



# AUASB Project Plan

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<b>Project Title:</b>	Auditor Reporting: Key Audit Matters
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## Overview of Project

### Background

1. The purpose of communicating key audit matters (KAMs) is to enhance the communicative value of the auditor's report by providing greater transparency about the audit that was performed<sup>1</sup>.
2. The IAASB determined that ISA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* should be applicable for listed entities only as there are many users who do not have ready access to management and those charged with management, and who may benefit from this communication. Importantly auditors may elect to report KAMs for other types of entities.
3. At the time of issuing ASA 701 back in 2015 the AUASB considered whether the scope should be listed entities only (consistent with ISA 701) or should be expanded to public interest entities (PIEs). The AUASB agreed not to extend the application of ASA 701 at this time and committed to conducting a post implementation review (PIR) particularly in relation to whether the scope of ASA 701 should be expanded to other entities. Refer to the ASA 701 [Basis of Conclusions](#) for more information.
4. In September 2021 the IAASB completed their auditor reporting PIR and published a [feedback statement](#). When concluding on whether auditors of entities other than listed entities should also communicate KAMs in their audit report the IAASB determined that there was:
  - support for mandatory communication of KAM for public interest entities (PIEs) with a strong preference for this to remain a jurisdictional decision, i.e., retain focus in the ISA on listed entities.
  - lack of broad support to extend the communication of KAM beyond PIEs as costs were considered to exceed benefits for entities other than PIEs.
  - some support to require KAM for financial institutions, regulated entities, non-governmental organizations (or similar, depending on jurisdiction), and donor funded projects.
5. The IAASB agreed that the communication of KAMs for PIEs would be considered by Listed entity / PIE project Task Force. The PIE Task Force intends to present proposals at the IAASB's December 2022 meeting.

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<sup>1</sup> ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* paragraph 2

6. The AUASB Technical Group consider it appropriate to commence a follow up project now to evaluate whether the communication of KAMs be mandated for other types of entities (including PIEs). This is to ensure the AUASB has appropriate information and evidence:
  - (a) to influence the IAASB in a timely manner; and
  - (b) when considering whether it is in the public interest to expand KAM reporting in Australia beyond listed entities.

## Scope and objective of this project

7. The scope and objective of this project is to determine whether there is communicative value and benefit to users in the communication of key audit matters (ASA 701) in the auditor's reports of other types of entities in addition to listed entities.
8. This project will not include other components of the auditor's report.

## Why is this in the public interest?

9. The AUASB as an independent standard-setter serves the public interest by developing, issuing and maintaining high-quality audit-related standards and guidance that enhance audit and assurance quality and consistency, thereby contributing to stakeholder confidence in the Australian economy, including its capital markets, and enhanced credibility in external reporting through independent auditing and assurance.<sup>2</sup>
10. The AUASB's *Public Interest Framework for the Development of AUASB Pronouncements*<sup>3</sup> does not define public interest however provides a framework and considerations to provide structure to the AUASB when considering whether proposals are in the public interest.
11. The ATG consider that it is in public interest to seek stakeholder views on expanding the communication KAMs for other types of entities. Based on this feedback the AUASB will assess the in the following steps as detailed in the framework:
  - (a) Identify the perspectives and needs of groups with legitimate interests.
  - (b) Define the desired goal that would allow the standard/guidance to best serve user needs.
  - (c) Identify criteria to assess responsiveness to the goal.
  - (d) According to the criteria, reasonably weigh input from different groups.
  - (e) Assess the expected contribution of the standard/guidance to meeting its goal and consider whether it is responsive to the public interest.

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<sup>2</sup> See [AUASB Corporate Plan](#).

<sup>3</sup> See [Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications, Appendix 1](#)

## What information has been gathered and what additional is required

12. Since the introduction of the enhanced auditor's report the AUASB have conducted extensive outreach to understand stakeholders' views on the benefits, as well as monitoring if there are any implementation issues. It is widely acknowledged that the addition of KAMs has been an improvement in the communicative value of the auditor's report.
13. In 2020 the AUASB Technical Group (ATG) formally sought views on all aspects of the enhanced auditor's report to inform the AUASB in its response to the IAASB's survey, which was a main component of their PIR. This included a specific question on whether communication of KAMs should be mandated beyond listed entities? The feedback we received, mainly from auditors, was:
  - There is no benefit in mandating the communication of KAMs beyond listed entities. The decision on the whether to communicate KAMs should be left to auditors and their clients based on their specific circumstances, including who are the users of the financial report.
  - Some Auditor General offices are already reporting KAMs for significant public sector entities.
  - The inclusion of KAMs in the audit reports of significant PIEs (such as Public Superannuation Funds) has not been widely adopted. This matter has been discussed with APRA and representatives from the Superannuation Industry, and to date there has not been any appetite to mandate the reporting of KAMs for APRA regulated superannuation funds.
14. We have received (or observed) some favourable feedback on the benefits of KAM reporting for listed entities from:
  - (a) The AUASB and FRC surveys to Audit Committee Chairs and Professional investors
  - (b) Some preparer and user groups (Australian Shareholders Association, Proxy Advisors such as Ownership Matters and the AICD).

However, this feedback was based on a general question about KAMs (ie. Is the communication of KAMs an improvement to the auditor's report?) and did not explore views on whether there is benefit in expanding KAMs to other types of entities.

15. In order to inform the AUASB on this matter the ATG intend to seek views from representatives of all stakeholders in the financial reporting eco-system, on whether there is benefit in communicating KAMs for different types of entities. The matters to consider are:
  - (a) Who are the users?
  - (b) Will they benefit from increased transparency about the audit that was performed?

## What type of entities to consider

16. In the ATG's view the types of entities isn't just about PIEs. It is important to consider the differential reporting requirements in Australia based on our *Corporations Act 2001* and Australian Accounting Standard [AASB 1053 Application of Tiers of Australian Accounting Standards](#).

17. Based on this the different class of entities to consider are:
- All PIEs or a subset of PIEs.
  - Entities subject to APRA regulation.
  - Consistent with *Corporations Act 2001* and AASB 1053 principles of public accountability:
    - All entities required to prepare and lodge audited financial reports prepared in accordance with the AAS under the *Corporations Act 2001* (All disclosing entities, public companies, companies limited by guarantee, large proprietary companies, registered managed investment schemes, small proprietary companies that are foreign-controlled); or
    - Entities who have public accountability under the AASs<sup>4</sup> and therefore are required to prepare Tier 1 general purpose financial statements (i.e. exclude Tier 2)
  - Large Registered Charities and Not-for-Profit entities who are required to lodge audited financial statements with the ACNC.
  - Public sector entities.
18. In considering these entities the question is are there users of the financial report where the communication of key audit matters will be beneficial.

### **Relevant stakeholders and how to engage**

19. Views will be sought from:
- Auditors
  - Regulators (ASIC, ACNC and APRA)
  - Preparers / Directors
  - Users
20. The ATG propose issuing an AUASB Discussion Paper asking stakeholders to respond with feedback on the costs and benefits in communicating KAMs for different types of entities (as outlined in Paragraph 15 above). The majority of respondents are likely to be auditors, so the ATG will also reach out to the following to elicit feedback from these other stakeholders to ensure the needs and considerations of users of the auditor's report:
- ASIC
  - APRA
  - AICD
  - Investor representatives (i.e. the Australian Shareholder's Association, Proxy Advisors, etc)
  - Academic community

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<sup>4</sup> AASB 1053

## Action Plan

- A) Draft Discussion / Consultation Paper for consideration and approval by the AUASB at its December 2022 meeting.
- B) Feedback requested by end of March 2023 to enable AUASB to consider at its May or June 2023 meeting.

## Risks/Issues

Risk/Issue	Mitigation
KAMs are reported for entities however there is little value to users.	Seek feedback from a wide range of stakeholders for different types of entities
We do not receive feedback from a wide range of stakeholders.	We will target specific stakeholders in particular representatives from TCWG and users.

## Harmonisation with New Zealand

- 21. New Zealand have already expanded the reporting of KAMs beyond listed entities to FMC reporting entities considered to have a higher level of public accountability. The ATG will consult with NZAuASB colleagues to understand what drove this requirement in New Zealand and consider as part of the development of the AUASB Discussion Paper.