on the CADB's website (<https://www.cadb.gov.au/decisions/>.)

On 17 August 2021, ASIC obtained its first criminal conviction against the lead auditor (Robert James Evett), and audit company (EC Audit Pty Ltd, formerly Bentleys NSW Audit Pty Ltd) for deficient audits of Halifax Investment Services Pty Ltd and in respect of contraventions of the financial reporting requirements for Australian Financial Services licensee (s 989CA of the Corporations Act (Cth) (the **Act**)). See media release [21-218MR Halifax auditor convicted and fined for audit breaches](#) for further details if required.

On 2 September 2021, the CADB made orders cancelling Mr Evett's registration as a company auditor. The CADB found that Mr Evett was not a fit and proper person to remain registered as an auditor pursuant to s 1292(1)(d) of the Act, and that in acting as the lead auditor on the Halifax audits he failed to adequately perform the duties and functions required of him (see media release [21-250MR Halifax auditor's registration cancelled](#) for further details).

CADB referrals for failure to lodge annual statement

In the last 12 months, ASIC also referred 36 auditors that failed to complete annual statements over multiple years in contravention of s 1287 of the Act to the CADB. The annual statements provide ASIC with up-to-date details of registered auditors including the most significant audits they have undertaken during the past 12 months. 26 of these CADB applications were later withdrawn, following a request by the auditor to ASIC that their registration to be cancelled.

The CADB has also made orders that the registration of nine auditors be cancelled with immediate effect and that the auditors in seven of those applications pay ASIC's costs.

In making these orders, the CADB Chairperson emphasised that *"The obligation to lodge the relevant forms including the Annual Statement, is an important statutory obligation which underpins the integrity of the system designed to ensure accountability and transparency with respect to public accountability of auditors who are registered under The Act."*

Current investigations and engagement with audit firms

ASIC continues to investigate a number of audit misconduct matters, which may lead to further applications being filed by ASIC with the CADB and / or the referral of criminal briefs of evidence to the CDPP.

ASIC assesses the best regulatory approach for matters arising from routine audit inspections, where a larger number of more significant negative findings are noted having regard to the relevant facts and circumstances. These may include, for example, imposition of additional licence conditions on the auditor's registration entering into an enforceable undertaking or in some cases assessment of whether the actions taken and sanctions imposed by the firm itself are considered appropriate and adequate by ASIC.

Inspection reports

On 30 November 2021, ASIC published the results from its audit inspection program (see [Media Release 21-321MR ASIC reports on audit inspection findings for 12 months to 30 June 2021](#) and [Report 709 Audit inspection report: 1 July 2020 to 30 June 2021](#)).

In this report, ASIC comments on the negative findings from our inspections where the auditors did not obtain reasonable assurance that financial reports was free of material misstatement. We also set out the key audit areas with the largest number of negative findings including the audit of asset values and impairment of non-financial assets and the audit of revenue.

In addition, ASIC published the individual audit inspection reports of the largest six audit firms that audit 93% of the ASX listed entities based on capitalization (BDO, Deloitte, EY, Grant Thornton, KPMG and PwC).

Engaging directly with the audit committees

On 2 December 2021, ASIC released consultation paper 352 ([CP 352 Communicating audit findings to directors, audit committees or senior managers | ASIC - Australian Securities and Investments Commission](#)) seeking feedback on ASIC's proposal to communicate findings from our reviews of audit files to directors of the entities audited on a routine basis rather than an exception basis which has been our past approach.