

~~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 December 15, 2016~~date~~)

MARKED TO INCORPORATE ALL CHANGES AGREED DURING THE SEPTEMBER 2014 IAASB DISCUSSIONS

CONTENTS

	Paragraph
Introduction	
Scope of this ISA	1–5
Effective Date	6
Objectives	7
Definition	8
Requirements	
Determining Key Audit Matters	9–10
Communicating Key Audit Matters	11–16
Communication with Those Charged with Governance	17
Documentation	18
Application and Other Explanatory Material	
Scope of this ISA	A1–A8
Determining Key Audit Matters	A9–A30
Communicating Key Audit Matters	A31– A59A65
Communication with Those Charged with Governance	A60A66–A63A69

* [Agenda Item 2-C was updated during the September 15–19, 2014 IAASB meeting to reflect in marked text changes based on decisions taken at the meeting. The updated agenda item is included here for information purposes only and is not the final pronouncement. Interested parties are discouraged from distributing, translating or using the updated agenda item for any purpose. They should await the release of the final pronouncement, which may contain minor modifications when compared to the updated agenda item. The final pronouncement is that approved by the IAASB and published by IFAC after the PIOB has confirmed that due process was followed in its development. It will be available at www.ifac.org/auditing-assurance/publications-resources.]

Documentation

[A64A70](#)

~~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*.

Introduction

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. [previously para. 1]
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. Communicating key audit matters provides additional information to intended users of the financial statements ("[intended users](#)") 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) [previously para. 2]
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. [previously para. 3]
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 modified](#) opinion when required by the circumstances of a specific audit engagement in accordance with [proposed](#) ISA 705 (Revised);¹
 - ~~(b)(c)~~ [A substitute for reporting in accordance with ISA 570 \(Revised\)² when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern;](#) or
 - ~~(c)~~(d) A separate opinion on individual matters. (Ref: Para. A5–A8) [previously para. 4]
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. This ISA also applies when the auditor is required by law or regulation to communicate key audit matters in the auditor's report.³ [However, ISA 705 \(Revised\) prohibits the](#)

¹ [Proposed-ISA 705 \(Revised\), Modifications to the Opinion in the Independent Auditor's Report](#)

² [ISA 570 \(Revised\), Going Concern, paragraphs 22–23](#)

³ [Proposed-ISA 700 \(Revised\), Forming an Opinion and Reporting on Financial Statements, paragraphs 30–31](#)

[auditor from communicating key audit matters when the auditor disclaims an opinion on the financial statements, unless such reporting is required by law or regulation.](#)⁴ [previously para. 5]

Effective Date

6. This ISA is effective for audits of financial statements for periods ~~beginning~~ ending on or after [December 15, 2016](#)~~date~~. [previously para. 6]

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. [previously para. 7]

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. [previously para. 8]

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. A9–A18)
- (a) Areas of higher assessed risks of material misstatement, or significant risks identified in accordance with ISA 315 (Revised).⁵ (Ref: Para. A19–A22)
 - (b) Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty. (Ref: Para. A23–A24)
 - (c) The effect on the audit of significant events or transactions that occurred during the [period](#)~~year~~. (Ref: Para. A25–A26) [previously para. 9]
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. A9–A11, A27–A30) [previously para. 10]

⁴ [ISA 705 \(Revised\), paragraph 29](#)

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

Communicating Key Audit Matters

Introductory Language When KAM Are Communicated

11. ~~The auditor shall describe each key audit matter~~~~When key audit matters are communicated, the auditor shall include the descriptions of the individual key audit matters, with using~~ an appropriate subheading ~~for each~~, in a separate section of the auditor's report under the heading "Key Audit Matters," ~~except for those matters communicated in accordance with~~ unless the circumstances in paragraphs 14 or 15 apply. The introductory language in this section of 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]; and
- (b) These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and the auditor does not provide a separate opinion on these matters. (Ref: Para. A31–A33) [previously para. 11]

Key Audit Matters Not a Substitute for Expressing a ~~Qualified or Adverse~~ Modified Opinion

12. ~~The auditor shall not communicate a matter determined to be a key audit matter in the Key Audit Matters section of the auditor's report only when the auditor would be required to modify the opinion in accordance with ISA 705 (Revised) as a result of the matter has obtained sufficient appropriate audit evidence that the matter is not materially misstated in the financial statements as a whole.~~ (Ref: Para. A5) [previously para. 12]

Descriptions of Individual Key Audit Matters

~~12.13.~~ The description of each key audit matter in the Key Audit Matters section of the auditor's report shall include a reference to the related disclosure(s), if any, in the financial statements and shall address: (Ref: Para. A34–A41)

- (a) Why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter; and (Ref: Para. A42–A45)
- (b) How the matter was addressed in the audit. (Ref: Para. A46–A51) [previously para. 13]

Circumstances in Which a Matter Determined to Be a Key Audit Matter Is Not Communicated in the Auditor's Report

~~13.14.~~ The auditor shall describe each key audit matter in the auditor's report unless: (Ref: Para. A53–A56)

- (a) Law or regulation preclude~~s~~ public disclosure about the matter; or (Ref: Para. A52–A53)
- (b) In extremely rare circumstances, the auditor determines that ~~the~~ a matter ~~that has not otherwise been publicly disclosed~~ should not be communicated in the auditor's report, because in view of the significance of the adverse consequences of doing so that can would reasonably be expected to arise as a result outweigh the public interest benefits of such communication. This shall not apply if the entity has publicly disclosed information about the matter. (Ref: Para. A54–A61) [previously para. 14]

Interaction between Descriptions of Key Audit Matters and Other Elements Required to Be Included in the Auditor's Report

~~14,15.~~ A matter giving rise to a ~~qualified or adverse~~ modified opinion in accordance with ~~proposed~~ ISA 705 (Revised), or a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ~~proposed~~ ISA 570 (Revised),⁶ are by their nature key audit matters. However, in such circumstances, these matters ~~shall~~ are not be described in the Key Audit Matters section of the auditor's report and the requirements in paragraphs 13–14 do not apply. Rather, the auditor shall:

- (a) Report on these matter(s) in accordance with the applicable ISA(s); and
- (b) Include a reference to the Basis for Qualified (~~or~~ Adverse) Opinion or the Material Uncertainty Related to Going Concern section(s) in the Key Audit Matters section. (Ref: Para. A6–A7) [previously para. 15]

Form and Content of the Key Audit Matters Section in Other Circumstances

16. 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 or that the only key audit matters communicated are those ~~in accordance with~~ matters addressed by paragraph 15, the auditor shall include a statement to this effect in a separate section of the auditor's report under the heading "Key Audit Matters." (Ref: Para. ~~A5762–A5965~~) [previously para. 16]

Communication with Those Charged with Governance

17. 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. ~~A6066–A6369~~) [previously para. 17]

Documentation

18. The auditor shall include in the audit documentation:⁷ (Ref: Para. ~~A6470~~)

- (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;—The matters that required significant auditor attention as determined in accordance with paragraph 9, and the rationale for the auditor's determination as to whether or not each of these matters is a key audit matter in accordance with paragraph 10;~~
- (b) Where applicable, the rationale for the auditor's determination that there are no key audit matters to communicate in the auditor's report or that the only key audit matters to communicate are those matters addressed by paragraph 15; and

⁶ ~~Proposed ISA 570 (Revised), Going Concern, paragraphs 22–23~~

⁷ ISA 230, *Audit Documentation*, paragraphs 8–11 and A6

- (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. (Ref: Para. A60) [previously para. 18]

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. [previously para. A1]
- 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)⁸ 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. [previously para. A2]
- 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. [previously para. A3]
- A4. ISA 320⁹ 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. [previously para. A4]

⁸ ~~Proposed~~ ISA 260 (Revised), *Communication with Those Charged with Governance*

⁹ ISA 320, *Materiality in Planning and Performing the Audit*, paragraph 4

Relationship between Key Audit Matters, the Auditor's Opinion and Other Elements of the Auditor's Report (Ref: Para. 4, 12, 15)

- A5. ~~Proposed~~ ISA 700 (Revised) establishes requirements and provides guidance on forming an opinion on the financial statements.¹⁰ ~~The discussion of Communicating~~ 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. ~~When disclosures related to a key audit matter are materially misstated, including because they are inadequate or have been omitted, the auditor is required to express a modified opinion in accordance with proposed~~ ISA 705 (Revised) addresses circumstances in which the auditor concludes that there is a material misstatement relating to the appropriateness or adequacy of disclosures in the financial statements.¹¹ [previously para. A5]
- A6. When the auditor expresses a qualified or adverse opinion in accordance with ~~proposed~~ ISA 705 (Revised), presenting the description of a matter giving rise to a modified opinion in the Basis for Qualified ~~or~~ (Adverse) Opinion section helps to promote intended users' understanding and to identify such circumstances when they occur ~~(see paragraph 15)~~. Separating the ~~communication discussion~~ of this matter from other key audit matters described in the Key Audit Matters section therefore gives it the appropriate prominence in the auditor's report ~~(see paragraph 15)~~. The Appendix in ~~proposed~~ ISA 705 (Revised) includes illustrative examples of how the introductory language in the Key Audit Matters section is affected when the auditor expresses a qualified or adverse opinion and other key audit matters are communicated in the auditor's report. Paragraph ~~A58~~⁶³ of this ISA illustrates how the Key Audit Matters section is presented when the auditor has determined that there are no other key audit matters to be communicated in the auditor's report beyond matters addressed in the Basis for Qualified ~~or~~ (Adverse) Opinion section or Material Uncertainty Related to Going Concern section of the auditor's report. [previously para. A6]
- A7. When the auditor expresses a qualified or adverse opinion, ~~a discussion of communicating~~ other key audit matters, ~~if any,~~ would still be relevant to enhancing intended users' understanding of the audit, and therefore the requirements to determine key audit matters apply. However, as an adverse opinion is expressed in circumstances when the auditor has concluded that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements:¹²
- Depending on the significance of the matter(s) giving rise to an adverse opinion, the auditor may determine that no other matters are key audit matters. In such circumstances, the requirement in paragraph 15 applies (see paragraph A58).
 - If one or more matters other than the matter(s) giving rise to an adverse opinion are determined to be key audit matters, it is particularly important that the descriptions of such other key audit matters do not imply that the financial statements as a whole are more credible in relation to those matters than would be appropriate in the circumstances, in view of the adverse opinion (see paragraph A47). [previously last sentence of last bullet of para. A47]

¹⁰ ~~Proposed~~ ISA 700 (Revised), paragraphs 10–15 and A1–A15

¹¹ See paragraph A7 of ISA 705 (Revised).

¹² ISA 705 (Revised), paragraph 8

~~However, proposed ISA 705 (Revised) prohibits the auditor from communicating key audit matters when the auditor disclaims an opinion on the financial statements, unless such reporting is required by law or regulation.¹³ [previously para. A7]~~

~~A7-A8. _____ Proposed ISA 706 (Revised)¹⁴ 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 paragraphs and Other Matter paragraphs when the auditor considers it necessary to do so. In such cases, these paragraphs are presented separately from the Key Audit Matters section in the auditor's report. When a matter has been determined to be a key audit matter, the use of such paragraphs is not a substitute for the description of the individual key audit matter in accordance with paragraph 13 of this ISA.¹⁵ Proposed ISA 706 (Revised) provides further guidance on the relationship between key audit matters and Emphasis of Matter paragraphs in accordance with that ISA.¹⁶ [previously para. A8]~~

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

~~A8-A9. _____ The auditor's decision-making process in determining key audit matters is designed to select a smaller number of matters⁷ 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. [previously para. A9]~~

~~A9-A10. _____ 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).¹⁷ [previously para. A10]~~

~~A10-A11. _____ 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 prior period continues to be a key audit matter in the audit of the financial statements of the current period. [previously para. A11]~~

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

~~A11-A12. _____ The concept of significant auditor attention recognizes that an audit is risk-based and focuses on identifying and assessing areas of higher assessed the risks of material misstatement of the financial statements, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. For a particular account balance, class of transactions 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~~

¹³ ~~Proposed ISA 705 (Revised), paragraph 29~~

¹⁴ ~~Proposed ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*~~

¹⁵ See paragraphs 8(b) and 10(b) of ~~proposed ISA 706 (Revised)~~.

¹⁶ ~~Proposed ISA 706 (Revised), paragraphs A1–A3~~

¹⁷ See ISA 710, *Comparative Information—Corresponding Figures and Comparative Financial Statements*.

~~200,¹⁸ the higher the assessed risks of material misstatement, the more persuasive the audit evidence required by the external auditor will need to be. In designing further audit procedures, the auditor is required to obtain more persuasive audit evidence the higher the auditor's assessment of risk.¹⁹ When obtaining more persuasive audit evidence because of a higher assessment of risk, the auditor may increase the quantity of the evidence, or obtain evidence that is more relevant or reliable, for example, by placing more emphasis on obtaining third party evidence or by obtaining corroborating evidence from a number of independent sources.²⁰ [previously para. A12]~~

~~A12:A13.~~ 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. [previously para. A13]

~~A13:A14.~~ 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 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. [previously para. A14]

~~A14:A15.~~ 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.²¹ The ISAs acknowledge potential difficulties in relation to, for example:
 - Related party transactions,²² 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.²³
- ISA 220 establishes requirements for the engagement partner in relation to undertaking appropriate consultation on difficult or contentious matters.²⁴ For example, the auditor may 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

¹⁸ ~~ISA 200, Overall Objectives of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing, paragraph A29~~

¹⁹ ~~ISA 330, The Auditor's Responses to Assessed Risks, paragraph 7(b)~~

²⁰ ~~ISA 330, paragraph A19~~

²¹ ~~Proposed~~ ISA 260 (Revised), paragraphs 16(b) and A21

²² ISA 550, *Related Parties*, paragraph A42

²³ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph 49(d)

²⁴ ISA 220, *Quality Control for an Audit of Financial Statements*, paragraph 18

to discuss, among other things, significant matters arising during the audit engagement with the engagement quality control reviewer.²⁵ [previously para. A15]

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

A15-A16. _____ 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. [previously para. A16]

A16-A17. _____ 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 that may be of particular interest to intended users. 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. [previously para. A17]

A17-A18. _____ 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 periodyear 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 related to was identified as a significant risk (e.g., changes to a system affecting revenue recognition). [previously para. A18]

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

A18-A19. _____ ~~Proposed~~ ISA 260 (Revised) requires the auditor to communicate with those charged with governance about the significant risks identified by the auditor.²⁶ Paragraph A13 of ~~proposed~~ ISA 260 (Revised) explains that the auditor may also communicate with those charged with governance about how the auditor plansproposes to address areas of higher assessed risks of material misstatement. [previously para. A19]

A19-A20. _____ 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

²⁵ ISA 220, paragraph 19

²⁶ ~~Proposed~~ ISA 260 (Revised), paragraph 15

management judgment and significant unusual transactions may often be identified as significant risks. Significant risks are therefore often areas that require significant auditor attention. [previously para. A20]

[A20-A21.](#) 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.²⁷ 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.²⁸ Depending on their nature, ~~if~~ these risks ~~may did~~ not require significant auditor attention, ~~and therefore they~~ would not be considered in the auditor's determination of key audit matters in accordance with paragraph 10. [previously para. A21]

[A21-A22.](#) 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.²⁹ 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, if the auditor's risk assessment was based on an expectation that certain controls were operating effectively and the auditor has obtained audit evidence that they were not operating effectively throughout the audit period, [particularly in an area with higher assessed risk of material misstatement](#)) may result in an area being determined as one requiring significant auditor attention. [previously para. A22]

Significant Auditor Judgments Relating to Areas in the Financial Statements that Involved Significant Management Judgment, Including Accounting Estimates that Have Been Identified as Having High Estimation Uncertainty (Ref: Para. 9(b))

[A22-A23.](#) ~~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.³⁰ 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. [previously para. A23]

[A23-A24.](#) However, [users of the financial statements have highlighted their interest in](#) accounting estimates that have been identified as having high estimation uncertainty in accordance with ISA 540³¹ that may have not been ~~determined to be assessed as~~ significant risks ~~are also of interest to users of the financial statements~~. Among other things, such estimates are highly dependent on management 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

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

²⁸ ISA 240, paragraph 31

²⁹ ISA 315 (Revised), paragraph 31

³⁰ ~~Proposed~~ ISA 260 (Revised), paragraph 16(a)

³¹ See paragraphs 10–11 of ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*.

significant changes to those policies) are relevant to their understanding of the financial statements, especially in circumstances where an entity's practices are not consistent with others in its industry. [previously para. A24]

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

A24-A25. Significant eEvents 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, the auditor may have had extensive discussions with management and those charged with governance at various stages throughout the audit about the effect on the financial statements of significant transactions with related parties or significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.³² Management may have made difficult or complex judgments in relation to recognition, measurement, presentation or disclosure of such transactions, which may have had a significant effect on the auditor's overall strategy. [previously para. A25]

A25-A26. 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. [previously para. A26]

Matters of Most Significance (Ref: Para. 10)

A26-A27. 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 often 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. [previously para. A27]

A27-A28. 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. [previously para. A28]

A28-A29. 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, its materiality to the financial statements.
- 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.

³² See paragraphs 16(a), 16(c) and A22, and Appendix 2, of for proposed ISA 260 (Revised).

- 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. [previously para. A29]

A29-A30. _____ 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. [previously para. A30]

Communicating Key Audit Matters

Placement of the ~~Separate~~ Key Audit Matters Section in the Auditor's Report (Ref: Para. 11)

A30-A31. _____ ~~Placement of~~Placing the ~~separate~~ Key Audit Matters section in close proximity to the auditor's opinion ~~is intended to~~may give prominence to such information, and ~~to~~acknowledge the perceived value of engagement-specific information to intended users. [previously para. A31]

A31-A32. _____ 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 11 to include subheadings is intended to further differentiate the matters. [previously para. A32]

A32-A33. _____ 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"). [previously para. A33]

Descriptions of Individual Key Audit Matters (Ref: Para. 13)

A33-A34. _____ The adequacy of the description of a key audit matter is a matter of professional judgment. The description of a key audit matter is intended to provide a succinct and balanced explanation to enable 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 inappropriately being the provider of original information about the entity). ~~Accordingly, 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.~~ [previously para. A34]

- A34-A35. _____ Original information is any information about the entity that ~~is~~ has not otherwise been made publicly available by the entity (e.g., has not been included in the financial statements or other information available at the date of the auditor's report,³³ 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). Such information is the responsibility of the entity's management and those charged with governance. [previously para. A35]
- A36. It is appropriate for the auditor to seek to avoid the description of a key audit matter inappropriately providing original information about the entity. ~~The description of a key audit matter is not usually of itself original information about the entity, as it describes the matter in the context of the audit.~~ However, the auditor may consider it necessary to include additional information to explain why the matter was considered to be one of most significance in the audit and therefore 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/precluded 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 disclose additional information, rather than the auditor providing original information in the auditor's report. [previously para. A36]
- A37. ~~For example, m~~Management or those charged with governance may decide to include new or enhanced disclosures in the financial statements or elsewhere in the annual report relating to a key audit matter in light of the fact that the matter will be communicated in the auditor's report. Such new or enhanced disclosures, for example, may be included to provide more robust disclosures information 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. [previously para. A37]
- A38. 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 (~~e.g. for example~~, a directors' report); a corporate governance statement; or internal control and risk assessment reports may form part of the annual report.³⁴ 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

³³ See proposed ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*.

³⁴ Proposed ISA 720 (Revised), paragraphs 12(a) and A1. Note: References to proposed ISA 720 (Revised) have been shown in shaded text. This text is included for reference purposes but is subject to further change as a result of the finalization of proposed ISA 720 (Revised). The shaded text will be removed from the final approved standard and conforming amendments to the suite of Auditor Reporting Standards will be made when that ISA is finalized.

~~unaudited~~ publicly available communications by the entity or other credible sources, 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.~~ [previously para. A38]

A39. 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, 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 18. [previously para. A39]

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

A40. Paragraphs 13(a)-(b) requires the description of each key audit matter to ~~address~~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 ~~is not a~~ cannot ~~merely reiteration~~reiterate of 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. [previously para. A40]

A41. 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~~ 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 ~~addressing~~explaining why the matter was one of most significance in the audit and how the matter was addressed in the audit.
- ~~For example, When~~ the auditor ~~may~~ concludes in accordance with ~~proposed~~ ISA 570 (Revised) that no material uncertainty exists relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, ~~the auditor but~~ nevertheless determine that one or more matters relating to this conclusion arising from the auditor's work effort under ~~proposed~~ ISA 570 (Revised) are key audit matters. ~~In such circumstances, t~~ The auditor's description of such key audit matters in the auditor's report ~~could~~may include aspects of the identified events or conditions disclosed in the financial statements, such as substantial operating losses, available borrowing facilities and possible debt refinancing, or non-

compliance with loan agreements, and related mitigating factors.³⁵ [previously para. A41 and second bullet moved from A55]

Explaining Why the Auditor Considered the Matter to Be One of Most Significance in the Audit (Ref: Para. 13(a))

A41:A42. 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 requirements in paragraphs 9–10 and the ~~related guidance~~application material in paragraphs A12–A29 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. [previously para. A42]

A42:A43. ~~The relevance of the information for intended users is a~~ The auditor's consideration ~~for~~of the auditor in determining 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. This may include~~ 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).~~ [previously para. A43]

A43:A44. Relating a matter directly to the specific circumstances of the entity may also ~~seeks help~~ 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 circumstances of the industry or the underlying complexity in financial reporting. In describing why the auditor considered the matter to be one of most significance, it may be useful for the auditor to highlight aspects specific to the entity (e.g., circumstances that affected the underlying judgments made in the financial statements of the current period) in order to make the description more relevant for intended users. This ~~is~~ also may be important in describing a key audit matter that recurs over periods. [previously para. A44]

A44:A45. 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. [previously para. A45]

³⁵ See paragraph A3 of ISA 570 (Revised).

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

~~A45-A46.~~ The amount of detail to be provided in the auditor's report 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 i~~n accordance with paragraph 13(b), the 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
- 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. [previously para. A46]

~~A46-A47.~~ 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, ~~care may be necessary so it is important~~ that language used in the description of a key audit matter:

- 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.
- Does not contain or imply discrete opinions on separate elements of the financial statements. ~~This may be particularly relevant in circumstances where the auditor has expressed an adverse opinion on the financial statements as a whole, but has determined one or more matters other than the matter giving rise to the adverse opinion to be key audit matters to be communicated in the auditor's report. In these circumstances, it is important that the descriptions of such key audit matters do not imply the financial statements are more credible in relation to the amounts and disclosures related to those matters in view of the adverse opinion on the financial statements as a whole.~~ [previously para. A47, strikethrough text moved to paragraph A7]

~~A47-A48.~~ 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. [previously para. A48]

A48-A49. For example, in describing the auditor's approach to an accounting estimate that has been identified as having high 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 620.³⁶ [previously para. A49]

A49-A50. 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 may typically ~~would~~ be at a high level, rather than include a detailed description of procedures. [previously para. A50]

A50-A51. ~~As noted in paragraph A46 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 ~~this is done 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 care is needed for the auditor~~ to avoid the auditor 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. [previously para. A51]

Note: Paragraphs A52–A56 below replace previous paragraphs A52–A61. These paragraphs are shown in clean text, with changes in marked representing those agreed in the discussion on September 19, 2014. [A marked version of the changes from the material distributed on September 16, 2014 is shown in an Appendix to this paper for reference.](#)

Circumstances in Which a Matter Determined to Be a Key Audit Matter Is Not Communicated in the Auditor's Report (Ref: Para. 14)

A51-A52. Law or regulation may preclude public disclosure by either management or the auditor about a specific matter determined to be a key audit matter. For example, law or regulation may specifically prohibit any public communication that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act (e.g., matters that are or appear to be related to money laundering). [previously para. A52, sentences 1 and 3, 2nd sentence deleted]

A52-A53. As indicated by paragraph 14(b), it will be extremely rare for a matter determined to be a key audit matter not to be communicated in the auditor's report. This is because there is presumed to be a public interest benefit in providing greater transparency about the audit for intended users. Accordingly, the judgment not to communicate a key audit matter is appropriate only in cases when the adverse consequences to the entity or the public as a result of such communication are viewed as so significant that they would reasonably be expected to outweigh the public interest benefits of communicating about the matter. [previously addressed by para. A57, sentences 1–3]

³⁶ ISA 620, *Using the Work of an Auditor's Expert*

A53-A54. The determination not to communicate a key audit matter takes into account the facts and circumstances related to the matter. [previously 4th sentence of para. A57] Communication with management and those charged with governance helps the auditor understand management's views about the significance of the adverse consequences that may arise as a result of communicating about a matter. In particular, communication with management and those charged with governance helps to inform the auditor's judgment in determining whether to communicate the matter by:

- Assisting the auditor in understanding why the matter has not been publicly disclosed by the entity. For example (e.g., if law, regulation or certain financial reporting frameworks may establish thresholds at which an entity may be permitted to delayed disclosure or not non-disclosure of the matter) and management's views as to the adverse consequences, if any, of disclosure. Management may draw attention to certain aspects in law or regulation or other authoritative sources that may be relevant to the consideration of adverse consequences (e.g., such aspects may include harm to the entity's commercial negotiations or competitive position). However, management's views about the adverse consequences alone do not alleviate the need for the auditor to determine whether the adverse consequences would reasonably be expected to outweigh the public interest benefits of communication in accordance with paragraph 14(b). [previously 1st sentence in para. A59 and 2nd sentence of para. A58]
- Highlighting whether there have been any communications with applicable regulatory, enforcement or supervisory authorities in relation to the matter, in particular whether such discussions would appear to support management's assertion as to why public disclosure about the matter is not appropriate. [previously 2nd sentence in para. A56]
- Enabling the auditor, where appropriate, to encourage management and those charged with governance to make public disclosure of relevant information about the matter. In particular, this may be possible if the concerns of management and those charged with governance about communicating are limited to specific aspects relating to the matter, such that certain information about the matter may be less sensitive and could be communicated. [previously 2nd sentence of para. A59 and new sentence]

The auditor also may consider it necessary to obtain a written representation from management as to why public disclosure about the matter is not appropriate, including management's view about the significance of the adverse consequences that may arise as a result of such communication. [new sentence]

A54-A55. It may also be necessary for the auditor to consider the implications of communicating about a matter determined to be a key audit matter in light of relevant ethical requirements. In addition, the auditor may be required by law or regulation to communicate with applicable regulatory, enforcement or supervisory authorities in relation to the matter, regardless of whether the matter is communicated in the auditor's report. Such communication may also be useful to inform the auditor's consideration of the adverse consequences that may arise from communicating about the matter. [1st sentence previously addressed by para. A53 but specific guidance deleted. 2nd and 3rd sentences previously last 2 sentences of para. A56]

A55-A56. The issues considered by the auditor regarding a decision to not communicate a matter are complex and involve significant auditor judgment. Accordingly, the auditor may consider it appropriate to obtain legal advice. [previously last 2 sentences in para. A53 and last sentence of para. A57]

DELETED MATERIAL: Para. A54, 1st sentence of para. A56; 1st, 3rd and 4th sentences of para. A58; para. A60; para. A61]

MOVED MATERIAL: Para. A55 moved to para. A41]

Law or Regulation Preclude Public Disclosure about a Matter Determined to Be a Key Audit Matter
(Ref: Para. 14(a))

~~A56. Law or regulation may preclude public disclosure by either management or the auditor about certain matters determined to be key audit matters. The ISAs do not override law or regulation that govern an audit of financial statements and therefore cannot require communication of a key audit matter in circumstances where public disclosure is precluded. For example, law or regulation may specifically prohibit any public communication that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act (e.g., in relation to money laundering). [previously para. A52]~~

Consideration of Relevant Ethical Requirements

~~A57. It may be necessary for the auditor to consider the implications of communicating about a matter determined to be a key audit matter in light of the relevant ethical requirements and the facts and circumstances of the engagement. Relevant ethical requirements (or the auditor's obligation to comply with such requirements) may be set out in law or regulation, or may be referred to in law or regulation. Such requirements may also preclude or restrict the auditor's ability to communicate certain matters determined to be key audit matters, for example, because of requirements relating to auditor confidentiality, commercial sensitivity, or data protection. Regardless of whether or not relevant ethical requirements are set out in law or regulation, conflicts between the auditor's legal or ethical obligations and obligations to communicate matters in accordance with this ISA may exist, with the related issues being complex and involving significant auditor judgment. In such circumstances, the auditor may consider it appropriate to obtain legal advice. [previously para. A53]~~

Other Circumstances in Which a Matter Determined to Be a Key Audit Matter Is Not Communicated in the Auditor's Report (Ref: Para. 14(b), 18)

Consideration of the Significance of Adverse Consequences

~~A58. If information about a matter that has been determined to be a key audit matter has been publicly disclosed, communication about the matter in the auditor's report generally would not be expected to lead to adverse consequences. This is because the auditor's description of a key audit matter in the auditor's report in accordance with paragraph 13 makes reference to any related disclosures in the financial statements and the auditor, in describing the key audit matter, may also take into account any other relevant publicly available information (see paragraph A38). [previously para. A54]~~

~~A59. 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 the entity's ability to continue as a going concern, but may determine that one or more matters relating to this conclusion arising from the auditor's work effort under proposed ISA 570 (Revised) are key audit matters. The auditor's description of such key audit matters in the auditor's report may include aspects of the identified events or conditions disclosed in the financial statements, such as substantial~~

operating losses, available borrowing facilities and possible debt refinancing, or non-compliance with loan agreements, and related mitigating factors.³⁷ [previously remainder of para. A55]

~~A60. The auditor is not required to evaluate whether there may be adverse consequences in relation to communication of each key audit matter that has not been publicly disclosed; rather, the auditor may become aware of such consequences through discussion with management or those charged with governance or in developing a description of an individual matter in accordance with paragraph 13. Communications with management and those charged with governance may highlight sensitivities or possible adverse consequences, for example, ongoing communications with regulatory, enforcement or supervisory authorities related to the matter. Discussion with management and those charged with governance, or direct communications between the auditor and applicable regulatory, enforcement or supervisory authorities, may provide the auditor with additional perspective on whether communication about the matters in the auditor's report could result in adverse consequences, for example, by negatively affecting the entity's ability to resolve such a matter. In addition, the auditor may be required or may otherwise consider it appropriate to communicate with regulatory, enforcement or supervisory authorities in relation to the matter, regardless of whether the matter is communicated in the auditor's report. [previously 2nd bullet of paragraph A56]~~

~~A61. In extremely rare circumstances, the auditor may determine that communicating information in the auditor's report about a matter that is not otherwise publicly disclosed, while potentially informative to intended users, nevertheless is inappropriate. This judgment is in view of the significance of the adverse consequences that can reasonably be expected to arise as a result of such communication. The likely adverse consequences to the entity, the public or an individual could be so significant such that communication by the auditor of the matter is unjustified, notwithstanding the potential public interest benefits of making the communication. Therefore, in making a judgment to not communicate a key audit matter in the auditor's report, the auditor takes into account:~~

- ~~• The facts and circumstances in relation to the matter.~~
- ~~• Management's assertion as to why public disclosure about the matter is not appropriate, as well as the views of those charged with governance in relation to this assertion.~~

~~In addition, the auditor may consider it appropriate to obtain legal advice to inform the auditor's judgment that a matter should not be communicated in the auditor's report. [previously para. A57]~~

~~A62. For purposes of this ISA, adverse consequences are intended to be those that involve harm to the entity's commercial negotiations or competitive position. Certain legal or regulatory frameworks may more specifically define these concepts, and may establish thresholds at which an entity may be permitted to defer or omit disclosures relating to matters that may cause such consequences. For example, certain legal or regulatory frameworks may recognize that certain acts (such as disclosure of information) are inappropriate if they would cause unjustified harm to the legitimate interests of an entity, the public or an individual, or could otherwise be viewed as seriously prejudicial to the entity. However, consequences such as legal liability or legal, regulatory or professional sanctions that may validly arise for the entity, the auditor or the firm, or negative market reactions to information provided about the matter, would not be considered adverse consequences. [previously para. A58]~~

~~A63. Communication with management and those charged with governance may therefore assist the auditor in understanding why a matter was not disclosed (e.g., whether this was because law,~~

³⁷—See paragraph A2 of ISA 570 (Revised).

~~regulation or the applicable financial reporting framework permits delayed or omitted disclosure by the entity, in particular if disclosure could be viewed as seriously prejudicial to the entity). Such communications also enable the auditor to encourage management and those charged with governance to disclose additional relevant information or enhance existing disclosures (either in the financial statements or through other public forms of communication about the matter), which may help the auditor in developing an appropriate description of the key audit matter in the auditor's report. [previously para. A59]~~

Documentation and Other Communications

~~A64. If, in light of the facts and circumstances (including the possibility of the auditor communicating more generally about the matter or management's assertion as to why public disclosure about the matter is not appropriate), the auditor nevertheless determines that a key audit matter should not be communicated in the auditor's report, the auditor is required to document the rationale for this determination in accordance with paragraph 18 of this ISA. [previously para. A60]~~

~~A65. ISA 220 also requires the engagement quality control reviewer to evaluate the auditor's determination that a key audit matter will not be communicated in the auditor's report as part of the required evaluation of the conclusions reached in formulating the auditor's report.³⁸ [previously para. A61]~~

Form and Content of the Key Audit Matters Section in Other Circumstances (Ref: Para. 16)

~~A66-A57.~~ The requirement in paragraph 16 applies in three circumstances:

- (i) The auditor determines in accordance with paragraph 10 that there are no key audit matters (see paragraph A5964).
- (ii) ~~In extremely rare circumstances, t~~he auditor determines in accordance with paragraph 14 that a key audit matter will not be communicated in the auditor's report and no other matters have been determined to be key audit matters.
- (iii) The only matters determined to be key audit matters are those communicated in accordance with paragraph 15 ~~(see paragraph A65)~~. [previously para. A62]

~~A67-A58.~~ 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

[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 [other] key audit matters to communicate in our report. [previously para. A63]

~~A68-A59.~~ The determination of key audit matters involves making a judgment about the relative importance of matters that required significant auditor attention. Therefore, ~~it is expected to be unusual~~ ~~may 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 to be communicated in the auditor's report. However, in certain limited circumstances (e.g., for a listed entity that has very limited operations, ~~assets or financial~~

³⁸ See paragraphs 20 and A27a of ISA 220.

~~resources, or an entity in the early stages of development~~), the auditor may determine ~~that there are no key audit matters in accordance with paragraph 10 because in accordance with paragraph 9 that there are no matters that required significant auditor attention.~~ [previously para. A64]

~~A69. As noted in paragraph 15, a matter giving rise to a qualified or adverse opinion in accordance with proposed ISA 705 (Revised), or a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with proposed ISA 570 (Revised), are by their nature key audit matters. If the auditor has determined that there are no other key audit matters to be communicated, the requirement in paragraph 15(b) applies and the statement required by paragraph 16 makes reference to the fact that no other matters were determined to be key audit matters.~~ [previously para. A65]

Communication with Those Charged with Governance (Ref: Para. 17)

~~A70:A60.~~ ~~Proposed~~ ISA 260 (Revised) requires the auditor to communicate with those charged with governance on a timely basis.³⁹ 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. [previously para. A66]

~~A71:A61.~~ Communication with those charged with governance enables them 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. It also enables those charged with governance to consider whether new or enhanced disclosures may be useful in light of the fact that these matters will be communicated in the auditor's report. [previously para. A67]

~~A72:A62.~~ The communication with those charged with governance required by paragraph 17(a) ~~is~~ also ~~intended to address~~ the extremely rare circumstances in which a matter determined to be a key audit matter is not communicated in the auditor's report (see paragraphs 14, ~~A56~~ and ~~A5459~~). [previously para. A68]

~~A73:A63.~~ The requirement in paragraph 17(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.~~ [previously para. A69]

³⁹ ~~Proposed~~ ISA 260 (Revised), paragraph 21

Documentation (Ref: Para. 18)

A74-A64. Paragraph 8 of ISA 230 requires the auditor to prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand, among other things, significant professional judgments. In the context of key audit matters, ~~these~~ professional judgments include the determination, from the matters communicated with those charged with governance, of ~~for~~ the matters that required significant auditor attention, as well as whether or not each of those matters is a ~~determined to be~~ key audit matters. The auditor's judgments in this regard 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 A39), 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.~~ However, this ISA does not require the auditor to document why other matters communicated with those charged with governance were not matters that required significant auditor attention ~~were not determined to be key audit matters.~~ [previously para. A70]