



Australian Government

**Auditing and Assurance
Standards Board**

AUASB Feedback Statement

Expanding Key Audit Matters Beyond Listed Entities

June 2023

About the AUASB

The Auditing and Assurance Standards Board (AUASB) is an independent, non-corporate Commonwealth entity of the Australian Government, responsible for developing, issuing, and maintaining auditing and assurance standards.

Sound public interest-oriented auditing and assurance standards are necessary to reinforce the credibility of the auditing and assurance processes for those who use financial and other information. The AUASB standards are legally enforceable for audits or reviews of financial reports required under the *Corporations Act 2001*. For more information about the AUASB see the AUASB Website.

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1. Introduction

The enhanced auditor's report became effective in December 2016. One of the most significant enhancements was the introduction of the communication of Key Audit Matters (KAMs) in the auditor's report of listed entities as required by ISA / ASA 701.¹

KAMs were introduced to:

- Enhance the communicative value of the auditor's report by providing greater transparency about the audit that was performed.
- Provide additional information to intended users to assist them in understanding those matters that, in the auditor's professional judgement, were of most significance in the audit.
- Assist intended users in understanding the entity and areas of significant management judgement in the financial report.²

In addition, it was anticipated there would be other benefits such as:

- Enhanced communication between auditors and investors, and those charged with corporate governance.
- Increased user confidence in audit reports and financial statements.
- Increased transparency, audit quality, and enhanced information value.
- Increased attention by management and financial statement preparers to disclosures referencing the auditor's report.
- Renewed auditor focus on matters to be reported that could result in an increase in professional scepticism.
- Enhanced financial reporting in the public interest.³

The IAASB determined that ISA 701 should be applicable for listed entities only as there are many users who do not have ready access to management and those charged with governance, and who may benefit from this communication. As detailed in the [ISA 701 Basis for Conclusions](#), the IAASB decided that extending the mandatory application to other entities would be considered once the post-implementation review (PIR) was completed.

As detailed in the [ASA 701 Basis for Conclusions](#), the AUASB discussed the types of entities that might be considered "public interest" and agreed the concept of KAM disclosures in the auditor's report about the matters of most significance to the audit was useful to all users of audited financial reports. However, the AUASB agreed to

¹ ISA / ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*

² ASA 701, paragraph 2

³ [Refer to the IAASB's auditor reporting focus page](#)



keep the scope of ASA 701 consistent with the ISA and committed to reconsider this when conducting a PIR.

The AUASB has contributed to the IAASB's PIR activities related to ISA 701 since they first commenced in 2020. As communicated in the IAASB's Auditor Reporting PIR [Feedback Statement](#) issued in June 2021, there was broad support for the communication of KAMs for listed entities. However, there were also mixed views on whether the scope of ISA 701 should be expanded by the IAASB or left up to each jurisdiction to decide. The IAASB agreed that the communication of KAMs for Public Interest Entities (PIEs) would be considered further by the [Listed Entity / PIE Project Task Force](#).

Since the introduction of the enhanced auditor's report the AUASB have conducted extensive outreach to understand stakeholders' views on the benefits and experience in relation to KAMs. Through this outreach, it was widely acknowledged that the addition of KAMs resulted in an improvement in the communicative value of the auditor's report for listed entities.

The AUASB have approached the PIR for the auditor reporting standards in two phases. During the first phase, we formally sought views on all aspects of the enhanced auditor's report to inform the AUASB in its response to the IAASB.

The second phase of the PIR is the formal consideration of whether the communication of KAMs should be expanded beyond listed entities and mandated for certain other types of entities in Australia. As part of this process, the AUASB issued Discussion Paper [Expanding Key Audit Matters beyond listed entities](#) seeking feedback to inform the AUASB as they consider:

- The proposals of the IAASB's Listed entity/PIE project Task Force, and
- Irrespective of whether the IAASB expand the scope of ISA 701, whether to expand the scope of reporting of KAMs in Australia (i.e., ASA 701).

1.1 Discussion Paper questions

The AUASB Discussion Paper included the following questions for stakeholder feedback:

1. Do you support requiring the communication of KAMs in the auditor's report for the following:
 - Option 1: Listed entities only (i.e., No amendment to ASA 701); or
 - Option 2: Listed entities plus certain other types of entities; or
 - Option 3: All audited financial reports.
2. If in response to Question 1 you support Option 2, for which types of entities do you think auditors should be required to communicate KAMs?



3. Do you support one of the suggested ways to segment the population of entities described in this discussion paper; or is there another way you would segment the population of entities that KAMs should apply to?
4. If you do not support any of the Options currently under consideration by the AUASB in this discussion paper, do you have any suggestions for alternative options the AUASB should consider when evaluating the population of entities that KAMs should apply to going forward?

1.2 What is the purpose of this feedback statement?

This feedback statement summarises the feedback received in relation to the AUASB Discussion Paper and the AUASB's conclusion on this matter.

2. Summary of Outreach and Responses

Feedback was received from stakeholders from all sectors, including:

- Auditors from the private and public sector;
- Users / preparers;
- Regulators;
- Academics; and
- Professional bodies.

The AUASB Staff held two roundtable sessions throughout the consultation period (one in Melbourne and one online) attended by representatives from large and mid-tier audit firms, ACNC, ASIC and the professional bodies.

The AUASB received nine written responses to the Discussion Paper from:

- Pitcher Partners;
- Nexia Australia;
- KPMG Australia;
- Australasian Council of Auditors General (ACAG);
- Institute of Public Accountants (IPA);
- Deloitte Touche Tohmatsu (Deloitte);
- Australian Prudential Regulation Authority (APRA);
- Chartered Accountants Australia and New Zealand (CAANZ) jointly with CPA Australia; and
- Australian Charities and Not-for-profits Commission (ACNC).



3. Feedback Received

At its May 2023 meeting, the AUASB board discussed the feedback received in relation to the AUASB Discussion Paper.

The following key themes were evident in the feedback received from stakeholders:

- All stakeholders supported the continued requirement of communicating KAMs in the auditor's report for listed entities only (Option 1).
- There was no support for requiring the communication of KAMs for other types of entities unless there was clear evidence that there would be benefits for users. Stakeholders acknowledged that it is difficult to gather this evidence.
- Not all entities captured by the definition of PIEs have users of their financial reports, therefore requiring communication of KAMs for all PIEs would not be appropriate.
- Several stakeholders pointed out that ASA 701 currently permits auditors of non-listed entities to voluntarily report KAMs, however this is not being done frequently due to it not being considered valuable for other types of entities.
- Whilst KAMs are not mandatory in the public sector, a number of public sector audit offices have adopted the reporting of KAMs for certain entities that they audit, noting they are an effective tool for increasing the transparency of auditors in the conduct of their work.
- Two stakeholders supported Option 2 for listed entities and other types of entities but only on the condition that research demonstrates that the benefits of expanding KAMs outweigh the costs.
- One stakeholder commented that requiring KAMs for registrable superannuation entities may be consistent with the increase in their reporting requirements, however only if there is evidence that it will be beneficial to users. In the superannuation sector, APRA does not require reporting of KAMs as it has the mandate to directly obtain relevant information from superannuation entities and their auditors. APRA acknowledge that users of these financial reports may find KAMs beneficial however would only recommend KAMs being required if the benefits outweigh the costs / additional regulatory burden.
- ACNC do not consider a blanket application to all charities considered large to be appropriate, given that large charities are likely to be substantially smaller than the listed entities currently covered under ASA 701.



4. AUASB Decisions

At its meeting on 2 May 2023, based on the feedback provided by stakeholders as detailed above, the AUASB agreed not to expand the communication of KAMs beyond listed entities at this time. The matter will again be considered by the AUASB depending on the outcomes of IAASB's Listed Entity / PIE project. The IAASB's Exposure Draft for Track 2 of this project is expected to be approved in September 2023 ahead of its public release in February 2024.