

Meeting: IAASB Consultative Advisory Group
Meeting Location: New York
Meeting Date: September 8-9, 2014

Agenda Item D.1

Auditor Reporting – Key Audit Matters – Report Back, Issues and Drafting Team Recommendations

Objectives of Agenda Item

1. To provide a report back on comments of the Representatives on the Key Audit Matters (KAM) piece of the Auditor Reporting project as discussed at the March 2014 CAG Meeting.
2. To discuss issues and Drafting Team (DT-701) recommendations relevant to finalizing proposed ISA 701 (**Agenda Item D.2**),¹ as well as changes to ISA 706² (**Agenda Item D.3**) and ISA 260³ (**Agenda Item D.4**).

March 2014 CAG Discussion

3. Below are extracts from the draft minutes of the March 2014 CAG meeting on the discussion of Agenda Item C.1,⁴ and an indication of how the project Task Force or IAASB has responded to the Representatives' comments.

Representatives' Comments	Task Force/IAASB Response
<i>Determining KAM</i>	
Mr. Thompson, supported by Messrs. Baumann and Hansen, was of the view that the revised requirements were much clearer and were a significant improvement from the ED in terms of the likelihood of increasing consistency in the judgments in determining KAM.	Support noted.
Mr. Hansen and Ms. de Beer questioned when matters are to be deemed to be "of most significance" (i.e. are these matters identified in the planning or completion phase of the audit?). Mr. Baumann noted that, while the PCAOB has not yet re-deliberated comments it has received on its	Point accepted. Mr. Montgomery explained that a KAM is an outcome-based measurement of significance. While an auditor might have a view at the planning stage of the audit on the greatest risks of material misstatement and where the auditor might expect to spend the most time and

¹ Proposed ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

² ISA 706, *Emphasis of Matter and Other Matters Paragraphs in the Independent Auditor's Report*

³ ISA 260, *Communication with Those Charged with Governance*

⁴ The minutes will be approved at the September 2014 IAASB CAG meeting.

Representatives' Comments	Task Force/IAASB Response
<p>proposals, he would support Mr. Montgomery's explanation and suggested this could be clarified in the application material. Ms. de Beer noted that a focus on the outcome of the audit would also likely address concerns expressed by some that KAM should be entity-specific, and hence avoid the risk of boilerplate industry-related KAM due to common industry risks.</p>	<p>attention, the determination of KAM is intended to take into account where the auditor ultimately focused the most attention and which matters involved the most significant discussion with TCWG, based on the audit that was performed.</p> <p>The point about timing has been acknowledged in application material in both proposed ISA 701 and proposed ISA 260. <i>See paragraphs A16 and A66 of Agenda Item D.2 and paragraph A49 of Agenda Item D.4.</i></p>
<p>Mr. Dalkin noted that the duty for the auditor to consider significant events or transactions that occurred during the year in determining areas of significant auditor attention was fairly broad and questioned whether there are any parameters to clarify what exactly was intended.</p>	<p>Point accepted.</p> <p>Ms. Healy explained that the concept of significant events and transactions is explained in some detail in ISA 315 (Revised)⁵ and that DT-701 will provide further guidance in the application material in ISA 701, in particular to assist the auditor in determining which significant events or transactions, if any, are of most significance in the audit and therefore KAM.</p> <p><i>See paragraphs A25–A26 of Agenda Item D.2. Application material relating to the requirement to determine matters of most significance (paragraphs A27 – A30 of Agenda Item D.2) is also relevant.</i></p>
<p>Mr. Waldron cautioned about narrowing the process to determine KAM as, in his view, it is important that the requirement to determine KAM should be broad enough to result in the auditor describing significant matters from the audit.</p> <p>Ms. Sucher agreed that the factors to be considered by the auditor should not be the only matters that could be determined to be KAM.</p>	<p>Point accepted.</p> <p>Mr. Montgomery agreed, explaining that the intent of the use of the word “narrowing” in the agenda material was not to narrow the scope of what could be a KAM, but rather to assist the auditor in considering a broad list of matters that had been communicated with TCWG and determining which of those were of most significance. Mr. Montgomery noted that, while respondents to the ED have commented that it is difficult to envisage many circumstances in which a matter determined to be KAM would not be linked to the financial statements, DT-701 was of the view that the requirement to determine KAM should not exclude the possibility that a matter not disclosed in the financial statements could be a KAM if it was an area of significant auditor attention.</p> <p><i>See paragraphs 9–10 and related application material, in particular paragraph A18, of Agenda Item D.2.</i></p>

⁵ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

Representatives' Comments	Task Force/IAASB Response
<p>Mr. James noted that there is no definition of “significant auditor attention” in the ED and suggested more could be done to clarify the intent of the term.</p>	<p>Point accepted.</p> <p>Mr. Montgomery explained that further guidance will be included in the application material.</p> <p><i>See paragraphs A12–A18 of Agenda Item D.2.</i></p>
<p>Mr. James also drew attention to the potential difficulty for auditors to determine matters of most significance, in light of his view that the factors considered in determining areas of significant auditor attention (i.e. indicators of what may be a KAM) are not comparable. He also suggested that a fourth factor be added to clarify that matters other than those disclosed in the financial statements that would be of interest to users may be areas of significant auditor attention and possible KAM, if they are determined to be matters of most significance.</p>	<p>Point taken into account.</p> <p>Mr. Montgomery explained that the first sentence of the revised requirement in paragraph 8 [now paragraph 9] is intended to address Mr. James’ suggestion, as the auditor shall determine, from the matters communicated to TCWG, those matters that required significant auditor attention in performing the audit, which are not limited to those disclosed in the financial statements. He further noted that the additional factors in paragraphs 8(a)–(c) [now paragraphs 9(a)–(c)] are intended to be minimum considerations for the auditor in determining matters of significant auditor attention, based on feedback from the ED and firms’ field testing, bearing in mind the linkage to matters of interest to users.</p> <p>Application material has been added to further emphasize that the concept of matters of significant auditor attention is broader than the required considerations (<i>see paragraph A18 of Agenda Item D.2</i>), and also to provide further guidance for the auditor in determining matters of most significance, stressing that the concept is applicable in the context of the entity and the audit that was performed and involves making a judgment as to the importance of matters specific to the audit and their importance relative to other matters in the audit (<i>see paragraphs A27–A30 of Agenda Item D.2</i>). This application material was developed taking into account feedback from field testing about how auditors practically approached the determination of KAM, and also incorporates thinking from the PCAOB’s proposals on critical audit matters.</p>
<p>Mr. Stewart and Ms. de Beer questioned how the revised requirements were intended to focus on what is of most interest to users. Mr. Stewart asked whether there should be another filter to explicitly require the auditor to consider users in determining KAM.</p>	<p>Point taken into account.</p> <p>Mr. Montgomery explained that feedback from the Invitation to Comment (ITC) had suggested it may be difficult for auditors to determine what would be of interest to users, as many users may have different interests. However, he noted that the move to focus on areas of</p>

Representatives' Comments	Task Force/IAASB Response
	<p>complexity or significant management judgment as a consideration to determine KAM is consistent with what users have highlighted as of interest to them.</p> <p>Mr. Montgomery further suggested that more application material explaining the linkage between the revised requirement and matters of interest to users may be helpful.</p> <p>The IAASB did not support including an explicit requirement to require the auditor to consider users in determining KAM but rather supported Mr. Montgomery's explanation that revisions to the requirements to determine and communicate KAM had been made in direct response to matters that users have indicated were of interest.</p> <p>Application material to the requirement to determine matters of most significance highlights the auditor's consideration of the importance of the matter to intended users' understanding of the financial statements as a whole (<i>see paragraph A29 of Agenda Item D.2</i>).</p> <p>The IAASB agreed to further emphasize matters that users had signaled are of interest in the application material and the importance of the description of a KAM being informative to them. <i>See paragraphs A1, A2, A17, A24, A29, A31, A34, A36, A41, A42, A43, A44, A47 and A48 of Agenda Item D.2.</i></p> <p>On balance, the IAASB believes that consideration of relevance to users underlies the application of the requirements in determining and communicating KAM.</p>
<p>Mr. Hines agreed, noting that users have very different points of view and suggested it would be more appropriate to focus the auditor's judgments in determining KAM to those areas on which the auditor spent a significant amount of attention. Mr. Baumann noted that similar comments had been received on the PCAOB's proposals. He was of the view that it is for the standard setters to determine reporting requirements based on what they believe are most relevant and useful to investors, rather than leave this to the judgment of individual auditors, as auditors are not trained in determining what is of most interest to users. He therefore did not support adding another</p>	<p>Point accepted (see further discussion above).</p>

Representatives' Comments	Task Force/IAASB Response
filter, but rather let investors determine which KAM were of most interest to them.	
Mr. Stewart asked Mr. Baumann for clarification about his view that auditors are not able to judge users' needs in light of the objective of setting materiality in financial reporting based on what would be relevant to users' decision-making. Mr. Baumann expressed his personal view that financial statements must meet the requirements of the applicable financial reporting framework and the auditor has to make the determination that the preparer has met the requirements of such framework and assess in cases where the omission of a disclosure or an unadjusted error may be material to an investor. In his view, this exercise focuses on the mix of information provided to investors, which is very different to looking at the total body of the financial statements and selecting which of those various elements may be most important to an investor.	Points noted.
Mr. Koktvedgaard questioned whether the proposed changes to the requirement to determine KAM would have any impact on the illustrative examples included in the ED.	<p>Point noted.</p> <p>Mr. Montgomery explained that those matters would likely continue to meet the criteria for a KAM under the revised requirements, but that DT-701 plans to assess the appropriateness of the examples, potential revisions, and the number of examples to be included in the final standard based on the comments received on the ED and changes to the requirements to determine and communicate KAM.</p> <p>At its June 2014 meeting, the IAASB agreed that a limited number of examples could be provided and included in non-authoritative Staff guidance to be issued concurrently with the final standards illustrating the application of proposed ISA 701.</p>
<i>Addressing Sensitive Matters</i>	
Ms. de Beer was of the view that it is important that ISA 701 does not create too much flexibility for the auditor to opt out of disclosing a KAM by having a broad concept of sensitive matters, in particular because a preparer could then put pressure on the auditor not to disclose a KAM.	<p>Point accepted.</p> <p>The IAASB expressed a similar view at its March and June 2014 meetings as has kept this in mind in continuing to revise the requirement and related application material. <i>See further discussion in Section I below.</i></p>

Representatives' Comments	Task Force/IAASB Response
<p>Ms. Sucher and Mr. Dalkin noted that there could be a list of matters which the auditor does not have to report. However, they noted that a list will likely not improve the position of the auditor as TCWG could still put pressure on the auditor. Mr. Thompson agreed.</p>	<p>Point not accepted.</p> <p>The draft of proposed ISA 701 discussed in June 2014 included application material of potential circumstances in which this requirement might apply. During the discussion, the Board agreed to delete these examples, as concern was expressed that including examples could lead to a greater proliferation of non-communication about these matters.</p>
<p>Mr. Bollman was of the view that a fine balance needed to be struck – KAM should be determined by the auditor, but the auditor should have the option to discuss with TCWG whether or not to disclose a KAM, as TCWG can provide insight. However, there should be a very high threshold not to disclose a KAM, with the position in the ISA to err on the side of disclosure of a KAM in light of the interest in transparency for investors, unless there are important reasons not to disclose such information. Mr. Bluhm was of the view that the determination of KAM is the responsibility of the auditor and communication about a KAM should not be a joint decision between the auditor and TCWG. Instead, the auditor should simply obtain input from TCWG that is taken into account in determining whether to communicate a matter. Mr. Waldron agreed and noted that investors should hear the auditor's view and not that of TCWG.</p>	<p>Points taken into account.</p> <p><i>See further discussion in Section I below.</i></p>
<p>Ms. Sucher noted banking regulators had expressed concern about disclosures on “close calls” related to GC, in fear of such disclosures becoming a self-fulfilling prophecy. However, she cautioned that allowing for too much flexibility to not disclose particular matters could undermine the overall objective of requiring auditors to determine and communicate KAM. Mr. Thompson agreed, noting it would be helpful for the standard to presume that non-disclosure was only possible in certain extreme cases and that management should be encouraged to add disclosures in the financial statements to address matters determined to be KAM to avoid the auditor</p>	<p>Points accepted.</p> <p><i>See further discussion in Section I below.</i></p>

Representatives' Comments	Task Force/IAASB Response
<p>providing original information. Mr. Dalkin commented that, without appropriate parameters in ISA 701, any list of sensitive matters is likely to be viewed as exemptions from disclosure.</p>	
<p>Mr. White suggested as an alternative approach that the auditor should look at the related financial reporting framework. Some financial reporting frameworks allow for the possibility of certain matters not being disclosed in the financial statements. The auditor could consider why the particular matter had not been disclosed (e.g. if doing so would have been problematic for the preparer). Ms. Healy noted that this was also acknowledged in discussions with the IESBA Planning Committee. Mr. Stewart noted that this disclosure exemption in International Financial Reporting Standards (IFRSs) is addressed in one of the older standards.</p>	<p>Point taken into account. Mr. Montgomery agreed that DT-701 will give further thought to this option. <i>See further discussion in Section I below.</i></p>
<p>Mr. Hansen noted that, in addition to considering whether disclosure of a matter might result in potential harm to the entity, the auditor should also consider the potential harm to the public or investors if such a matter is, or is not, disclosed. He suggested there are multiple considerations that should be taken into account in determining whether something rises to the level of a sensitive matter for which disclosure should be precluded.</p>	<p>Point accepted. <i>See further discussion in Section I below.</i></p>
<p>Mr. James noted that the list of matters identified by respondents as sensitive varied with respect to the impact that disclosure may have. For example, IOSCO is of the view that breaches of independence requirements should always be reported unless the auditor is prohibited from doing so by law and regulation, as this is important information for investors, provided that such disclosure is presented in such a way that does not confuse the final conclusion that the auditor remained objective. He compared this to disclosure on a regulatory investigation or tax strategy and agreed with the suggestion to link the option to not disclose a KAM to the accounting framework and regulatory environment. Ms. de Beer agreed, noting that taking</p>	<p>Points taken into account. <i>See further discussion in Section I below.</i> The IAASB continues to be of the view that breaches of independence requirements should not be required, as set out in the Explanatory Memorandum of the ED, in part due to the point raised by Mr. James (i.e. that it would be extremely difficult to provide this disclosure in a way that would be well understood). Previous discussions with the IESBA indicate a similar view. However, should the auditor determine a breach of independence to be a KAM, nothing in proposed ISA 701 would preclude the auditor from communicating the matter, and if the auditor was of the view that it was a sensitive matter, the requirement in paragraph 14 of proposed ISA 701 would apply.</p>

Representatives' Comments	Task Force/IAASB Response
<p>the position that the auditor is only permitted to not disclose a KAM if law, regulation or the accounting framework precludes the auditor from doing so would serve to highlight the exceptional circumstances in which this may be appropriate.</p>	
<p>Mr. Stewart noted that, while there may be some concern that requiring auditors to disclose matters that had not been disclosed by management is not appropriate, the most important aspect is that disclosures by both preparers and auditors (in communicating KAM) should be relevant. In this respect he noted he was less concerned about auditors adding additional disclosure on matters that met the threshold of most significance to the audit.</p>	<p>Point taken into account.</p> <p><i>See further discussion in Section I below.</i></p>
<p>Mr. James suggested that perhaps the results of field testing could be useful in informing the Board about the problems that were encountered by the firms to arrive at a reasonable solution.</p>	<p>Point taken into account.</p> <p>Mr. Montgomery explained that the firms did not share examples of KAM that had been developed in field testing, but rather used those results to inform their comment letters and shared the internal processes that had been followed, raising the question of how sensitive matters should be addressed.</p> <p>The Drafting Team has considered the feedback from the firms on the practical challenges in relation to “sensitive matters”, as well as feedback from the CAG and others, in revising the relevant requirements and application material to strike an appropriate balance.</p> <p><i>See further discussion in Section I below.</i></p>
<p>Mr. Dalkin suggested this would be a useful area to explore with the PCAOB and the FRC and did not support providing a list of examples of sensitive matters. He further suggested some documentation requirements in this regard. Ms. Sucher noted that it may be less of an issue in the UK due to the correlation between the auditor’s report and matters already addressed in the Audit Committee report.</p>	<p>Point noted.</p> <p>While IAASB leadership and staff continue to liaise with the PCAOB, due to confidentiality restrictions, the PCAOB has not shared its views on the need for, or articulation of, such a requirement.</p>
<p>Mr. Montgomery also drew the attention of the Representatives and Observers to paragraph 37 of Agenda Item C.1 and explained that IAASB Staff had preliminary discussions with the IESBA Planning Committee to firstly understand how the proposed</p>	<p>At its March and June 2014 meetings, the Board acknowledged that, in jurisdictions where relevant ethical requirements other than the IESBA Code applied, the interaction between the auditing standards and the relevant ethical requirements may not be as</p>

Representatives' Comments	Task Force/IAASB Response
requirements in ISA 701 would be viewed in light of relevant ethical requirements related to confidentiality, in particular including the <i>Code of Ethics for Professional Accountants</i> (IESBA Code). He noted that the IESBA Planning Committee was unanimous that the confidentiality provisions of the IESBA Code would not stand in the way of disclosing KAM as required by proposed ISA 701 (in order to comply with the technical standard), if not prohibited by law or regulation.	straightforward. The Board therefore asked DT-701 to further clarify the auditor's consideration of relevant ethical requirements in potentially concluding not to communicate a matter determined to be a KAM. <i>See further discussion in Section I below.</i>
Mr. Montgomery noted that DT-701 would give further consideration to the topic of sensitive matters and that the view of the CAG seemed to be that the wording in the standard would need to be carefully crafted to make it clear that non-disclosure is an exception rather than a rule and is at a very high threshold. He reiterated that preparers, who did not support KAM in general, were particularly concerned about pressure from auditors to disclose matters that were not required to be disclosed in accordance with the applicable financial reporting framework.	<i>See further discussion in Section I below.</i>
<i>Communicating KAM</i>	
Mr. Fukushima, supported by Mr. James, questioned the incremental value that communicating KAM will have, and whether the costs will outweigh the benefits, as he was of the view that individual descriptions of KAM could duplicate disclosures in financial statements in light of the factors now proposed in determining KAM. In this regard, Mr. Fukushima also suggested it will be necessary for the IAASB to further clarify the relationship between KAM and Emphasis of Matter (EOM) paragraphs.	Points noted. Mr. Montgomery explained that this depends on the level of detail that investors want to have included in the description of a KAM. Ms. de Beer noted that preparers had expressed similar concerns but, in her view, if a matter had been disclosed by an entity in great detail, the auditor could cross-refer to the disclosures and make more brief comments about why the matter was determined to be a KAM. Point accepted. DT-701 has revised proposed ISA 706 (Revised) to clarify the relationship between KAM and EOM paragraphs. <i>See further discussion in Section IV below.</i>
Ms. Sucher was of the view that the objective of this project is to meet investors' needs and that investors would like to see procedures and an outcome in the description of the KAM. She was not convinced that	Point accepted. Mr. Montgomery, supported by Ms. de Beer and Mr. Waldron, agreed that investors indicated they would like to understand, at a high level, how the auditor addressed

Representatives' Comments	Task Force/IAASB Response
<p>the arguments against requiring the auditor to do so in all cases were sufficiently robust. Ms. Sucher specifically noted that there were some excellent examples in the UK that have shown that the auditor can add value by describing procedures and the outcome of the auditor's work. Messrs. James, Thompson, and Waldron agreed. Mr. James suggested reaching out to certain engagement teams in the UK who have prepared auditor's reports under the new regime. This could assist in determining additional refinements needed to the requirements and guidance in ISA 701 in order to ensure reports of similar value would result.</p>	<p>the KAM in the audit, rather than a detailed description of procedures.</p> <p>At its March 2014 meeting, the IAASB agreed to retain the requirement for the auditor to determine whether, in describing a KAM, it is necessary to communicate how such matter was addressed in the audit, rather than requiring this in all cases.</p> <p>Subsequent to the March 2014 IAASB meeting, DT-701 obtained further feedback on the UK experience, including liaising with engagement teams and firm leaders responsible for implementing the UK proposals.</p> <p>As a result, DT-701 further considered the feedback from the CAG and at the June 2014 meeting recommended the IAASB reconsider its position. The Board then agreed to require, in all cases, that the description of a KAM address not only why the matter was considered to be one of most significance in the audit and therefore determined to be a KAM, but also how the matter was addressed in the audit (<i>see paragraph 13 of Agenda Item D.2</i>). Application material notes that in doing so the auditor may describe aspects of the auditor's response or approach that were most relevant to the matter or specific to the assessed risks of material misstatement; a brief overview of procedures performed; an indication of the outcome of the auditor's procedures; or key observations with respect to the matter (or some combination of these elements). <i>See paragraphs A46–A51 of Agenda Item D.2.</i></p>
<p>Mr. Montgomery further noted that auditors had highlighted difficulty in developing a succinct description of the procedures performed on complex audit matters as well as concerns over descriptions of KAM being viewed as piecemeal opinions. Mr. Waldron was of the view that auditors could provide a description of the outcome in such a way that it could be clear it was not intended to be an opinion on an individual matter. Mr. Montgomery suggested that the most appropriate focus might be on describing those aspects of the audit that were unique in so far as requiring additional auditor attention or communication with TCWG. He explained that DT-701 intended to</p>	<p>Points taken into account.</p> <p>These aspects have been addressed in application material to the requirement relating to individual descriptions of KAM. <i>See paragraphs A34–A51 of Agenda Item D.2.</i></p>

Representatives' Comments	Task Force/IAASB Response
<p>give further consideration to how application material could guide the auditor in writing meaningful descriptions of KAM by also further considering UK examples.</p>	
<p>Mr. Koktvedgaard was of the view that there is a risk that auditors would add a lengthy list of KAM, including detailed procedures, in the auditor's report in order to avoid future negative action if relevant information was seen to be omitted. He did not believe that this would be of value to investors. Ms. Borgerth expressed similar concerns about the potential increased length of the auditor's report. Mr. Waldron noted that he does not see the risk of a lengthy auditor's report, because those users who are interested only in the pass/fail nature of the report could clearly refer to the auditor's opinion at the beginning of the report, and those interested in knowing more could refer to the KAM section.</p>	<p>Points taken into account.</p> <p>Proposed ISA 701 specifically notes that determining which, and how many, of those matters that required significant auditor attention were of most significance in the audit of the financial statements of the current period is a matter of professional judgment. The number of key audit matters to be included in the auditor's report may be affected by the size and complexity of the entity, the nature of its business and environment, and the facts and circumstances of the audit engagement. In general, the greater the number of key audit matters initially determined to be key audit matters, the more the auditor may need to reconsider whether each of these matters meets the definition of a key audit matter. Lengthy lists of key audit matters may be contrary to the notion of such matters being those of most significance in the audit.</p> <p><i>See paragraph A30 of Agenda Item D.2.</i></p>
<p>Mr. Finnell was of the view that the decision whether to include a description of audit procedures should be left to auditor judgment, as describing procedures in key areas may be particularly sensitive and the intent of doing so is not for users to determine whether the auditor had performed sufficient procedures.</p>	<p>Point accepted.</p> <p>While requiring the auditor to describe how the matter was addressed in the audit, proposed ISA 701 continues to allow flexibility for auditors to determine the best way to do so. Challenges in describing procedures, developed based on feedback from field testing, are acknowledged in the standard. <i>See paragraph A50 of Agenda Item D.2.</i></p>
<p>In relation to the question of consistency in communicating KAM, Ms. Lang noted that if the IAASB is too prescriptive in ISA 701, the innovation which can currently be seen in auditor's reports in the UK may be lost. Ms. de Beer noted that, based on her outreach activities, audit committee members commented that there is a significant risk that over time industry-specific KAM would evolve using boilerplate language.</p>	<p>Point accepted.</p> <p>While acknowledging that proposed ISA 701 is less principles-based than the related UK standard, DT-701 continues to believe it strikes an appropriate balance between calls from stakeholders for consistency and comparability in auditor judgments and auditor's reports with concerns about the possibility of an overly prescriptive approach that will result in the auditor's report not providing meaningful and relevant information to users.</p>

Representatives' Comments	Task Force/IAASB Response
Mr. Koktvedgaard encouraged DT-701 to test its proposals against the UK auditor's reports that had been issued and consider whether the application of the IAASB's proposals would result in a similar level of detail.	Point taken into account.

Matters for CAG Consideration

4. The Representatives are asked to note the Report Back above. Specific Matters for CAG Consideration are set out below.

I. **Communicating KAM – Circumstances in Which a Matter Determined to Be a KAM Is Not Communicated in the Auditor's Report**

A. *Drafting Team Recommendations*

5. In light of the IAASB's feedback at its March and June 2014 meetings, and the CAG's feedback at its March 2014 meeting, DT-701 has continued to refine the new requirement and related application material in proposed ISA 701 addressing circumstances in which a matter determined to be a KAM is not communicated in the auditor's report. DT-701's proposed changes are included in paragraphs 14 and A52–A61 of **Agenda Item D.2**.

6. In this regard, the IAASB agreed that such circumstances should be:

- Linked first to the possibility that law or regulation preclude public disclosure about the matter; and
- Extremely rare, taking into account the severity of adverse consequences of such communication.

The Board asked DT-701 to further consider how this concept could be best articulated in the standard, including whether the requirement or application material should further elaborate on the concept of harm to the entity. At its March 2014 meeting, the CAG was supportive of including the requirement in the standard to address when a KAM might not be communicated, but expressed a view that the circumstances in which the auditor might decide not to communicate a KAM should be very restrictive.

7. DT-701 believes that establishing appropriate parameters within the final standard is necessary to ensure that this provision is not used when it would be inappropriate to do so, in light of the purpose of communicating KAM in the auditor's report (i.e. to provide greater transparency about the audit that was performed). DT-701 is therefore of the view that proposed ISA 701 should be very clear in highlighting that, unless law or regulation preclude disclosure, circumstances in which the auditor would judge it necessary to not communicate a KAM in the auditor's report are expected to be extremely rare, with the decision to not communicate being based on the facts and circumstances of the entity and the audit, and involving discussion with TCWG.

Proposed Requirement

8. DT-701 has also further considered the level of prescription needed in the requirement, including whether the requirement should further elaborate on the concept of harm to the entity, against the practical challenges that may arise from too much specificity due to differing legal and regulatory frameworks in various jurisdictions. While the concept of adverse consequences as the rationale for not communicating a KAM has been retained in the proposed requirement, DT-701 is of the view that it is necessary to focus the auditor on the principles to be taken into account in potentially making a determination not to communicate a KAM in the auditor's report. Of note:
- The requirement itself is first premised on the fact that if law or regulation preclude public disclosure about the matter, then the auditor would not be required to communicate the KAM. This overarching premise was viewed as a useful threshold by the IAASB, CAG and others, as it acknowledges the interaction with applicable laws and regulations. (See paragraph A52.)
 - Importantly, DT-701 is of the view that, if there is public disclosure about a matter, whether in the financial statements, another section of the annual report, or elsewhere, communication about the matter in the auditor's report generally would not be expected to lead to adverse consequences and the auditor may take into account relevant publicly available information in describing a key audit matter (see paragraph A54).
 - Absent law or regulation precluding public disclosure about the matter, the intent of the proposed requirement in paragraph 14(b) is therefore to focus the auditor's judgment about whether a KAM should not be communicated in the auditor's report on only a matter(s) "that has not otherwise been publicly disclosed."
 - When a matter has not been publicly disclosed, a key aspect of the auditor's judgment about whether the KAM should not be communicated relates to management's assertion as to why public disclosure about the matter is not appropriate, as well as the views of TCWG in relation to this assertion.
 - Communication with TCWG is therefore required by paragraph 17(a) of proposed ISA 701 to inform the auditor's determination that communicating the KAM would reasonably be expected to result in adverse consequences. Application material has been included to explain how such communications may be of benefit to the auditor in making the determination to not communicate a KAM in the auditor's report, in particular the possibility that management and TCWG may voluntarily provide disclosure about the matter (see further discussion in the second bullet of paragraph 8 below).
 - DT-701 considered that using more specific terms than "adverse consequences" could make the requirement even more difficult to implement in practice, in particular if it were viewed as the auditor making a legal determination. DT-701 also notes that this construct is similar to that used in proposed ISA 700 (Revised)⁶ in relation to the rare circumstances when the name of the engagement partner would not be included in the auditor's report.

⁶ Proposed ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 46

9. In addition, other requirements in proposed ISA 701 and ISA 220⁷ further support the application of this requirement and the related auditor judgments. For example:
- Paragraph 17(a) of proposed ISA 701 requires the auditor to communicate all matters determined to be KAM to TCWG, including those that the auditor has determined should not be communicated in accordance with paragraph 14.
 - Paragraph 18(c) of proposed ISA 701 requires the auditor to document the rationale for the auditor's determination not to communicate in the auditor's report a matter determined to be a key audit matter.
 - ISA 220⁸ requires discussion with the engagement quality control reviewer (EQCR) when the auditor decides not to communicate a KAM.

Interaction with Relevant Ethical Requirements

10. DT-701 was also asked to further clarify the auditor's consideration of relevant ethical requirements in potentially concluding not to communicate a matter determined to be a KAM. DT-701 notes that relevant ethical requirements may be embedded in law or regulation, in which case paragraph 14(a) would apply if such ethical requirements preclude public disclosure. However, regardless of whether relevant ethical requirements are embedded in law or regulation, it may not be clear whether the auditor might breach a requirement within those requirements by communicating a KAM, so thoughtful analysis, involving the exercise of professional judgment will likely be needed by the auditor in making the determination as to whether communication of a matter in the auditor's report would be precluded by relevant ethical requirements. In addition, the auditor may consider it appropriate to seek legal advice.
11. Input from the IESBA Planning Committee was that communication of KAM would not be prohibited by the IESBA Code, because the duty of confidentiality under the IESBA Code would not override a professional duty to disclose client information to comply with technical standards (e.g. the ISAs). However, notwithstanding this input, discussion with national auditing standards setters (NSS) and the Board has highlighted the need to allow for flexibility for the auditor to consider the interactions and relationships between the requirements in proposed ISA 701 and relevant ethical requirements other than the IESBA Code, as other codes might not be interpreted or applied in the same manner. Paragraph A53 of proposed ISA 701 therefore acknowledges that it may be necessary for the auditor to consider the implications of communicating about a matter determined to be a key audit matter in light of the relevant ethical requirements and the facts and circumstances of the engagement. DT-701 is of the view that providing additional guidance in an international standard would be difficult in light of the potential approaches taken by ethical codes other than the IESBA Code, and is of the view that further guidance would best be addressed by NSS in the context of their respective jurisdictions and applicable ethical requirements.

⁷ ISA 220, *Quality Control for an Audit of Financial Statements*

⁸ ISA 220, paragraphs 20 and A27

Application Material in Support of the Proposed Requirement

12. Robust application material has also been developed to support the requirement addressing circumstances in which a KAM may not be communicated and to elaborate on the auditor's decision-making process. In particular:
- The application material highlights the notion of the auditor considering whether it is possible to communicate a matter in the auditor's report in such a way that would mitigate concerns about adverse consequences. Previous DT-701, IAASB and CAG discussions have suggested that the presumption in the ISA should be that the auditor cannot decide not to communicate a matter determined to be a KAM unless the auditor has first considered, in light of the facts and circumstances related to the matter, whether it would be possible to describe the matter in an appropriate manner (including in a more general way), and has nevertheless concluded that it is not possible to do so. The likelihood of the auditor being able to communicate a sensitive KAM in an appropriate manner increases if management or TCWG have decided to include additional information in the financial statements or elsewhere in the annual report about the matter.
 - Application material also explains that the auditor's judgment regarding the decision not to communicate a KAM in the auditor's report is informed by required communication with TCWG in accordance with paragraph 17(a). These required discussions are firstly aimed at assisting the auditor in finding a way of communicating about a matter in the auditor's report rather than deciding not to communicate the matter at all (i.e., exhausting other possible options). (See paragraphs A56–A59.)
 - The first possibility is that communication with management and TCWG helps the auditor to understand why management has not disclosed a matter. Previously, the CAG and DT-701 have generally agreed that, if the applicable financial reporting framework or law or regulation allows for delayed disclosure about a matter, the auditor should not override management's decision in that regard by communicating the matter as a KAM before management has made any disclosures about the matter.
 - The second possibility is that management or TCWG decides to include information about the matter either in the financial statements or elsewhere, such as in another section of the annual report. Reference within proposed ISA 701 to disclosing such information elsewhere acknowledges the possibility that, while disclosure in the financial statements about the matter may not be required by the applicable financial reporting framework, management has a responsibility to provide information that is relevant to users.
 - A third possibility is that, in communicating with management and TCWG, the auditor may become aware of ongoing communications related to the matter between the entity and regulatory, enforcement or supervisory authorities ("authorities"). Discussion with management and TCWG, or direct communications between the auditor and the applicable authorities, may provide the auditor with additional perspective on whether communication in the auditor's report about the matter could result in adverse consequences, for example by negatively affecting the entity's ability to resolve the matter. Proposed ISA 701 also highlights that the auditor may be required or may

otherwise consider it appropriate to communicate with applicable authorities in relation to the matter, regardless of whether the matter is communicated in the auditor's report. On balance, DT-701 was of the view that describing the potential need for the auditor to discuss the possibility of not communicating a KAM in the auditor's report with others was an appropriate way to highlight the importance of those discussions without implying that they could be used as a substitute for communication in the auditor's report.

13. Further guidance is also included to describe the concepts of “extremely rare circumstances” and “the significance of adverse consequences that can reasonably be expected to arise as a result of such communication” (see paragraphs A57–A59). DT-701 considered feedback received from various Board members at the June 2014 IAASB meeting, as well as the CAG, in developing this material. Such guidance highlights that the auditor may determine that communicating information in the auditor's report about a matter that is not otherwise publicly disclosed, while potentially informative to intended users, nevertheless is inappropriate in view of the significance of the adverse consequences that can reasonably be expected to arise as a result of such communication.
14. DT-701 considered how best to highlight the balance that the auditor would be expected to consider between the benefit of communicating a KAM in the auditor's report with the potential adverse consequences of such a communication, recognizing there may be significant public interest implications involved in both communicating and deciding not to communicate. Paragraph A57 of proposed ISA 701 explains that the likely adverse consequences on the entity, the public or an individual could be so significant such that communication by the auditor of the matter is unjustified, notwithstanding the potential public interest benefits of making the communication. Therefore, in making a judgment to not communicate a KAM in the auditor's report, the auditor takes into account:
 - The facts and circumstances in relation to the matter.
 - Management's assertion as to why public disclosure about the matter is not appropriate, as well as the views of TCWG in relation to this assertion.

In addition, the auditor may consider it appropriate to obtain legal advice to inform the auditor's judgment that a matter should not be communicated in the auditor's report.

15. As agreed during the June 2014 IAASB discussion of Updated Agenda Item 4-B, DT-701 has deleted the illustrative examples of potential circumstances to which this requirement might apply, as concern was expressed that including examples could lead to a greater proliferation of non-communication about these matters. However, the example explaining how the auditor may describe KAM relating to going concern when the auditor concludes that no material uncertainty exists relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern has been retained (see paragraph A55). Previous discussions with the IAASB and the CAG have highlighted the need to deal more explicitly with “close calls” in relation to going concern and, as drafted, DT-701 believes this guidance illustrates how matters relevant to this judgment and that may be viewed as “sensitive matters” can be appropriately communicated in the auditor's report.

Summary

16. On balance, DT-701 believes the proposed requirement and related application material appropriately respond to the concerns expressed both by the IAASB and the CAG that any requirement addressing the possibility that the auditor would decide not to communicate a KAM in

the auditor's report should occur only when law or regulation preclude communication about a matter or, when there is no such preclusion, only in extremely rare circumstances and with a sufficient process around this determination. The removal of examples of "sensitive matters", and new guidance explaining what would not constitute adverse consequences (such as legal liability or legal, regulatory or professional sanctions that may validly arise for the entity, the auditor or the firm, or negative market reactions to information provided about the matter), serves to reiterate the Board's intent to restrict the application of this requirement. Safeguards such as documentation requirements to address the rationale for the determination and required consideration by the engagement quality control reviewer of the applicable judgments are also likely to be help in practice by limiting the application of this requirement to those circumstances in which it is appropriate to apply it.

17. DT-701 supports moving forward with the proposed requirement and related application material in response to comments received on ED, as well as input from IAASB and CAG discussions. However, DT-701 notes that this will be an area that is likely to attract significant attention during the post-implementation review, in particular if regulators and audit oversight bodies find that auditors' decisions not to communicate KAM in the auditor's report are occurring beyond "extremely rare circumstances."

Matter for CAG Consideration

1. Representatives are asked for their views on the matters set forth above and how they have been articulated in the revised requirement in paragraph 14 and application material in paragraphs A52–A61 of proposed ISA 701 (**Agenda Item D.2**).

II. Other Changes Proposed to ISA 701

A. Drafting Team Recommendations

18. Recognizing the IAASB's broad support for the revisions proposed in Updated Agenda Item 4-B discussed during the June 2014 IAASB meeting, DT-701's efforts in relation to the other requirements and related application material in proposed ISA 701 were focused on matters of clarity, responding to comments made during the Board discussion, and review of editorial comments provided off-line. DT-701 also agreed to reorder the requirements to reflect a more logical flow and to add additional subheadings within the Requirements section to describe key elements of the auditor's thought process when communicating KAM.
19. The following highlights the rationale for the remaining changes proposed to the requirements in proposed ISA 701 (**Agenda Item D-2**).
 - The requirement in paragraph 9 has been further clarified from what was presented to the CAG at its March 2014 meeting, in particular to link to existing concepts in the ISAs, including the concept of accounting estimates that have been identified as having high estimation uncertainty discussed in ISA 540.⁹ Doing so further aligns with how such concepts were addressed in application material.

⁹ ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

- The requirement in paragraph 11 addressing introductory language required to be included in the KAM section in the auditor's report has been simplified, in an effort to minimize standardized language in the auditor's report. Complementing this is a requirement for the auditor to describe the auditor's responsibilities in relation to KAM when proposed ISA 701 applies. Such requirement is included in paragraph 40(c) of proposed ISA 700 (Revised) (see paragraph 40(c) and Illustration 1 of **Agenda Item G.2**).
- A new requirement (paragraph 12) has been developed, aimed at prohibiting the auditor from using the communication of KAM as a substitute for the auditor expressing a qualified or an adverse opinion in accordance with proposed ISA 705 (Revised),¹⁰ similar to the approach taken for EOM paragraphs in proposed ISA 706 (Revised).
- The requirement in paragraph 13 has been revised to require, in all cases, that the description of a KAM address not only why the matter was considered to be one of most significance in the audit and therefore determined to be a KAM, but also how the matter was addressed in the audit.
- A requirement (which was included in the ED) has been reinstated addressing circumstances when the auditor expresses a qualified or adverse opinion or a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. This requirement (paragraph 15) now indicates that these matters are by their nature KAM, a point that was previously included in application material. The requirement also indicates that these matters are not presented in the KAM section of the auditor's report, but rather in the "Basis for Qualified (or Adverse) Opinion" or the "Material Uncertainty Related to Going Concern" section(s), with a reference to these sections in the KAM section. On balance, DT-701 believes that this requirement addresses the interaction of KAM with these other matters in the auditor's report.
- Paragraph 16 was revised to respond to concerns expressed at the June 2014 IAASB meeting that it was unclear whether the requirement would apply in circumstances where the auditor determines that there is only one KAM and, in accordance with paragraph 14, has determined that this KAM should not be communicated in the auditor's report. Application material in paragraphs A62–A65 provides further guidance. The language required to be included in the auditor's report when the auditor has determined that there are no KAM to be communicated in the auditor's report has also been shortened and simplified in light of the required description of the auditor's responsibilities when proposed ISA 701 applies (see paragraph A63 for the illustrative wording in such circumstances).

Matter for CAG Consideration

2. Representatives are invited to share their views on the other requirements and related guidance in proposed ISA 701.

¹⁰ Proposed ISA 705, *Modifications to the Opinion in the Independent Auditor's Report*

III. How the Application of Proposed ISA 701 Is Addressed in Proposed ISA 700 (Revised) and Proposed ISA 705 (Revised)

Proposed ISA 700 (Revised)

Requirement to Communicate KAM

20. At its June 2014 meeting, the IAASB agreed to continue with the position set out in the ED to limit the requirement to communicate KAM to audits of complete sets of general purpose financial statements of listed entities, but allow for voluntary application by other entities. See paragraphs 30–31 of proposed ISA 700 (Revised) and related application material (**Agenda Item G.2**).

Auditor's Report Prescribed by Law or Regulation

21. At its June 2014 meeting, the IAASB agreed to retain the flexibility permitted by proposed ISA 700 (Revised) in relation to key audit matters when law or regulation prescribes the form and content of the auditor's report. Minor changes have been made since the ED to respond to comments received. See paragraph 50(h) and related application material of proposed ISA 700 (Revised) (**Agenda Item G.2**).

Proposed ISA 705 (Revised)

22. At the June 2014 IAASB meeting, DT-701 recommended that the Board reconsider whether KAM should be required when the auditor expresses an adverse opinion. While the IAASB also agreed to continue to prohibit communication of KAM when the auditor disclaims an opinion on the financial statements, the Board did not support DT-701's recommendation. The Board was generally of the view that, because the auditor is able to complete the audit in such circumstances, there may be additional matters that may be relevant to the intended users' understanding of the audit. The Board asked the Drafting Teams to further consider the appropriate placement of the material relating to disclaimers of opinion, in order to simplify and avoid duplication where possible.
23. Both DT-701 and DT-700 agree it would be appropriate to retain within proposed ISA 705 (Revised) the requirement relating to the prohibition on communicating KAM when the auditor disclaims an opinion. This is included as paragraph 29 of proposed ISA 705 (Revised) (**Agenda Item G.3**), with further guidance in paragraph A26.
24. Within proposed ISA 701, application material refers to the underlying requirement in proposed ISA 705 (Revised) (see paragraph A7 of proposed ISA 701) and also highlights the importance that language used in the description of a key audit matter does not contain or imply discrete opinions on separate elements of the financial statements, which may be particularly relevant in circumstances where the auditor has expressed an adverse opinion on the financial statements as a whole, but has determined one or more matters other than the matter giving rise to the adverse opinion to be key audit matters (see paragraph A47 of proposed ISA 701).

IV. Changes to Proposed ISA 706 (Revised)

A. *Drafting Team Recommendations*

25. At its June 2014 meeting, the Board agreed with DT-701's recommendation to retain the possibility of auditors using EOM paragraphs even when KAM are communicated in the auditor's report.

However, the Board asked DT-701 to look for ways to further differentiate the concepts of KAM and EOM, including clarifying the proposed guidance addressing the potential circumstance in which a matter that is determined to be a KAM may also be considered fundamental to users' understanding of the financial statements.

25. The retention of EOM paragraphs was supported at the March 2014 CAG meeting, with similar advice given as to the need to take appropriate steps, including clarifications to ensure that users will understand the relationship between EOM paragraphs and KAM. The CAG has also previously acknowledged that while the primary purpose of communicating KAM is to provide transparency about the audit that was performed, it would be useful if the auditor would take cognizance of information of interest to the user, in order for such communication to also assist intended users of the financial statements in understanding the entity and areas of significant management judgment in the audited financial statements.
26. In considering how best to respond to the CAG and IAASB's feedback and further refine proposed ISA 706 (Revised), DT-701 took into account the Board's thinking in developing the approach to determining and communicating KAM in accordance with proposed ISA 701 and notes the following:
 - In many instances, matters determined to be KAM will relate to matters presented or disclosed in the financial statements. In such cases, DT-701 continues to believe that communicating the matter under the new reporting model of KAM serves as the most useful and meaningful mechanism for highlighting the importance of the matter. This is because communication as a KAM is intended to provide additional information to intended users of the financial statements beyond what would be included in an EOM paragraph (i.e., more than a simple reference to the disclosure of the matter). This rationale is the basis for the requirement in paragraph 8(b) of proposed ISA 706 (Revised) (**Agenda Item D.3**), which essentially prohibits using EOM paragraphs as a substitute for KAM.¹¹ Accordingly, when KAM are communicated, EOM paragraphs are used to draw attention to *matters not meeting the definition of KAM* that are, in the auditor's judgment, fundamental to users' understanding of the financial statements.
 - Under proposed ISA 706 (Revised), the auditor is not required to make an assessment of whether each KAM would also have met the definition of an EOM paragraph. However, some respondents to the ED, and one DT-701 member, are of the view that proposed ISA 706 (Revised) should provide for the possibility that a matter determined to be a KAM is, in the auditor's judgment, fundamental to the users' understanding of the financial statements. DT-701 acknowledged that, in presenting the matter in the KAM section, the auditor may wish to highlight or draw further attention to the relative importance of the matter by, for example, presenting it more prominently than other matters in the KAM section (e.g., as the first matter) or by including additional information in the description of the key audit matter (see paragraph A2 of proposed ISA 706 (Revised)). However, DT-701 did not believe it was necessary to require that the description of the KAM include the specific wording that the matter is "fundamental to users' understanding of the financial statements," as such a requirement could be seen as blurring, rather than differentiating, KAM and EOM.

¹¹ A similar prohibition is established by paragraph 10(b) of proposed ISA 706 (Revised) in relation to Other Matter (OM) paragraphs.

27. In light of this view, DT-701 has also reconsidered the recommendation it put forward at the June 2014 IAASB meeting to require a statement in all EOM paragraphs that, in the auditor's judgment, the matter being emphasized is fundamental to users' understanding of the financial statements," recognizing this was adding standardized language to EOM paragraphs in all cases, including for audits of other than listed entities for which ISA 701 does not apply and communication of KAM would not be required). DT-701 is now proposing that the term "Emphasis of Matter" be included in the heading of an EOM paragraph unless law or regulation prescribes a specific heading (see paragraph 9(a) of proposed ISA 706 (Revised). DT-701 is of the view that requiring the reference to EOM in the heading is consistent with the concept in proposed ISA 700 (Revised) that greater specificity of headings is a means of increasing consistency in auditor's reports and aiding intended users in recognizing key elements of the auditor's report.
28. On balance, DT-701 is of the view that these proposals respond to calls to seek to further differentiate KAM and EOM paragraphs, in light of the Board's agreement of the definitions of each. There may also be further opportunities to educate users and others on how the two concepts are intended to be applied and their relationship when both elements are included in an auditor's report (e.g., through the Basis for Conclusions and other communication or educational materials).

Matter for CAG Consideration

3. Representatives are asked for their views on the revisions to proposed ISA 706 (Revised).

V. Other Matters

Proposed ISA 260 (Revised)

29. In approving the ED, the IAASB determined that limited amendments to the required auditor communications with TCWG were necessary in light of proposed ISA 701. The most significant proposed change to ISA 260 relates to the existing requirement for the auditor to communicate with those charged with governance an overview of the planned scope and timing of the audit. The IAASB proposed to expand this requirement to include communicating about the significant risks identified by the auditor (see paragraph 15 of proposed ISA 260 (Revised) (**Agenda Item D.4**). Respondents who commented on the proposed changes to ISA 260 generally supported this change for the reasons outlined in the EM.
30. The IAASB has considered the need for any further changes to ISA 260 in light of feedback received on the ED and a review of the revisions made to ISA 701 since exposure, and supported a limited number of revisions to ISA 260 (see **Agenda Item D.4**). The changes are primarily to align with the revised considerations included in paragraph 9(a)–(c) of proposed ISA 701, as certain material proposed to be added no longer applies.
31. In addition, the IAASB acknowledged that a number of ISAs require communication with TCWG about the form and content of the auditor's report. Given the various requirements, the IAASB believes it is useful to acknowledge this in proposed ISA 260 (Redrafted) and has agreed to include a new conditional requirement in paragraph 16(d) of **Agenda Item D.4**, with application material included in paragraphs A23–A25 of proposed ISA 260 (Revised).

Conforming Amendments to Other ISAs

32. In response to feedback received on the ED, the IAASB changed its position on the need to require the auditor to make reference in the engagement letter to the possibility of communicating KAM when not otherwise required to do so and the related conforming amendment proposed to ISA 210.¹² Respondents had highlighted practical changes as a result of the proposed requirement and were of the view that the requirement to refer to the “expected form and content of any reports by the auditor” was sufficient. However, the IAASB agreed to retain and revise application material in ISA 210 addressing voluntary application of proposed ISA 701.
33. The Board has also agreed to make a conforming amendment to ISA 220 to address how the auditor’s judgments relating to KAM are considered by the engagement quality control reviewer, in light of the significance of those judgments.
34. Other minor conforming amendments related to proposed ISA 701 and proposed ISA 706 (Revised) were included in the ED. DT-701 is of the view that these conforming amendments continue to be necessary, with only minor changes needed to align with the final positions in proposed ISA 701 and proposed ISA 706 (Revised).

Matter for CAG Consideration

4. Representatives are invited to share any further comments on any matters relevant to the finalization of the ISAs with respect to KAM.

Material Presented – IAASB CAG PAPERS

Agenda Item D.2	Revised Draft of Proposed ISA 701, <i>Communicating Key Audit Matters in the Independent Auditor’s Report</i> (Clean)
Agenda Item D.3	Revised Draft of Proposed ISA 706 (Revised), <i>Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report</i> (Clean)
Agenda Item D.4	Revised Draft of Proposed ISA 260 (Revised), <i>Communication with Those Charged with Governance</i> (Clean)

¹² ISA 210, *Agreeing the Terms of Audit Engagements*