

Meeting: IAASB Consultative Advisory Group
Meeting Location: New York
Meeting Date: April 8–9, 2013

Agenda Item **B.2**

Auditor Reporting—Key Audit Matters

Objective of Agenda Item

1. To discuss issues relating to communicating key audit matters (formerly referred to as “Auditor Commentary”) in the auditor’s report, in the context of new proposed ISA 701.¹

Introduction

The following is an excerpt from the February 2013 IAASB meeting highlights. At that meeting, the IAASB further deliberated issues relating to the concept of auditor commentary introduced in its June 2012 Invitation to Comment (ITC), *Improving the Auditor’s Report*. Amongst other matters, the IAASB supported the following:

- A revised objective of the auditor for purposes of determining additional information to be included in the auditor’s report, as follows: “The objective of the auditor, having formed an opinion on the financial statements, is to communicate in the auditor’s report those matters that, in the auditor’s professional judgment, were of most significance in the audit of the financial statements.” The objective would be included in a proposed new International Standard on Auditing (ISA), tentatively labeled ISA 701.

The IAASB noted that the revised objective is not intended to signal a shift away from significant matters in the financial statements. Rather, it is intended to articulate a focus in the auditor’s thought process of selecting matters to report based on the audit performed, with reference to the disclosures in the financial statements as appropriate, thereby enhancing users’ understanding of the entity based on insights from further information about the audit.

- Presentation of this additional information as a separate section of the auditor’s report under the heading *Key Audit Matters* (KAM).

Amongst other matters, the IAASB noted the following matters for further consideration:

- How proposed ISA 701 should best reflect the IAASB’s view that the auditor’s judgment of what to report externally is derived from what had been communicated with those charged with governance (TCWG), and whether any clarifications are needed to the requirements or guidance in ISA 260.²
- How the introductory language in the illustrative example of the new section in the auditor’s report could be drafted to clearly explain to users that the matters discussed in the auditor’s

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

² ISA 260, *Communication with Those Charged with Governance*

report is not intended to be a comprehensive list of all matters discussed with TCWG.

- Whether the initial list of factors presented in the agenda material intended to guide the auditor's decision-making process in relation to external reporting could be further streamlined.
- Whether the proposed requirement for the auditor to include a statement in the auditor's report when no matters for external reporting had been identified is appropriate.

Matters for CAG Consideration

2. The proposed draft of new ISA 701 included as **Agenda Item B.3** builds upon the decisions made, and the feedback given, at the February 2013 IAASB meeting. It also takes into account various suggestions made by respondents to the ITC as to how best to respond to their concerns about auditors providing original information in the auditor's report. A full read of the proposed ISA is planned for the April 2013 IAASB meeting. This section discusses the key issues considered by the ISA 701 Drafting Team (DT-701) in formulating the new proposed requirements and related application material, regarding not only what constitutes a key audit matter (KAM), but also how such information is presented in the auditor's report in various circumstances.

Objective of Proposed ISA 701

3. Paragraphs 23–29 of **Agenda Item B.1** explain the background information and the diversity of views about the objective of the concept of "Auditor Commentary" expressed by respondents to the ITC. At its December 2012 meeting, the IAASB agreed that a focus on key audit areas and significant auditor judgment may be a useful way forward to respond to concerns from all stakeholders that the auditor should not provide original information about an entity. The IAASB agreed that a term other than "Auditor Commentary" should be used, and was of the view that "Key Audit Matters" or "KAM" would be a more appropriate description in light of the proposed objective.

4. The objective agreed by the IAASB at its February 2013 meeting is included in paragraph 8 of proposed ISA 701 is as follows:

The objective of the auditor, having formed an opinion on the financial statements, is to communicate in the auditor's report those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements.

5. This proposed objective intended to articulate a focus on significant matters addressed in the audit performed. However, in agreeing the objective, the IAASB acknowledged that the auditor's discussion of KAM can also assist users' understanding of the entity and the financial statements, and as such, did not believe the Board was moving away from the dual objective included in the ITC. The IAASB asked DT-701 to consider how this could be articulated in proposed ISA 700,³ and DT-701 was of the view that such a discussion could be prominently placed in the Scope section of the ISA (see paragraphs 2–3 of proposed ISA 701).

Matter for CAG Consideration

1. Do Representatives agree with revised objective proposed in ISA 701, in light of the balance of views of responses to the ITC explained in **Agenda Item B.1**?

³ Proposed ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

Requiring KAM for Audits of Listed Entities, and How KAM Is Determined

6. At its December 2012 meeting, the IAASB agreed that auditors of listed entities should be required to communicate KAM in the auditor's report, in light of the diversity of views from respondents to the ITC (see paragraph 23 of **Agenda Item B.1**).⁴ Accordingly, proposed ISA 701 includes a requirement for auditors of listed entities to communicate KAM in the auditor's report (see paragraph 10 of proposed ISA 701). The IAASB acknowledged, however, that law, regulation or national auditing standards may also require communication of KAM for entities other than listed entities, for example public interest entities (PIEs), or may require the auditor to include additional communication in the auditor's report about specific matters. In developing proposed ISA 701, DT-701 was of the view that it would be useful to explain how proposed ISA 701 could be applied in these circumstances (see paragraphs 4–5 of proposed ISA 701).

Requirement to Communicate KAM When a Qualified or Adverse Opinion Is Expressed

7. Importantly, under this new requirement, communicating KAM is required not only when the auditor issues an unmodified opinion, but also when the auditor issues a qualified or adverse opinion. This is because, as illustrated in the ITC, the auditor's opinion is not to be modified with respect to any of the matters included in the KAM section of the auditor's report. DT-701 is of the view that, similar to the way ISA 705⁵ addresses identified matters that would have otherwise required a modification of the auditor's opinion when an adverse opinion or disclaimer of opinion is expressed, investors and other users would likely still find it informative for the auditor to include a discussion of KAM in the auditor's report on matters other than that which gave rise to the modification of the auditor's opinion.
8. However, paragraph 17 of proposed ISA 701 is intended to ensure that matters for which the auditor is expressing a modified opinion (which is required by ISA 705 to be presented in the Basis for Modified Opinion paragraph) are not also presented in the KAM section of the auditor's report. The related application material in paragraph A37 of proposed ISA 701 explains that, while matters for which the opinion is modified are, by their nature, key audit matters, separating the discussion of these matters from those required to be communicated under proposed ISA 701 gives them the appropriate prominence in the auditor's report. The Illustrations in Section B of **Agenda Item B.5** show how modified opinions are presented in light of the suggested improvements in the ITC.
9. DT-701 agreed, however, that it would be inappropriate for the auditor to include a discussion of KAM when a disclaimer of opinion was expressed, as doing so would contradict the nature of a disclaimer of opinion (i.e., that the auditor was unable to obtain sufficient appropriate audit evidence

⁴ Agenda Item B.1 also notes that, while the IAASB suggested on an initial basis that communicating KAM should be required only for listed entities, it recognized that a post-implementation review may be a useful means to inform the IAASB about whether wider application of requirements for KAM would be appropriate.

⁵ Paragraph A20 of ISA 705, *Modifications to the Opinion in the Independent Auditor's Report*, explains that an adverse opinion relating to a specific matter described in the basis for qualification paragraph does not justify the omission of a description of other identified matters that would have otherwise required a modification of the auditor's opinion. In such cases, the disclosure of such other matters of which the auditor is aware may be relevant to users of the financial statements.

on which to base the opinion). Accordingly, paragraph 10 of proposed ISA 701 prohibits the auditor from doing so.⁶

Matter for CAG Consideration

2. Do Representatives agree with DT-701's recommendation that KAM be required for listed entities when the auditor is expressing an unmodified, qualified, or adverse opinion (but not when the auditor disclaims an opinion on the financial statements)? If so, do Representatives agree with how KAM would be presented when the auditor expresses a qualified or adverse opinion?

The Auditor's Decision-Making Process

10. At its February 2013 meeting, the IAASB asked DT-701 to consider how proposed ISA 701 should best reflect the IAASB's view that the auditor's judgment of what to report externally is derived from what had been communicated with those charged with governance (TCWG). The IAASB has also reaffirmed the view it expressed in the ITC that matters to be discussed in the auditor's report should be left to the judgment of the auditor, with robust guidance in proposed ISA 701 to inform the auditor's judgment and decision-making process. Accordingly, in developing proposed ISA 701, DT-701 came to the view that it is necessary for certain communications in ISA 260 to be strengthened to enhance consistency in reporting of the most significant matters to TCWG and is proposing amendments to ISA 260 to be exposed concurrently with the issuance of proposed ISA 701 as an exposure draft (ED) (see **Agenda Item B.4**).
11. The requirement in paragraph 11 of proposed ISA 701 builds upon the discussions at the February 2013 IAASB meeting – the primary criterion being the matters that were discussed with TCWG, with the auditor's decision-making process designed to narrow those matters to a smaller number of matters based on the auditor's judgment about which matters were of most significance in the audit. Consistent with the approach supported by the IAASB, the auditor is required, at a minimum, to take four key areas into account (referred to in this paper as "factors" or "criteria"). DT-701 is of the view that these factors are those areas investors and other users consistently mentioned as topics of interest on which the auditor's insights would be valuable (see paragraphs A6–A7 of proposed ISA 701). They are:
 - Whether the matter was, or is related to, a significant risk identified in accordance with ISA 315.⁷
 - The degree of difficulty encountered in obtaining sufficient appropriate audit evidence about the matter.
 - The difficulty of the judgment involved.
 - Whether the auditor identified a significant deficiency in internal control relating to the matter.
12. Within each of these areas, DT-701 identified areas where application material could usefully highlight the linkage to the communications with TCWG, as well as the value of including

⁶ In such circumstances, it may be possible for the auditor to use an Other Matter paragraph to highlight matters the auditor judges relevant to users' understanding of the disclaimer of opinion not covered in the Basis for Disclaimer of Opinion paragraph.

⁷ ISA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

discussion in the auditor's report in relation to these factors. For example, DT-701 was of the view that it would be useful to explain:

- The potential relevance of more than one factor to a matter, which may increase the likelihood of the auditor identifying it as a KAM (see paragraph A9 of proposed ISA 701).
- The fact that revisions to the auditor's risk assessment and reevaluation of the planned audit procedures in relation to a matter may result in the auditor identifying it as a KAM (see paragraph A8 of proposed ISA 701).
- The relationship between matters discussed with the engagement quality control reviewer and those that may be determined to be KAM (see paragraphs A14–A15 of proposed ISA 701)

13. Further, DT-701 was of the view that it would be useful to highlight in proposed ISA 701 the challenges of communicating key audit matters in certain areas to users who do not have the benefit of the two-way communication that those charged with governance do. Paragraph A28 of proposed ISA 701 highlights areas that were cited by respondents to the ITC as potentially difficult to describe in KAM, for example:

- The auditor's subjective views about significant qualitative aspects of the entity's accounting practices.
- Significant risks of material misstatement due to fraud, in particular when the auditor's work did not detect any material misstatements.
- Communication of significant deficiencies in internal control identified by the auditor.

This is not to suggest that the auditor may not determine such matters as KAMs; if this is the case, the auditor may be able to highlight the significance of the matter in other ways without inadvertently providing information about the entity that would be more appropriately disclosed by management or TCWG.

Matters for CAG Consideration

3. Do Representatives agree with DT-701's proposed requirement and related application material to guide the auditor's decision-making process in determining KAM to communicate in the auditor's report?
4. Do Representatives believe there are matters that are communicated with TCWG that might not be appropriate to communicate publicly in the auditor's report? If so, how should proposed ISA 701 address them?

Consequences of the Auditor Determining that There Are No KAM to Report, Documentation Requirements and Guidance on the Number of KAMs

14. At its February 2013 meeting, the IAASB considered a proposed requirement for the auditor to explicitly include a statement that the auditor had "nothing to report" when the auditor concluded, using the factors required by the proposed ISA, that there were no key matters to report. IAASB members had mixed views, ranging from support for an explicit statement to questions as to whether such a circumstance would ever occur in practice for a listed entity, given the premise of

the auditor reporting the “most important” matters based on what had been communicated with TCWG.

15. Proposed ISA 700 (Revised) includes a requirement for the auditor of a listed entity to explain the auditor’s responsibilities with respect to communication with TCWG, including the requirement to take those communications into account when determining KAM to be communicated in the auditor’s report.⁸ The inclusion of this wording without a corresponding KAM section in the auditor’s report would implicitly signal that the auditor had determined there was nothing to report. DT-701 also acknowledged the views that the concept of “matters of most significance” would likely always lead the auditor to identify at least one KAM.
16. However, DT-701 has further explored how an explicit statement of “nothing to report” could be required in the auditor’s report, and drafted the requirement in paragraph 12 of proposed ISA 701 to solicit feedback from the IAASB and the Consultative Advisory Group (CAG). The requirement has been structured in such a way that, in addition to including an explicit statement in the auditor’s report, the auditor of a listed entity is required to discuss the conclusion of “nothing to report” with both the engagement quality control reviewer and those charged with governance as input to the auditor’s decision-making process. Paragraph 15 of proposed ISA 701 and the related application material in paragraph A23 explain how the presentation in the auditor’s report is affected when the auditor has “nothing to report.”
17. Paragraph 12 of proposed ISA 701 includes a documentation requirement when the auditor has “nothing to report” and paragraph 22 of proposed ISA 701 includes a documentation requirement that would apply in all cases where KAM are communicated in the auditor’s report. Feedback from the ITC and previous IAASB discussions have indicated that a documentation requirement would be useful, but it was also acknowledged that the determination of KAM could be viewed as a significant matter required to be documented in accordance with ISA 230,⁹ even without a specific documentation requirement in proposed ISA 701.
18. DT-701 also considered whether guidance would be necessary for auditors regarding the number of matters that would be expected to be included as KAM for a listed entity. The ITC had signaled the IAASB’s view that, while the auditor would not be precluded from including a discussion of any number of KAM, a range of two to ten matters may generally be appropriate for a listed entity. A few respondents to the ITC commented on this, suggesting guidance in the standard would be useful, but suggested seven as an appropriate high end of the range. Paragraph A10 of proposed ISA 701 addresses this matter.

Matters for CAG Consideration

5. Do Representatives agree with DT-701’s proposed requirements and related application material for an explicit statement when the auditor of a listed entity determines there are no KAM on which to report?
6. Do Representatives agree with DT’s 701’s proposed documentation requirements?
7. What are Representatives’ views about the appropriateness of providing guidance in proposed ISA

⁸ See paragraph 38 of proposed ISA 700 (Revised) in **Agenda Item B.7**.

⁹ ISA 230, *Audit Documentation*

701 regarding the number of matters that may be communicated as KAM?

Communicating KAM in the Auditor's Report

19. In developing the requirements in paragraphs 13-14 and 16 of proposed ISA 701 addressing how KAM should be communicated in the auditor's report for a listed entity, DT-701 considered its preferred presentation for a revised illustrative report, taking into account feedback from respondents to the ITC. Illustration 1 in Section A of **Agenda Item B.5** shows how an unmodified opinion for a listed entity would be presented in light of the suggested improvements in the ITC and includes revised examples of KAMs.
20. Given concerns that KAM could be misinterpreted as "separate assurance on individual matters" or "hidden qualifications", coupled with the view that users need to understand the premise on which such information is provided, DT-701 was of the view that it would be useful to consider mandating:
 - The use of a heading "Key Audit Matters" in the auditor's report, unless otherwise prescribed by law or regulation;
 - Specific language to be used in all auditors' reports for listed entities to facilitate users' understanding of the context in which KAM are provided;
 - The use of subheadings to distinguish between individual matters; and
 - Standardized material to be included in the Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report describing the auditor's responsibilities relating to KAM that should be included in the auditor's report in all cases where KAM is presented in the auditor's report, including a description of the criteria proposed to be established by ISA 701.
21. The requirement in paragraph 14 of proposed ISA 701 highlights statements that respondents to the ITC, in particular auditors, believed were necessary in the auditor's report so as to not widen the expectations gap by providing KAM. Through the use of the phrase "shall state", the requirement would mandate these specific words to be presented in the auditor's report, though DT-701 has explored how they could be presented in the illustrative example to reduce the amount of standardized wording preceding the entity-specific KAM. DT-701 acknowledged that the IAASB could choose to take a more flexible approach, depending on its views as to importance of these statements as context to the KAM (for example, by requiring such concepts to be explained, or only specifying some of these statements as mandatory in the auditor's report).
22. Placement of both the section in the auditor's report and individual matters within the section would be left to the auditor's judgment. However, application material indicates and the illustrative example would show the section placed in close proximity to the auditor's opinion and individual matters organized in order of relative importance (see paragraphs A18–A19 of proposed ISA 701).
23. DT-701 did not believe that a particular level of detail or specific content should be required for each item of KAM, and instead has constructed the requirement in paragraph 16 of proposed ISA 701 to allow for auditor judgment about "the sufficiency and appropriateness of the descriptions to enhance users' understanding of the matter in the context of the audit that was performed". The application material in paragraphs A24–A36 of proposed ISA 701 has been developed in light of feedback from respondents to the ITC that flexibility in presentation is necessary, in particular to

take into account: the need to communicate clearly and concisely in the auditor's report; the manner in which the matters are disclosed in the financial statements; circumstances affecting the auditor's risk assessment or the availability of audit evidence; and the potential effects of law, regulation and relevant ethical requirements in determining the nature and extent of the descriptions of KAM in the auditor's report.

24. Importantly, the proposed ISA acknowledges that law or regulation may restrict the auditor's communication of certain matters and relevant ethical requirements may prohibit the disclosure of confidential information, and suggests that the auditor may consider it appropriate to seek legal advice in certain circumstances (see paragraphs A35–A36 of proposed ISA 701).

Matters for CAG Consideration

8. In addition to the 3 example KAM, the illustrative report in Agenda Item B.5 includes standardized language in both the KAM and Auditor's Responsibilities sections. What are the Representatives' view about:
- (i) Whether all (or some) of this material is necessary in the auditor's report and, if so, if the particular words used in the example should be required?
 - (ii) How much flexibility should be given to auditors to determine the placement of this information (i.e., is it necessary in the KAM section or could it be presented elsewhere)?

Revised Examples of KAM

25. Feedback from respondents to the ITC highlighted that, while a number of the topics addressed by the ITC illustrative examples were relevant, further detail was needed in the examples to illustrate why the particular matter was important from an audit perspective. However, significant concern was expressed about the auditor being required, or otherwise deciding to, include a detailed list of audit procedures. A contrasting concern was the difficulty in summarizing the auditor's extensive audit procedures, in particular in relation to complex areas, in a meaningful way. DT-701 sought to incorporate this feedback and strike an appropriate balance between the need to provide context about why a matter was important to the audit and how it was addressed and the view that KAM should be clear and concise.
26. Illustration 1 in Section A of **Agenda Item B.5** includes revised examples of KAM. DT-701 was of the view that, given the potential guidance on the range of KAM (see paragraph 17 above), three examples could be presented in the ED.

Matters for CAG Consideration

9. In light of the proposed criteria for the auditor's decision-making process for determining KAM, what are Representatives' views about:
- (a) The appropriateness of topics addressed by the revised examples of KAM;
 - (b) The level of detail included in each of the examples;
 - (c) The number of examples that should be provided in an illustrative report in the ED; and
 - (d) The interaction between the examples, the introductory language, and the standardized language to describe the auditor's responsibilities relating to KAM. For example, is it useful

to require disclosure of the factors the auditor considers in determining KAM in the description of the auditor's responsibilities?

Requirements When KAM Are Included for Entities Other than Listed Entities

27. Previous IAASB discussions have indicated that proposed ISA 701 needs to address circumstances where auditors of entities other than listed entities communicate KAM in the auditor's report. DT-701 is of the view that such circumstance could possibly occur in one of three ways:
- When the auditor is requested to do so by management or TCWG of the entity (e.g., when the entity's competitors are listed entities for which KAM is required);
 - When the auditor is required to do so by law, regulation, or national auditing standards (i.e., the requirement for listed entities to communicate KAM is extended to other entities, for example PIEs or all entities); or
 - When the auditor decides to do so on a voluntary basis.
28. Some concern has been expressed that if auditors of entities other than listed entities communicate KAM in the auditor's report, appropriate steps need to be taken to ensure doing so is appropriate in the circumstances of the engagement. It was also noted that KAM should only be included when the auditor has applied all the relevant requirements in proposed ISA 701 (i.e., that the auditor cannot selectively decide to limit KAM to one matter when the application of the factors in the ISA would likely have resulted in reporting on more than one matter), so that the presentation of KAM is done consistently when compared to an auditor's report of a listed entity. The reporting requirements for KAM when included for other than listed entities result in the same presentation of standardized language as for listed entities (i.e., the report is not differentiated even if provided on a voluntary basis).
29. Some feedback to the ITC indicated that auditors of entities other than listed entities would like the option to communicate KAM in the auditor's report if they decide it would be useful in the circumstances of the engagement. DT-701 is of the view that, in such circumstances, it would only be appropriate for the auditor to do so after discussing this with management or TCWG. Therefore, proposed ISA 701 includes a requirement for the auditor to do so (see paragraph 18 and application material in paragraphs A39–A40 of proposed ISA 701). However, there may be practical challenges to implementing such a requirement, in particular if management or TCWG do not agree with the auditor's decision to include KAM. As the form and content of the auditor's report is the responsibility of the auditor, using the tool of KAM likely should not be restricted by management and TCWG.

Matters for CAG Consideration

10. What are Representatives' views on the applicability of proposed ISA 701 to audits of entities other than listed entities? In particular:
- (a) Do Representatives believe the requirement in proposed ISA 701 is appropriate?
 - (b) What are Representatives' views as to the practical challenges of auditors providing such information on a voluntary basis?

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| (c) Do Representatives agree that there should be no differentiation in the auditor's report when KAM is provided for an entity other than a listed entity? |
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Form and Content of the Auditor's Report Prescribed by Law or Regulation

30. ISA 700 allows for flexibility in reporting when law or regulation prescribe the form and content of the auditor's report, and the IAASB has previously agreed that such flexibility should continue as part of the "Building Blocks" approach. DT-701 is of the view that the concept of KAM is sufficiently flexible and would not be in conflict with national initiatives aimed at enhancing auditing reporting, for example, the French justification of assessments model, the UK FRC corporate governance model, and the EC's Article 22 proposals.
31. Paragraph 5 of proposed ISA 701 explains that law or regulation may also require the auditor to include additional communication in the auditor's report about specific matters. It further notes that, if those requirements are intended to provide information that is consistent with the objective and requirements of proposed ISA 701, the requirements in proposed ISA 701 relating to the form and content of such communication can be applied. Paragraph 20 of proposed ISA 701 and related application material explain how the wording in the auditor's report may be tailored in such circumstances, acknowledging that a heading other than "Key Audit Matters" may be required, and law or regulation may require disclosure in a particular form or level of detail. DT-701 is of the view that this flexibility in relation to KAM should be explored in the context of proposed ISA 700 (Revised) as part of the May 2013 IAASB-National Auditing Standard Setters (NSS) meeting.

I. Other Matters

32. DT-701 also intends to consider potential conforming amendments to other ISAs in advance of the June 2013 IAASB meeting, as follows:
- ISA 210,¹⁰ in the form of additional application material to link to the auditor's responsibility to communicate KAM and the possibility that the auditor, management and TCWG may agree to communicate KAM for audits of entities other than listed entities.
 - ISA 220¹¹ and ISQC 1,¹² in the form of new requirements to require discussion of significant risks, significant or unusual transactions, and disagreements with management with the engagement quality control reviewer to align with proposed revisions to ISA 260. Additional application material may also be useful to acknowledge the engagement quality control reviewer's consideration of the KAM section of the auditor's report.
 - ISA 600,¹³ in the form of additional application material to explain that law, regulation or national auditing standards may require the auditor to communicate the names, locations and planned responsibilities of other auditors that perform procedures in the audit, based on requirements in both AS 16 and proposed Article 23.

¹⁰ ISA 210, *Agreeing the Terms of Audit Engagements*

¹¹ ISA 220, *Quality Control for an Audit of Financial Statements*

¹² ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

¹³ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

- ISA 706¹⁴ and other ISAs that include requirements and guidance addressing Emphasis of Matter and Other Matter paragraphs, in the form of revised requirements and application material to retain the concepts yet appropriately distinguish them from KAM (to be done in coordination with the ISA 700 Drafting Team (DT-700) in light of the interaction with reporting on going concern).

As appropriate, DT-701 and Staff will also provide input into DT-700's process to revise ISA 705, in light of the proposed requirements in ISA 701 relating to presentation of KAM when a qualified or adverse opinion is expressed

¹⁴ ISA 706, *Emphasis of Matter and Other Matters Paragraphs in the Independent Auditor's Report*