

PROPOSED INTERNATIONAL STANDARD ON AUDITING 701
COMMUNICATING KEY AUDIT MATTERS IN THE INDEPENDENT
AUDITOR'S REPORT

(Effective for audits of financial statements for periods [beginning/ending on or after date])

MARKED FOR CHANGES FROM THE JUNE 17 IAASB DISCUSSION

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Proposed International Standard on Auditing (ISA) 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, should be read in conjunction with ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*.

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibility to communicate key audit matters in the auditor's report. It is intended to address both the auditor's judgment as to what to communicate in the auditor's report and the form and content of such communication.
2. The purpose of communicating key audit matters is to enhance the communicative value of the auditor's report by providing greater transparency about the audit that was performed, ~~including communications with those charged with governance about matters relating to the audit.~~ Communicating key audit matters provides additional information to intended users of the financial statements to assist them in understanding those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Communicating key audit matters may also assist intended users of the financial statements in understanding the entity and areas of significant management judgment in the audited financial statements. (Ref: Para. A1–A4)
3. The communication of key audit matters in the auditor's report may also provide intended users of the financial statements a basis to further engage with management and those charged with governance about certain matters relating to the entity, the audited financial statements, and the audit that was performed.
4. Communicating key audit matters in the auditor's report is in the context of the auditor having formed an opinion on the financial statements as a whole. Communicating key audit matters in the auditor's report is not:
 - (a) A substitute for disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation;
 - (b) A substitute for the auditor expressing a qualified opinion or an adverse opinion when required by the circumstances of a specific audit engagement in accordance with proposed ISA 705 (Revised);¹ or
 - (c) A separate opinion on individual matters. (Ref: Para. A5–A109)
5. This ISA applies to audits of complete sets of general purpose financial statements of listed entities and circumstances when the auditor otherwise decides to communicate key audit matters in the auditor's report, except when the auditor ~~expresses an adverse opinion or disclaims an opinion on the financial statements.~~² This ISA also applies when the auditor is ~~otherwise required by law or regulation or decides to communicate key audit matters in the auditor's report.~~ (Ref: Para. A9)

Effective Date

6. This ISA is effective for audits of financial statements for periods [beginning/ending on or after date].

¹ Proposed ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

² See paragraph 2930 of proposed ISA 705700 (Revised), *Forming an Opinion and Reporting on Financial Statements*.

Objectives

7. The objectives of the auditor are to determine key audit matters and, having formed an opinion on the financial statements, communicate those matters by describing them in the auditor's report.

Definition

8. For purposes of the ISAs, the following term has the meaning attributed below:

Key audit matters—Those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance.

Requirements

Determining Key Audit Matters

9. The auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following: (Ref: Para. A1140–A2048)
 - (a) Areas of higher assessed risks of material misstatement, ~~including or~~ significant risks identified in accordance with ISA 315 (Revised).³ (Ref: Para. A2149–A2422)
 - (b) Significant auditor judgments relating to Aareas in the financial statements that involved the application of significant judgment or estimation by management. (Ref: Para. A2523–A2624)
 - (c) The effect on the audit of sSignificant events or transactions that occurred during the year. (Ref: Para. A2725–A2926)
10. The auditor shall determine which of the matters determined in accordance with paragraph 9 were of most significance in the audit of the financial statements of the current period and therefore are the key audit matters. (Ref: Para. A1140–A1342, A3027–A3330)

Communicating Key Audit Matters

11. The auditor shall describe each key audit matter in the auditor's report ~~in accordance with paragraph 12,~~ unless:
 - (a) Public disclosure about the matter is prohibited by law, or regulation or relevant ethical requirements preclude public disclosure about the matter; or
 - (b) In exceptional extremely rare circumstances, in the auditor's judgment, the auditor determines that a matter should not be communicated due to the severity of the adverse consequences of such communication it is not possible to describe the matter in an appropriate manner in the auditor's report. (Ref: Para. A3431–A4037)

³ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

12. The auditor shall not communicate a matter in the Key Audit Matters section unless the auditor has concluded that the financial statements are not materially misstated in respect of the matter. (Ref: Para. A6)

Descriptions of Individual Key Audit Matters

- 13.13. The description of each key audit matter shall include: (Ref: Para. A4138–A4543)

- (a) An explanation of why, in accordance with paragraph 10, the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter; (Ref: Para. A4644–A4953)
- (b) and how the matter was addressed in the audit; and (Ref: Para. A50–A55)
- (c) A reference to the related disclosure(s), if any, in the financial statements. (Ref: Para. A5654–A5755)

Introductory Language When KAM Are Communicated

- 13.14. When key audit matters are communicated, the auditor shall include the descriptions of the individual key audit matters, with an appropriate subheading for each, in a separate section of the auditor's report under the heading "Key Audit Matters." The auditor's report shall state that:

- (a) Key audit matters are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements [of the current period];
- (b) The audit included performing procedures designed to address the risks of material misstatement associated with these matters. Such procedures were designed to address these matters in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, but the auditor does not provide a basis for a separate opinion on these individual matters; and
- (c) The auditor has determined the matters described below to be the key audit matters to be communicated in the auditor's report; and
- (d) If applicable, in addition to the matter(s) described in the the auditor shall preface the statement required by paragraph 13(c) with a reference to the Basis for Qualified or Adverse Opinion or the Material Uncertainty Related to Going Concern section(s) of the auditor's report, the auditor has determined the matters [described below] to be the key audit matters to be communicated in the auditor's report. (Ref: Para. A5856–A6058)

Introductory Language Form and Content of the Key Audit Matters Section When the Auditor Has Determined There Are No Key Audit Matters

- 14.15. If the auditor determines, depending on the facts and circumstances of the entity and the audit, that there are no key audit matters to communicate in the auditor's report, the auditor shall explain state, in a separate section of the auditor's report under the heading "Key Audit Matters", that this section of the auditor's report is intended to describe the matters communicated with those charged with governance that the auditor determined, in the auditor's professional judgment, were of most significance in the audit of the financial statements and that the auditor has determined that there are no key audit matters to communicate in the auditor's report. (Ref: Para. A6159–A6360)

Communication with Those Charged with Governance

~~45.16.~~ The auditor shall communicate with those charged with governance:

- (a) Those matters the auditor has determined to be the key audit matters; or
- (b) If applicable, depending on the facts and circumstances of the entity and the audit, the auditor's determination that there are no key audit matters to communicate in the auditor's report. (Ref: Para. ~~A6464~~–~~A6865~~)

Documentation

~~46.17. In accordance with ISA 230~~The auditor shall include in the audit documentation;⁴ ~~the auditor shall document the significant professional judgments made in determining key audit matters. This includes, where applicable, the rationale for the auditor's determination:~~

- (a) The matters that will be communicated as key audit matters in the auditor's report, and the significant professional judgments made in reaching this determination;
- (b) Where applicable, the rationale for the auditor's determination tThat there are no key audit matters to communicate in the auditor's report; and
- (c) Where applicable, the rationale for the auditor's determination Not to communicate in the auditor's report a matter determined to be a key audit matter; ~~or~~ (Ref: Para. ~~A6966~~)

Application and Other Explanatory Material

Scope of this ISA (Ref: Para. 2)

- A1. Significance can be described as the relative importance of a matter, taken in context. The significance of a matter is judged by the auditor in the context in which it is being considered. Significance can be considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature and effect on the subject matter and the expressed interests of intended users or recipients. This involves an objective analysis of the facts and circumstances, including the nature and extent of communication with those charged with governance.
- A2. Users of financial statements have expressed an interest in those matters about which the auditor had the most robust dialogue with those charged with governance as part of the two-way communication required by proposed ISA 260 (Revised)⁵ and have called for additional transparency about those communications. For example, users have expressed particular interest in understanding significant judgments made by the auditor in forming the opinion on the financial statements as a whole, because they are often related to the areas of significant management judgment in preparing the financial statements.
- A3. Requiring auditors to communicate key audit matters in the auditor's report may also enhance communications between the auditor and those charged with governance about those matters, and may increase attention by management and those charged with governance to the disclosures in the financial statements to which reference is made in the auditor's report.

⁴ ISA 230, *Audit Documentation*, paragraphs ~~8–11 and A68(e)~~ and ~~A10~~

⁵ Proposed ISA 260 (Revised), *Communication with Those Charged with Governance*

- A4. ISA 320⁶ explains that it is reasonable for the auditor to assume that users of the financial statements:
- (a) Have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information in the financial statements with reasonable diligence;
 - (b) Understand that the financial statements are prepared, presented and audited to levels of materiality;
 - (c) Recognize the uncertainties inherent in the measurement of amounts based on the use of estimates, judgment and the consideration of future events; and
 - (d) Make reasonable economic decisions on the basis of the information in the financial statements.

Because the auditor's report accompanies the audited financial statements, the users of the auditor's report are considered to be the same as the intended users of the financial statements.

Relationship between Key Audit Matters, the Auditor's Opinion and Other Elements of the Auditor's Report (Ref: Para. 4–5, 12)

- A5. Proposed ISA 700 (Revised) establishes requirements and provides guidance on forming an opinion on the financial statements.⁷ The discussion of key audit matters is not a substitute for disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation. ~~In such cases~~ When a material misstatement relating to disclosures exists, the auditor is required to express a modified opinion in accordance with proposed ISA 705 (Revised).
- A6. Paragraph 12 prohibits the auditor from using the communication of a key audit matter as a substitute for the auditor expressing a qualified opinion or an adverse opinion in accordance with proposed ISA 705 (Revised) when the financial statements are materially misstated in respect of the matter.
- A7. A matter giving rise to a qualified or adverse opinion in accordance with proposed ISA 705 (Revised),⁸ or the existence of a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (hereinafter referred to as "material uncertainty") in accordance with proposed ISA 570 (Revised),⁹ is by its nature a key audit matter. However, when such matters exist, they are not presented in the Key Audit Matters section of the auditor's report but rather in a separate section(s) of the auditor's report in accordance with those ISAs, and reference is made to those sections in introductory language of the Key Audit Matters section (see paragraph ~~14(c)~~13(d)).
- A8. Presenting the description of a matter giving rise to a for which the auditor has concluded it is necessary to modify the opinion separately in the Basis for Qualified or Adverse Opinion section helps to promote intended users' understanding and to identify such circumstances when they occur. Separating the discussion of this matter from other key audit matters described in the Key

⁶ ISA 320, *Materiality in Planning and Performing the Audit*, paragraph 4

⁷ Proposed ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraphs 10–15 and A1–A15

⁸ Proposed ISA 705 (Revised), paragraph 7

⁹ Proposed ISA 570 (Revised), *Going Concern*

Audit Matters section therefore gives it the appropriate prominence in the auditor's report. The Appendix in proposed ISA 705 (Revised) includes illustrative examples of how the introductory language in the Key Audit Matters section is affected in such circumstances.

- A9. When the auditor is expressing a qualified or adverse opinion, a discussion of any other key audit matters would still be relevant to enhancing intended users' understanding of the audit, and therefore the requirements to determine key audit matters apply. However, proposed ISA ~~705700~~ (Revised) prohibits the auditor from communicating key audit matters when the auditor ~~expresses an adverse opinion or~~ disclaims an opinion on the financial statements.¹⁰
- A10. Proposed ISA 706 (Revised)¹¹ establishes mechanisms for auditors of financial statements of all entities to include additional communication in the auditor's report through the use of Emphasis of Matter and Other Matter paragraphs when the auditor considers it necessary to do so. In such cases, these sections are presented separately from the Key Audit Matters in the auditor's report. The use of such paragraphs is not a substitute for a description of individual matters as key audit matters determined in accordance with paragraph ~~1442~~ of this ISA.¹²

Determining Key Audit Matters (Ref: Para. 9–10)

- A11. The auditor's decision-making process in determining key audit matters is designed to select a smaller number of matters, from the matters communicated with those charged with governance, based on the auditor's judgment about which matters were of most significance in the audit of the financial statements of the current period.
- A12. The auditor's determination of key audit matters is limited to those matters of most significance in the audit of the financial statements of the current period, even when comparative financial statements are presented (i.e., even when the auditor's opinion refers to each period for which financial statements are presented).¹³
- A13. Notwithstanding that the auditor's determination of key audit matters is for the audit of the financial statements of the current period and this ISA does not require the auditor to update key audit matters included in the prior period's auditor's report, it may nevertheless be useful for the auditor to consider whether a matter that was a key audit matter in the audit of the financial statements of the previous period continues to be a key audit matter in the audit of the financial statements of the current period. ~~For example, the auditor may consider whether any economic conditions or entity-specific circumstances that led to a matter being determined as a key audit matter in the prior period continue to exist. It may also be appropriate for the auditor to consider whether the significance of a key audit matter in the prior period has diminished, for example if the effects of a significant unusual transaction in the prior period are not material in the current period.~~

Matters that Required Significant Auditor Attention (Ref: Para. 9)

- A14. The concept of significant auditor attention recognizes that an audit is risk-based and focuses on areas of higher assessed risks of material misstatement, ~~including significant risks identified in~~

¹⁰ Proposed ISA 705 (Revised), paragraph 29

¹¹ Proposed ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

¹² Proposed ISA 706 (Revised), paragraphs 8(b) and 10(b)

¹³ See ISA 710, *Comparative Information—Corresponding Figures and Comparative Financial Statements*.

~~accordance with ISA 315 (Revised). For a particular account balance, class of transaction or disclosure, the higher an assessed risk of material misstatement at the assertion level, the more judgment is often involved in planning and performing the audit procedures and evaluating the results thereof. Furthermore, as explained in ISA 200,¹⁴ the higher the assessed risks of material misstatement, the more persuasive the audit evidence required by the external auditor will need to be.~~

A15.

~~Accordingly, matters that pose challenges to the auditor in obtaining sufficient appropriate audit evidence or pose challenges to the auditor in forming an opinion on the financial statements may be particularly relevant in the auditor's determination of key audit matters.~~

~~The concept of significant auditor attention also recognizes that certain matters may:~~

~~Involve difficult or complex auditor judgments;~~

~~Pose challenges to the auditor in obtaining sufficient appropriate audit evidence; or~~

~~Pose challenges to the auditor in forming an opinion on the financial statements.~~

~~A14-A16. Such a~~ Areas of significant auditor attention often relate to areas of complexity and significant management judgment in the financial statements, and therefore often involve difficult or complex auditor judgments. In turn, this and often affects the auditor's overall audit strategy, the allocation of resources and extent of audit effort in relation to such matters. These effects may include, for example, the extent of involvement of senior personnel on the audit engagement or the involvement of an auditor's expert or individuals with expertise in a specialized area of accounting or auditing, whether engaged or employed by the firm to address these areas.

~~A15-A17.~~ Various ISAs require specific communications with those charged with governance and others that may relate to areas of significant auditor attention. For example:

- ~~Proposed ISA 260 (Revised) requires the auditor to communicate significant difficulties, if any, encountered during the audit with those charged with governance.¹⁵ The ISAs acknowledge potential difficulties in relation to, for example:~~
 - ~~Related party transactions,¹⁶ in particular limitations on the auditor's ability to obtain audit evidence that all other aspects of a related party transaction (other than price) are equivalent to those of a similar arm's length transaction.~~
 - ~~Limitations on the group audit, for example, where the group engagement's team's access to information may have been restricted.¹⁷~~
- ~~ISA 220 establishes requirements for the engagement partner in relation to undertaking appropriate consultation on difficult or contentious matters.¹⁸ For example, the auditor may~~

¹⁴ ISA 200, Overall Objectives of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing, paragraph A29

¹⁵ Proposed ISA 260 (Revised), paragraphs 16(b) and A20

¹⁶ ISA 550, *Related Parties*, paragraph A42

¹⁷ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph 49(d)

¹⁸ ISA 220, *Quality Control for an Audit of Financial Statements*, paragraph 18

have consulted with others within the firm or outside the firm on a significant technical matter, which may be an indicator that it is a key audit matter. The engagement partner is also required to discuss, among other things, significant matters arising during the audit engagement with the engagement quality control reviewer.¹⁹

Considerations in Determining Those Matters that Required Significant Auditor Attention (Ref: Para. 9)

~~A16.~~A18. _____ The auditor may develop a preliminary view at the planning stage about matters that are likely to be areas of significant auditor attention in the audit and therefore that may be key audit matters. The auditor may communicate this with those charged with governance when discussing the planned scope and timing of the audit in accordance with proposed ISA 260 (Revised). However, the auditor's determination of key audit matters is based on the results of the audit or evidence obtained throughout the audit.

~~A17.~~A19. _____ Paragraph 9 includes specific required considerations in the auditor's determination of those matters that required significant auditor attention. These considerations focus on the nature of matters communicated with those charged with governance that are often linked to matters disclosed in the financial statements, and are intended to reflect areas of the audit of the financial statements about which users have expressed the most interest. The fact that these considerations are required is not intended to imply that matters related to them are always key audit matters; rather, matters related to such specific considerations are key audit matters only if they are determined to be of most significance in the audit in accordance with paragraph 10 of this ISA. As the considerations may be interrelated (e.g., matters relating to the circumstances described in paragraphs 9(b)-(c) may also be identified as significant risks), the applicability of more than one of the considerations to a particular matter communicated with those charged with governance may increase the likelihood of the auditor identifying that matter as a key audit matter.

~~A18.~~A20. _____ In addition to matters that relate to the specific required considerations in paragraph 9, there may be other matters communicated with those charged with governance that required significant auditor attention and that therefore may be determined to be key audit matters in accordance with paragraph 10. Such matters may include, for example, matters relevant to the audit that was performed that may not be required to be disclosed in the financial statements. For example, the implementation of a new IT system (or significant changes to an existing IT system) during the year may be an area of significant auditor attention, in particular if such a change had a significant effect on the auditor's overall audit strategy or was identified as a significant risk (e.g., changes to a system affecting revenue recognition).

Areas of Higher Assessed Risk of Material Misstatement, ~~Including or~~ Significant Risks Identified in Accordance with ISA 315 (Revised) (Ref: Para. 9(a))

~~A19.~~A21. _____ Proposed ISA 260 (Revised) requires the auditor to communicate with those charged with governance an overview of the planned scope and timing of the audit, which includes communicating about the significant risks identified by the auditor.²⁰ Paragraph A13 of proposed ISA 260 (Revised) explains that the auditor may also communicate with those charged with governance about areas of higher assessed risks of material misstatement. ~~For a particular account balance, class of transaction or disclosure, the higher an assessed risk of material misstatement at the~~

¹⁹ ISA 220, paragraph 19

²⁰ Proposed ISA 260 (Revised), paragraph 15

~~assertion level, the more judgment is often involved in planning and performing the audit procedures and evaluating the results thereof. Furthermore, as explained in ISA 200, the higher the assessed risks of material misstatement, the more persuasive the audit evidence required by the external auditor will need to be.~~

A20-A22. _____ ISA 315 (Revised) defines a significant risk as an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. Areas of significant management judgment and significant unusual transactions may often be identified as significant risks. Significant risks are therefore often areas that require significant auditor attention.

A21-A23. _____ However, this may not be the case for all significant risks. For example, ISA 240 presumes that there are risks of fraud in revenue recognition and requires the auditor to treat those assessed risks of material misstatement due to fraud as significant risks.²¹ In addition, ISA 240 indicates that, due to the unpredictable way in which management override of controls could occur, it is a risk of material misstatement due to fraud and thus a significant risk.²² Depending on their nature, these ~~presumed significant risks~~ may not require significant auditor attention and are therefore not considered in the auditor's determination of key audit matters in accordance with paragraph 10.

A22-A24. _____ ISA 315 (Revised) explains that the auditor's assessment of the risks of material misstatement at the assertion level may change during the course of the audit as additional audit evidence is obtained.²³ Revision to the auditor's risk assessment and reevaluation of the planned audit procedures with respect to a particular area of the financial statements (i.e., a significant change in the audit approach, for example, when ~~a significant deficiency in internal control has been identified~~ controls are not designed or operating effectively) may result in an area being determined as one requiring significant auditor attention.

Significant Auditor Judgments Relating to Areas in the Financial Statements that Involved the Application of Significant Judgment or Estimation by Management (Ref: Para. 9(b))

A23-A25. _____ Proposed ISA 260 (Revised) requires the auditor to communicate with those charged with governance the auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates, and financial statement disclosures.²⁴ In many cases, this relates to critical accounting estimates and related disclosures, which are likely to be areas of significant auditor attention, and also may be identified as significant risks.

A24-A26. _____ However, accounting estimates with high estimation uncertainty that may have not been assessed as significant risks are also of interest to users of the financial statements. Among other things, such estimates are highly dependent on judgment and are often the most complex areas of the financial statements, and may require the involvement of both a management's expert and an auditor's expert. Users have also highlighted that accounting policies that have a significant effect on the financial statements (and significant changes to those policies) are relevant to their

²¹ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraphs 26–27

²² ISA 240, paragraph 31

²³ ISA 315 (Revised), paragraph 31

²⁴ Proposed ISA 260 (Revised), paragraph 16(a)

understanding of the financial statements, especially in circumstances where an entity's practices are not consistent with others in its industry.

The Effect on the Audit of Significant Events or Transactions that Occurred during the Year (Ref: Para. 9(c))

A27. Significant events or transactions that had a significant effect on the financial statements or the audit may be areas of significant auditor attention and may be identified as significant risks. For example, significant unusual transactions, including significant transactions with related parties that involved the application of significant judgment or estimation by management, may have been the subject of much discussion with those charged with governance at various stages throughout the audit. Management may have made difficult or complex judgments in relation to recognition, measurement, presentation or disclosure of the transaction, which may have had a significant effect on the auditor's overall strategy.

A25-A28. Proposed ISA 260 (Revised) explains that significant events or transactions that occurred during the year may be discussed or subject to correspondence with management.²⁵ In addition, the communication required by paragraph 16(a) of ISA 260 relating to the auditor's views about significant qualitative aspects of the entity's accounting practices may include matters such as the extent to which the financial statements are affected by significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.²⁶

A26-A29. Significant economic, accounting, regulatory, industry, or other developments that affected management's assumptions or judgments may also affect the auditor's overall approach to the audit and result in a matter requiring significant auditor attention.

Matters of Most Significance (Ref: Para. 10)

A27-A30. Matters that required significant auditor attention also may have resulted in significant interaction with those charged with governance. The nature and extent of communication about such matters with those charged with governance provides an indication of which matters are of most significance in the audit. For example, the auditor may have had more in-depth, frequent or robust interactions with those charged with governance on more difficult and complex matters, such as the application of significant accounting policies that were the subject of significant auditor or management judgment.

A28-A31. The concept of matters of most significance is applicable in the context of the entity and the audit that was performed. As such, the auditor's determination and communication of key audit matters is intended to identify matters specific to the audit and to involve making a judgment about their importance relative to other matters in the audit.

A29-A32. Other considerations that may be relevant to determining the relative significance of a matter communicated with those charged with governance and whether such a matter is a key audit matter include:

- The importance of the matter to intended users' understanding of the financial statements as a whole, in particular, ~~whether it was~~ its materiality to the financial statements.

²⁵ Proposed ISA 260 (Revised), paragraph A21

²⁶ Proposed ISA 260 (Revised), paragraph 16(a) and Appendix 2

- The nature of the underlying accounting policy relating to the matter or the complexity or subjectivity involved in management's selection of an appropriate policy compared to other entities within its industry.
- The nature and materiality, quantitatively or qualitatively, of corrected and accumulated uncorrected misstatements due to fraud or error related to the matter, if any.
- The nature and extent of audit effort needed to address the matter, including:
 - The extent of specialized skill or knowledge needed to apply audit procedures to address the matter or evaluate the results of those procedures, if any.
 - The nature of consultations outside the engagement team regarding the matter.
- The nature and severity of difficulties in applying audit procedures, evaluating the results of those procedures, and obtaining relevant and reliable evidence on which to base the auditor's opinion, in particular as the auditor's judgments become more subjective.
- The severity of any control deficiencies identified relevant to the matter.
- Whether the matter involved a number of separate, but related, auditing considerations. For example, long-term contracts may involve significant auditor attention with respect to revenue recognition, litigation or other contingencies, and may have an effect on other accounting estimates.

~~A30-A33.~~ 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.

Communicating Key Audit Matters

Circumstances in Which a Matter Determined to Be a Key Audit Matter Is Not Communicated in the Auditor's Report (Ref: Para. 11, 16) [Note: Moves in this section are not shown as such.]

~~A34.~~ Law or regulation may prohibit public disclosure by either management or the auditor about certain a-matters determined to be key audit matters by either management or the auditor. In addition, law, regulation or relevant ethical requirements may preclude or restrict the auditor's ability to communicate certain such matters determined to be key audit matters because of auditor confidentiality, commercial sensitivity, or data protection requirements.

~~A31-A35.~~ The ISAs do not override law or regulation that governs an audit of financial statements or relevant ethical requirements and therefore cannot require communication of a key audit matter in circumstances where public disclosure is precluded. However, Ppotential conflicts between the auditor's legal and ethical obligations and obligations to communicate in accordance with this ISA may exist, with the related issues being complex and involving significant auditor judgment.

~~A32-A36. _____ Proposed ISA 260 (Revised) also notes that law or regulation may restrict the auditor's communication of certain matters with those charged with governance. For example, laws or regulations may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act.²⁷ However, communicating with those charged with governance will often be necessary to inform the auditor's judgment about whether it is possible to describe a matter determined to be a key audit matter in an appropriate manner in the auditor's report.~~

~~A37. In extremely rare circumstances, because of their nature, cCommunicating information about certain matters in the auditor's report, while potentially informative to intended users, may be judged inappropriate because doing so would be expected to have severe adverse consequences to the legitimate may cause significant harm to the interests of the entity or the public (for example, in the case of a financial institution).~~

~~A38. In cases where law or regulation does not prohibit public disclosure about a matter is not precluded by law, regulation or relevant ethical requirements, it is necessary for the auditor to an evaluation of the facts and circumstances in relation to the matter enables the auditor to consider the severity of adverse consequences in making a determination that a matter should not be communicated in the auditor's report and make a judgment as to whether and, if so, how, the auditor could appropriately describe the matter in the auditor's report.~~

~~A39. Legal advice may be necessary to inform the auditor's judgment as to whether it is possible to describe the matter in an appropriate manner in the auditor's report or ultimately to not communicate about a matter determined to be a key audit matter this determination, in addition to the required communications with those charged with governance²⁸ and the engagement quality control reviewer.²⁹ Such discussions may focus on:-~~

- ~~• The consequences of In particular, legal advice may be necessary when concerns exist about the auditor accelerating public disclosure of a matter prior to its required disclosure by management. In such circumstances, the auditor may seek enable the auditor to understand why management and those charged with governance have not disclosed the matter or why a matter was disclosed in a particular way, (e.g., if L law, regulation or the applicable financial reporting framework establishes requirements for the nature and timing of disclosure, and may acknowledge exceptional circumstances where permits delayed or omitted disclosure by the entity in relation to particular matters is permitted, in particular if disclosure could be viewed as seriously prejudicial to the entity).~~
- ~~• Any sensitivities about which the auditor may be unaware, to inform the auditor's judgment about whether it is possible to describe the matter in an appropriate manner in the auditor's report for example, communications with regulatory and enforcement authorities related to the matter, and views on whether communication by the auditor could negatively affect the entity's ability to resolve such a matter.~~
- ~~• The possibility of provide an opportunity for the auditor to encourage management or those charged with governance providing relevant disclosures in the financial statements, so that~~

²⁷ Proposed ISA 260 (Revised), paragraph 7

²⁸ See paragraph 16 of this ISA.

²⁹ See paragraphs 20 and A27a of ISA 220.

reference can be made to those disclosures within the description of the key audit matters in the auditor's report, rather than the auditor providing original information. As noted in paragraph A4138, providing original information about the entity is the responsibility of management and those charged with governance.

~~A33. Examples of the types of areas that may involve the auditor's judgment as to whether it is possible to describe a matter in an appropriate manner in the auditor's report are as follows:~~

- ~~• Going concern issues affecting a financial institution when no material uncertainty has been identified, as such reporting by the auditor may lead to a loss of confidence by the financial institution's depositors and call into question the entity's sustainability.~~
- ~~• An ongoing pending legal or regulatory investigation, for example when explicit details of an entity's tax strategy or potential legal exposure (beyond those required for the financial statements to be presented in accordance with the applicable financial reporting framework or regulatory framework) may be prohibited due to relevant ethical requirements regarding confidentiality.~~
- ~~• Ongoing or pending transactions with customers or suppliers, such that third parties (including competitors) may be given a commercial advantage, resulting in a material disadvantage to the entity.~~
- ~~• Making explicit reference to significant deficiencies in internal control identified during the audit, as the auditor is not required by this or other ISAs to report externally on such significant deficiencies.~~

~~However, this is not meant to be an exhaustive list of "exceptional circumstances," or circumvent the auditor's judgment as to whether it is possible to describe a matter in an appropriate manner in the auditor's report in accordance with paragraph 11(b) of this ISA.~~

~~A34-A40. _____ In some cases, the auditor may be able to communicate more generally about a key audit matter, in particular if relevant information has been made publicly available by the entity. While such information may not be required to be disclosed in the financial statements, it may be included elsewhere in the entity's annual report (see paragraph A4444). For example, the auditor may conclude in accordance with proposed ISA 570 (Revised) that no material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern, but may determine this to be a key audit matter in accordance with paragraph 10 of this ISA. In explaining why matters arising from the auditor's work effort under proposed ISA 570 (Revised) are one or more key audit matters, the auditor may describe aspects of the identified events or conditions, such as substantial operating losses, available borrowing facilities and possible debt refinancing, or non-compliance with loan agreements, and related mitigating factors,³⁰ in the description of the key audit these matters.~~

Descriptions of Individual Key Audit Matters (Ref: Para. 1342)

~~A35-A41. _____ The adequacy of the description of a key audit matter is a matter of professional judgment, but the description is intended to provide a succinct and balanced explanation to enable~~

³⁰ See paragraph A2 of ISA 570 (Revised).

intended users of the financial statements to understand why the matter was one of most significance in the audit and how the matter was addressed in the audit. Limiting the use of highly technical auditing terms also helps to enable intended users who do not have a reasonable knowledge of auditing to understand the basis for the auditor's focus on particular matters during the audit. The nature and extent of information provided by the auditor is intended to be balanced in the context of the responsibilities of the respective parties (i.e., for the auditor to provide useful information in a concise and understandable form, while not being the provider of original information about the entity). Such information is the responsibility of the entity's management and those charged with governance.

~~A36-A42.~~ _____ Original information is any information about the entity that is not otherwise publicly available (e.g., included in the financial statements or other information available at the date of the auditor's report,³¹ or addressed in other oral or written communications by management or those charged with governance, such as a preliminary announcement of financial information or investor briefings). However, the description of a key audit matter is not generally of itself original information about the entity, as its purpose is to explain the matter in the context of the audit.

~~A37-A43.~~ _____ It is appropriate for the auditor to seek to avoid the description of a key audit matter inappropriately providing original information about the entity. However, the auditor may consider it necessary to include additional information to explain why the matter was determined to be a key audit matter and how the matter was addressed in the audit, provided that disclosure of such information is not prohibited by law or regulation. The auditor's judgment takes into account the objective of assisting intended users in understanding the matters of most significance in the audit that was performed. When such information is determined to be necessary by the auditor, the auditor may encourage management or those charged with governance to make relevant disclosures in the financial statements.

~~A38-A44.~~ _____ Proposed ISA 720 (Revised) defines the term annual report and explains that documents such as a management report, management commentary, or operating and financial review or similar reports by those charged with governance (for example, a directors' report); a corporate governance statement; or internal control and risk assessment reports may form part of the annual report.³² Although the auditor's opinion on the financial statements does not extend to the other information addressed by proposed ISA 720 (Revised), the auditor may consider this information, as well as other unaudited publicly available communications, in formulating the description of a key audit matter, as it forms part of the overall information considered by users in making economic decisions. Because such information is publicly available, this is not considered to be the auditor providing original information.

~~A39-A45.~~ _____ Audit documentation prepared during the audit can also be useful to the auditor in formulating the description of a key audit matter. For example, written communications, or the auditor's documentation of oral communications, with those charged with governance and other audit documentation provides a useful basis for the auditor's communication in the auditor's report. This is because audit documentation in accordance with ISA 230 is intended to address the significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions, and serves as a record of the nature,

³¹ See proposed ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*.

³² Proposed ISA 720 (Revised), paragraphs 12(a) and A1

timing and extent of the audit procedures performed, the results of those procedures, and the audit evidence obtained. Such documentation may assist the auditor in developing a description of key audit matters that explains the significance of the matter and also in applying the requirement in paragraph 1746.

~~A40. The Appendix to this ISA includes an example of a Key Audit Matters section in an auditor's report, including individual descriptions of key audit matters.~~

~~Explaining Why the Auditor Considered the Matter to Be One of Most Significance in the Audit and How the Matter Was Addressed in the Audit (Ref: Para. 1312(a))~~

~~A41-A46. _____~~ The description of a key audit matter in the auditor's report is intended to provide insight as to why the matter was determined to be a key audit matter. Accordingly, the considerations in paragraph 9 and the related guidance in paragraphs ~~A1413–A3229~~ related to determining key audit matters may also be helpful for the auditor in considering how such matters are to be communicated in the auditor's report. For example, explaining the factors that led the auditor to conclude that a particular matter required significant auditor attention and was of most significance in the audit is likely to be of interest to intended users.

~~A42-A47. _____~~ The auditor's consideration of what to include in the description of a key audit matter takes into account whether such information is likely to be useful to intended users' decision-making in the context of the audit that was performed and whether the description would enable a better understanding of the audit and the auditor's judgments. The extent of detail provided to explain why a matter was determined to be a key audit matter may also influence the auditor's judgment about how to describe how the matter was addressed in the audit in accordance with paragraph 13(b).

~~A43-A48. _____~~ Relating a matter directly to the specific circumstances of the entity also seeks to minimize the potential that such descriptions become overly standardized and less useful over time. For example, certain matters may be determined as key audit matters in a particular industry across a number of entities due to the specifics of the industry or the underlying complexity in financial reporting. In describing why the auditor considered the matter to be a matter of most significance, it is useful for the auditor to draw out what aspects specific to the entity were taken into account in the audit that was performed in order for the description of a key audit matter to have communicative value to intended users. This is also the case when a key audit matter recurs over periods.

~~A44-A49. _____~~ The description may also make reference to the principal considerations that led the auditor, in the circumstances of the audit, to determine the matter to be one of most significance, for example:

- Economic conditions that affected the auditor's ability to obtain audit evidence, for example illiquid markets for certain financial instruments.
- New or emerging accounting policies, for example entity-specific or industry-specific matters on which the engagement team consulted within the firm.
- Changes in the entity's strategy or business model that had a material effect on the financial statements.

How the Matter Was Addressed in the Audit (Ref: Para. 13(b))

~~A45-A50.~~ _____ The amount of detail to be provided in the auditor's report ~~necessary~~ to describe how a key audit matter was addressed in the audit is a matter of professional judgment, taking into account the facts and circumstances of the entity and the audit. In order to explain how the matter was addressed in the audit in accordance with paragraph 13(b)12(a), the ~~description may include one or more of the following~~ auditor may describe:

- Aspects of the auditor's response or approach that were most relevant to the matter or specific to the assessed risk of material misstatement;~~;~~
- A brief overview of procedures performed;~~;~~
- An indication of the outcome of the auditor's procedures;~~;~~ or
- ~~Any other~~ Key observations with respect to the matter,~~;~~

or some combination of these elements.

Law or regulation or national auditing standards may prescribe a specific form or content for the description of a key audit matter, or may specify the inclusion of one or more of these elements beyond what is required by this ISA.

~~The auditor's consideration of what to include in the description of a key audit matter takes into account whether such information is likely to be useful to intended users' decision making in the context of the audit that was performed and whether the description would enable a better understanding of the audit and the auditor's judgments. The extent of detail provided to explain why a matter was determined to be a key audit matter may also influence the auditor's judgment about how to describe how the matter was addressed in the audi~~

~~A46-A51.~~ _____ In order for intended users to understand the significance of a key audit matter in the context of the audit of the financial statements as a whole, as well as the relationship between key audit matters and other elements of the auditor's report, including the auditor's opinion, it is important 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.
- Does not imply that the matter has not been appropriately resolved by the auditor in forming the opinion on the financial statements.
- Relates the matter directly to the specific circumstances of the entity, while avoiding generic or standardized language.
- Takes into account how the matter is addressed in the related disclosure(s) in the financial statements, if any.

~~A47-A52.~~ _____ Describing aspects of the auditor's response or approach to a matter, in particular when the audit approach required significant tailoring to the facts and circumstances of the entity, may assist intended users in understanding unusual circumstances and significant auditor judgment required to address the risk of material misstatement. In addition, the audit approach in a particular period may have been influenced by entity-specific circumstances, economic conditions, or industry-developments. It may also be useful for the auditor to make reference to the nature and extent of communications with those charged with governance about the matter.

A48-A53. _____ For example, in describing the auditor's approach to a matter involving a high degree of estimation uncertainty, such as the valuation of complex financial instruments, the auditor may wish to highlight that the auditor employed or engaged an auditor's expert. Such a reference to the use of an auditor's expert does not reduce the auditor's responsibility for the opinion on the financial statements and is therefore not inconsistent with paragraphs 14–15 of ISA 620.³³

A49-A54. _____ There may be challenges in describing the auditor's procedures, particularly in complex, judgmental areas of the audit. In particular, it may be difficult to summarize the procedures performed in a succinct way that adequately communicates the nature and extent of the auditor's response to the assessed risks of material misstatement, and the significant auditor judgments involved. Nonetheless, the auditor may consider it necessary to describe certain procedures performed to communicate how the matter was addressed in the audit. Such description typically would be at a high level, rather than include a detailed description of procedures.

A50-A55. _____ In order to avoid creating uncertainty as to whether the matter was satisfactorily resolved, the auditor may also consider it necessary to provide an indication of the outcome of the auditor's response in the description of the key audit matter in the auditor's report. However, if in describing how the matter was addressed in the audit, the auditor considers it necessary to indicate findings or other observations with respect to a matter, there is also a need for the auditor to avoid giving the impression that the description is conveying a separate opinion on an individual key audit matter or that in any way may call into question the auditor's opinion on the financial statements as a whole.

Reference to Where the Matter Is Disclosed in the Financial Statements (Ref: Para. 13(c)~~12(b)~~)

A51-A56. _____ Paragraphs 1342(a)-(b) requires the description of each key audit matter to explain why the auditor considered the matter to be one of most significance in the audit and how the matter was addressed in the audit. Accordingly, the description of key audit matters cannot merely reiterate what is disclosed in the financial statements. However, a reference to any related disclosures enables intended users to further understand how management has addressed the matter in preparing the financial statements.

A52-A57. _____ In addition to referring to related disclosure(s), the auditor may draw attention to key aspects of them. The extent of disclosure by management about specific aspects or factors in relation to how a particular matter is affecting the financial statements of the current period may help the auditor in pinpointing particular aspects of how the matter was addressed in the audit such that intended users can understand why the matter is a key audit matter. For example, when an entity includes robust disclosure about accounting estimates, the auditor may draw attention to the disclosure of key assumptions and other sources of estimation uncertainty, the disclosure of the range of possible outcomes, and other qualitative and quantitative disclosures relating to key sources of estimation uncertainty or critical accounting estimates, as part of explaining why the matter was one of most significance in the audit and how the matter was addressed in the audit.

³³ ISA 620, *Using the Work of an Auditor's Expert*

Placement of the Key Audit Matters Section in the Auditor's Report (Ref: Para. ~~1413~~)

~~A53-A58.~~ Placement of the Key Audit Matters section in close proximity to the auditor's opinion is intended to give prominence to such information, and to acknowledge the perceived value of engagement-specific information to intended users.

~~A54-A59.~~ The order of presentation of individual matters within the Key Audit Matters section is a matter of professional judgment. For example, such information may be organized in order of relative importance, based on the auditor's judgment, or may correspond to the manner in which matters are disclosed in the financial statements. The requirement in paragraph ~~1413~~ to include subheadings is intended to further differentiate the matters.

~~A55-A60.~~ When comparative financial information is presented, the introductory language of the Key Audit Matters section is tailored to draw attention to the fact that the key audit matters described relate to only the audit of the financial statements of the current period, and may include reference to the specific period covered by those financial statements (e.g., "for the year ended December 31, 20X1").

~~*Introductory Language Form and Content of the Key Audit Matters Section When the Auditor Has Determined There Are No Key Audit Matters*~~ (Ref: Para. ~~1544~~)

~~A56-A61.~~ Except in certain limited circumstances (e.g., a listed entity that has very limited operations or assets where there may not be any matters of significant auditor attention), it is expected to be rare that the auditor of a complete set of general purpose financial statements of a listed entity would not determine at least one key audit matter from the matters communicated with those charged with governance.

~~A62.~~ When the auditor expresses a qualified or adverse opinion in accordance with proposed ISA 705 (Revised), depending on the nature of the matter(s) causing the auditor to modify the opinion, the auditor may not determine any other matters to be key audit matters. In such a circumstance, the requirement in paragraph 14(c) to make reference to the matter(s) described in the Basis for Qualified or Adverse Opinion section also applies. The same may be true when the auditor's report includes communication about a material uncertainty related to going concern, or in other specific circumstances when the auditor determines in accordance with paragraph 10 that there are no matters of most significance, because of the lack of communicative value to intended users.

~~A57-A63.~~ The following illustrates the presentation in the auditor's report if the auditor has determined there are no key audit matters to communicate:

Key Audit Matters

~~This section of our auditor's report is intended to describe the matters selected from those communicated with [those charged with governance] that, in our professional judgment, were of most significance in our audit of the financial statements. [Except for the matter described in the *Basis for Qualified or Adverse Opinion* section or *Material Uncertainty Related to Going Concern* section of our report,] We have determined that there are no such key audit matters to communicate in our report.~~

Communication with Those Charged with Governance (Ref: Para. 1645)

A58-A64. _____ Proposed ISA 260 (Revised) requires the auditor to communicate with those charged with governance on a timely basis.³⁴ The appropriate timing for communications about key audit matters will vary with the circumstances of the engagement. However, the auditor may communicate preliminary views about key audit matters when discussing the planned scope and timing of the audit, and may further discuss such matters when communicating about audit findings. Doing so may help to alleviate the practical challenges of attempting to have a robust two-way dialogue about key audit matters at the time the financial statements are being finalized for issuance.

A59-A65. _____ The communication required by paragraph 1645(a) enables those charged with governance to be made aware of the key audit matters that the auditor intends to communicate in the auditor's report, and provides them with an opportunity to obtain further clarification where necessary. The auditor may consider it useful to provide those charged with governance with a draft of the auditor's report to facilitate this discussion. Communication with those charged with governance recognizes their important role in overseeing the financial reporting process, and provides the opportunity for those charged with governance to understand the basis for the auditor's decisions in relation to key audit matters and how these matters will be described in the auditor's report.

A60-A66. _____ For example, in some cases, management or those charged with governance may decide to include new or enhanced disclosures in the financial statements relating to the key audit matter in light of the fact that the matter will be communicated in the auditor's report, for example to provide more robust disclosures about the sensitivity of key assumptions used in accounting estimates or the entity's rationale for a particular accounting practice or policy when acceptable alternatives exist under the applicable financial reporting framework.

A61-A67. _____ As noted in paragraph A39, the cCommunication with those charged with governance required by paragraph 16(a) also assists the auditor's judgment about whether, in extremely rare circumstances, the auditor determines in accordance with paragraph 12 of this ISA that a key audit matter should not be communicated in the auditor's report due to the severity of the adverse consequences of such communication, and, if so, how to communicate about a matter in the auditor's report in accordance with paragraph 11 of this ISA when such circumstances exist. For example, such communication may:

Enable the auditor to understand why management and those charged with governance have not disclosed the matter or why a matter was disclosed in a particular way, and any sensitivities about which the auditor may be unaware, to inform the auditor's judgment about whether it is possible to describe the matter in an appropriate manner in the auditor's report; and

Provide an opportunity for the auditor to encourage management or those charged with governance to make relevant disclosures in the financial statements, so that reference can be made to those disclosures within the description of the key audit matters in the auditor's report, rather than the auditor providing original information. [This material was moved to support the requirement in paragraph 12]

³⁴ Proposed ISA 260 (Revised), paragraph 21

~~For example, in some cases, management or those charged with governance may decide to include new or enhanced disclosures in the financial statements relating to the key audit matter, for example to provide more robust disclosures about sensitivity of key assumptions used in accounting estimates or the entity's rationale for a particular accounting practice or policy when acceptable alternatives exist under the applicable financial reporting framework.~~

A62-A68. In addition, the requirement in paragraph 1615(b) to communicate with those charged with governance when the auditor has determined there are no key audit matters to communicate in the auditor's report may provide an opportunity for the auditor to have further discussion with others who are familiar with the audit and the significant matters that may have arisen (including those charged with governance and the engagement quality control reviewer, where one has been appointed). These discussions may cause the auditor to re-evaluate the auditor's determination that there are no key audit matters.

Documentation (Ref: Para. 1746)

A63-A69. The professional judgments for the matters determined to be key audit matters are likely to be supported by the documentation of the auditor's communications with those charged with governance and the audit documentation relating to each individual key audit matter (see paragraph A4542), as well as certain other audit documentation of the significant matters arising during the audit (e.g., a completion memorandum). The documentation of the significant professional judgments made in determining the key audit matters draws upon this documentation. Such documentation also may provide an indication that other matters communicated with those charged with governance are not key audit matters.

Proposed Wording in the Illustrative Auditor's Report

Note: This wording has been revised to reflect the changes proposed in ISA 701 and ISA 700.

Key Audit Matters (Ref: Para. 14 of proposed ISA 701 in this draft)

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on them.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Ref: Para. 40(c) of proposed ISA 700 (Revised) in Updated Agenda Item 2-B)

...

From the matters communicated with [*those charged with governance*], we are required to determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We are required to describe these matters in our auditor's report unless law, regulation or relevant ethical requirements preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report due to the severity of the adverse consequences of such communication.