

A close-up photograph of a hand holding a silver pen, pointing at a document. The document contains several charts and graphs, including a bar chart and a pie chart. The background is blurred, showing a person's arm and a glass of water. The lighting is warm and soft.

December 2022

Discussion Paper – Expanding Key Audit Matters beyond listed entities

Feedback requested by 31 March 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 and invitation to comment

The enhanced auditor's report became effective in December 2016. One of the 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 701¹.

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 report².

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

- Enhanced communication between auditors and investors, and those charge 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 interest³.

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 KAMs 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 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

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

² ASA 701 paragraph 2

³ [Refer IAASB auditor reporting focus page](#)

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](#).

The AUASB is now seeking specific feedback from Australian stakeholders on whether the communication of KAMs in auditor's reports should be expanded beyond listed entities. Refer to section 3 of this discussion paper for the specific questions and feedback sought. We are seeking views from a broad range of stakeholders including auditors (large firms, smaller firms, public sector), regulators, those charged with governance, users of financial reports and academics.

This will 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).

It is important to note that the purpose of this discussion paper is to seek initial views from stakeholders. If the AUASB proposes to amend ASA 701 in the future, this will follow the [AUASB's Due Process Framework](#) with additional outreach to develop any amendments to the standard and further opportunities for public comment.

2. Feedback received to date on KAMs

IAASB's PIR

The AUASB contributed to the IAASB's PIR and the results were communicated in a [feedback statement](#) in June 2021. The IAASB concluded that there was broad support for KAMs however there was mixed views on whether the scope of ISA 701 should be expanded beyond listed entities. There was:

- Support for mandatory communication of KAMs for PIEs with a strong preference for this to remain a jurisdictional decision (i.e., not to amend the scope of ISA 701).
- Lack of broad support to extend the communication of KAMs beyond PIEs as costs were considered to exceed benefits for entities other than PIEs.
- Some support to require KAMs for financial institutions, regulated entities, non-governmental organisations⁴ (or similar, depending on jurisdiction), and donor funded projects.

The IAASB agreed that the communication of KAMs for PIEs would be further considered by the [Listed Entity / PIE Project Task Force](#), which will review this issue over the course of 2023-24.

⁴ Not-for-profit organisations that are set up and operated independently from local, state or international governments, but can receive government funding in some cases.

AUASB's PIR

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. Through this outreach it has been widely acknowledged that the addition of KAMs has resulted in an improvement in the communicative value of the auditor's report for listed entities.

We have received (or observed) favourable feedback on the benefits of KAMs reporting for listed entities from directors and investors through:

- The AUASB and Financial Reporting Council surveys to Audit Committee Chairs and Professional investors; and
- Preparers and other user groups (Australian Shareholders Association, AICD, Proxy Advisors).

The AUASB have approached the PIR for the auditor reporting standards in two phases.

During the first phase of the PIR we 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 the main component of their PIR. This included a question on whether communication of KAMs should be mandated beyond listed entities. The feedback received (mainly from auditors) was:

- The decision on the whether to communicate KAMs should be left to auditors and the audited entity based on their specific circumstances, including who are the users who will benefit from the communication.
- Some Auditor General offices are already reporting KAMs for significant public sector entities.

Feedback to date on the possible expansion of the communication of KAMs has been mainly informal and from auditors. Also, the feedback has been on the general question of whether to expand to "other entities" and not specific to any type of entity.

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 (i.e., amend the scope of ASA 701). This discussion paper forms part of the second phase of our PIR.

3. Should ASA 701 be expanded to include other entities?

Overarching principle

When considering if the communication of KAMs should be expanded beyond listed entities, the overarching principle is whether this will improve the communicative value of the auditor's report. In particular, if users may find this beneficial.

However, this is often difficult to measure. Some of the questions to consider are:

- Are there users who do not have ready access to management and those charged with management, who may benefit from this communication?
- Will the communication increase the confidence in the quality of the audit and the financial report?
- Based on the overall purpose of KAMs and the intended benefits, is it in the public interest to communicate KAMs?

Potential options for the communication of KAMs

Option 1: Listed entities only (i.e., No amendment to ASA 701)

It has been widely acknowledged that the addition of KAMs has been an improvement in the communicative value of the auditor's report for listed entities due to the large number of users who do not have access to management and those charged with governance. Option 1 would retain the status quo and require no changes to ASA 701 and require KAMs to only apply to the auditor's report for listed entities.

Option 2: Listed entities plus certain types of other entities

This option acknowledges that it may be in the public interest to extend the application of KAMs beyond listed entities. The AUASB is interested in hearing feedback from stakeholders to consider what types of entities who prepare audited financial reports should include KAMs in their audit reports, and by which criteria this should be determined.

For the purposes of discussion, the AUASB has identified the following potential types of entities or groups of entities for whom KAMs may be applicable. This is not an exhaustive list, and we are interested in views on other types of entities for which communication of KAMs may be beneficial.

For-profit entities

- PIEs as defined in [APES 110 Code of Ethics for Professional Accountants \(including Independence Standards\)](#) issued by the Australian Accounting Professional & Ethical Standards Board.

- Entities required by the Australian Accounting Standards⁵ (AAS) to prepare Tier 1 general purpose financial statements in recognition that different types of entities are subject to different financial reporting requirements based on their level of public accountability.
- Entities required to prepare and lodge audited financial reports prepared in accordance with the AAS under the *Corporations Act 2001* (i.e. Tier 1 and Tier 2 general purpose financial reports).

Not-for-profit entities

- Registrable Superannuation entities (RSEs), consistent with current legislation aligning super funds' financial and accounting reporting obligations with those of public companies⁶.
- The population of not-for-profit private sector entities can be segmented based on the existing tiers and reporting obligations by the [Australian Charities and Not-for-profits Commission \(ACNC\)](#). For example, this may result in the communication of KAMs for large not-for-profit entities who are required to prepare and lodge audited financial reports with the ACNC.

Public sector entities

- Material public sector entities such as Government owned Corporations or trading entities which have reporting requirements aligned to the *Corporations Act 2001*.
- Material public sector agencies, for example Departments of State or significant statutory bodies.

Option 3: All audited financial reports

In this option, there is no segmenting of the population and KAMs would be communicated in all audit reports of general-purpose financial reports. This recognises that, if there is a requirement for an audit either by legislation or for another reason (which may be voluntary), there are users who may benefit from the communication of KAMs.

⁵ [AASB 1053](#) Application of Tiers of Australian Accounting Standards

⁶ Refer to details of the [Treasury Laws Amendment \(2022 Measures No. 4\) Bill 2022](#) for further information.

4. Specific questions for stakeholders

Feedback requested:

Taking into account the key principles detailed above:

Question 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.

Question 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?

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?

Question 3

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?

Please provide detailed reasons to support your responses.

5. Comment Closing Date and Next steps

The AUASB is seeking comments by **31 March 2023**. The feedback received will inform the AUASB when considering:

- 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).

If the AUASB proposes to amend ASA 701 in the future, this will follow the [AUASB's Due Process Framework](#) with additional outreach to develop any amendments to the standard and further opportunities for public comment.