

Enhancing the value of auditor reporting

Communicating key audit matters

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IN THE HEADLINES

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The IAASB has proposed standards aiming to fundamentally transform the auditor's report, focusing on communicative value to users.

Communicating key audit matters

For some time, users of financial statements have been calling for the auditor's report to include insights gained during the audit.

On 25 July 2013, the International Auditing and Assurance Standards Board (the IAASB) released an exposure draft (ED) containing proposals that would require an auditor to include in the auditor's report a description of matters that they consider to be of most significance in the audit ('key audit matters'). The IAASB's aim is to significantly expand the content of the auditor's report, beyond being a simple pass/fail assessment, so that it provides information about the audit to users.

The proposal to describe key audit matters would be mandatory for audits of listed entities. For each key audit matter identified, the auditor would:

- explain why they consider that matter to be one of the most significant in the audit and – to the extent that the auditor considers it necessary to this explanation – its effect on the audit; and
- include a reference to the related disclosure (if any) in the financial statements.

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Identifying key audit matters

Auditors would be expected to identify key audit matters from among the matters communicated to those charged with governance, using professional judgement. The proposals suggest a number of areas that the auditor should take into account:

- significant risks or areas involving significant auditor judgement;
- areas in which the auditor encountered significant difficulty during the audit, including any difficulty in obtaining sufficient audit evidence; and
- circumstances that required significant modification of the auditor's planned approach.

More general factors – e.g. the industry in which the entity operates, and recent significant economic, accounting, regulatory or other developments – may also be relevant.

What are the potential impacts?

The IAASB believes that disclosing more information about the audit will increase confidence in the quality of the audit, thereby demonstrating its strength and value to users. Implementing the proposals would also involve more interaction between those charged with governance and the auditor, which the IAASB believes could enhance communication between both parties.

Other proposals

The ED also proposes a number of other changes to improve transparency and clarify auditor responsibilities, including:

- explicit statements that the auditor is independent of the entity within the meaning of relevant ethical requirements and has fulfilled other ethical responsibilities; and
- naming the engagement partner in the audit report of listed entities.

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In addition, the ED proposes introducing:

- statements on management's use of the going concern basis of accounting, and its assessment of whether material uncertainties exist; and
- the auditor's conclusions on such statements.

Because key audit matters are selected from matters communicated with those charged with governance, the ED includes limited amendments to the standard that addresses such communications. The ED proposes that the auditor communicate significant risks identified when providing those charged with governance with an overview of the planned scope and timing of the audit. It also proposes that the auditor communicate circumstances that required significant modification of the auditor's planned approach to the audit, to align the factors the auditor considers in determining key audit matters.

Next steps

For more information, speak to your usual KPMG contact. You can download a copy of the ED from the [IAASB press release](#).

The IAASB is seeking comments on all matters addressed in the ED, including:

- the overall form and content of the auditor's report, and whether it meets users' desire for increased transparency about the audit; and
- the potential effect of the proposals on the processes by which management and those charged with governance prepare and present the financial statements, including any additional effort or costs that may be expected.

Comments are due to the IAASB by 22 November 2013.

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