

Question: ASIC Audit Inspections

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

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?
2. Are the auditors involved counselled?
3. Are the auditors removed from the file?
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?
5. Are the partners managing the file counselled?
6. Are the partners managing the file removed from the file?
7. Are there any other actions that EY takes in response?

Answer:

1. Yes. Quality is at the centre of the EY strategy and is central to EY performance management systems. Audit quality is the major component of how we assess the performance of our audit partners. Quality concerns arising from ASIC inspections effectively result in financial penalties for the partners involved and limit their overall performance evaluation for the year, regardless of how well they have performed in other areas in which their performance is measured. This ensures that audit quality is the most important aspect of audit partner remuneration.

These financial penalties affect the base remuneration of the affected partners. This penalty system has been in place for at least the last three ASIC inspection cycles and following each cycle partners have been subject to these financial penalties. Quality concerns can and do result in staff not being promoted, bonuses not being paid and exiting from the Firm, depending on the circumstances.

2. Yes. A root cause analysis is conducted by EY, overseen by our Quality Enablement Leader, in respect of each ASIC inspection finding. The partner and engagement team participate in this process to ensure they learn from the process and ensure findings are not replicated on their other engagements. The partner and engagement team are also counselled by a partner from our professional practice group during the period of the inspection.
3. We consider the nature and severity of all quality findings. In the majority of cases the severity of the finding has not warranted consideration of the need to remove a partner from the client. In more severe cases we will consider what changes may be needed to a partner's client portfolio. In the past this has involved exclusion from performing listed company audits and/or requiring additional supervision from a quality review partner.
4. Refer answer 1.

5. Refer answer 2.
6. Refer answer 3.
7. We take ASIC findings seriously and in addition to the matters referred to above, respond appropriately to remediate the files of engagements inspections, where required and to educate all of our audit teams so they can learn from matters arising from ASIC inspections where we believe this is necessary.