

In 2015 the IAASB issued the new ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*. This Standard will become applicable for all audits of financial statements ending on or after 15 December 2016

Requirement

The communication of Key Audit Matters (KAM) in the audit report will be required in all audits of listed entities.

What are Key Audit Matters?

KAM are those matters that are of most significance in the audit of the financial statements of the current period. From the matters that were communicated throughout the audit process to those charged with governance (TCWG) it would most likely be the matters that required significant auditor attention.

How to determine matters of most significance

The following factors may be considered to determine significance:

- Matters which involved the most communication with TCWG
- Matters determined to be important to the users of the financial statements
- Where management's selection of an accounting policy was complex or involved subjectivity
- Whether there are any misstatements identified that related to the matter
- Matters which required the most audit effort
- Areas where there have been difficulties in applying audit procedures or obtaining relevant and reliable audit evidence
- Areas affected by a severe control deficiency



It should be noted that a KAM in one period does not automatically become a KAM in the following period.

How to write a KAM

KAM should be entity-specific and audit-specific. The use of standardised, overly technical words and jargon should be avoided.

The description of KAM must always include:

- Why the matter is considered a KAM
- How the matter was addressed in the audit
- Reference to the related disclosures (if any)

Why the matter is considered a KAM

Explaining the factors that led you to concluding that a particular matter required significant auditor attention and was of most significance in the audit is likely to be of interest to intended users.

The description may make reference to principle considerations such as:

- Economic conditions that affected the auditor's ability to obtain audit evidence (for example illiquid markets for certain financial instruments)
- New or emerging accounting policies (for example entity-specific or industry-specific matters on which the engagement team consulted within the firm)
- Changes in the entity's strategy or business model that had a material effect on the financial statements.

How the matter was addressed in the audit

A description of how the KAM was addressed in the audit may include:

- Aspects of the auditor's response or approach
- A brief overview of procedures performed
- An indication of the outcome of the audit procedures
- Key observations with respect to the matter.

It is allowed to describe more broadly how the matter was addressed in the audit rather than specifically providing a description of the auditor's response, findings or procedures. The level of detail to include is a matter of professional judgement.

The description of KAM should not be a mere reiteration of what is already disclosed in the financial statements.

What to avoid

A KAM is not any of the following:

- A substitute for disclosures in the financial statements
- A substitute for a modified opinion
- A substitute for reporting a material uncertainty related to going concern
- A separate opinion on individual matters
- An implication that a matter has not been resolved by the auditor.

How to deal with KAM in the audit opinion

- Qualified / Adverse audit opinion
 - Include the usual KAM section
 - Make reference to Basis for Qualified Opinion / Basis for Adverse Opinion in the KAM Section (as relevant)

Example

"In addition to the matter described in the Basis for Qualified Opinion section / Basis for Adverse Opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report."

[Description of each key audit matter]

- Disclaimer of audit opinion
 - KAM are **not** reported if there is a disclaimer of opinion