

**Proposed International Standard on Auditing (ISA) 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 IAASB APRIL 15 DISCUSSION**

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<p>Proposed International Standard on Auditing (ISA) 701, <i>Communicating Key Audit Matters in the Independent Auditor’s Report</i>, should be read in conjunction with ISA 200, <i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing</i>.</p>
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## Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibility to communicate key audit matters in the independent auditor's report. ~~The matters to be communicated are based on the auditor's professional judgment and are influenced by the nature and extent of matters communicated with those charged with governance in accordance with proposed ISA 260 (Revised).~~<sup>4</sup>
2. Communicating key audit matters provides additional transparency ~~about the auditor's work in performing the audit and in forming an opinion on the financial statements as a whole. This communication in the auditor's report is intended to provide to users of the financial statements with additional information to enhance their understanding of the audit~~ those matters that were of most significance in the audit. Key audit matters are selected from matters communicated with those charged with governance.<sup>2</sup> Because of the nature of the risk-based approach in an audit in accordance with ISAs, communicating key audit matters that were of most significance in performing the audit and, where appropriate, providing reference to relevant disclosures in the financial statements is also intended to ~~can~~ assist users of the financial statements in understanding the entity and areas of significant management judgment in the audited financial statements. (Ref: Para. A1)
3. Users of the financial statements may also use the communication in the auditor's report as a basis to further engage with management and those charged with governance about certain matters relating to the entity and the audited financial statements, for example at the shareholders' general meeting or assembly.
4. This ISA applies to auditors of listed entities, and is intended to address both the auditor's judgment as to what to include and the form and content of such communication. (Ref: Para. A2)
5. This ISA ~~also applies~~ may be applied, adapted as necessary in the circumstances, for audits when auditors of entities other than listed entities communicate key audit matters in the auditor's report (see paragraphs 18–19). Law, regulation or national auditing standards may ~~also require the auditor to do so, or the auditor may do so voluntarily~~ communication of key audit matters for entities other than listed entities, for example public interest entities (see paragraph 21). (Ref: Para. AX)
6. Law or regulation may also require the auditor to include additional communication in the auditor's report about specific matters. If those requirements are intended to provide information that is consistent with the objective and requirements of this ISA, the requirements in this ISA relating to the form and content of such communication can be applied (see paragraph 1620).

<sup>4</sup> ~~Proposed ISA 260 (Revised), *Communication with Those Charged with Governance*~~

<sup>2</sup> Throughout this ISA, the phrase "matters communicated with those charged with governance" is intended to mean all matters required to be communicated by proposed ISA 260 (Revised), *Communication with Those Charged with Governance*, and other ISAs as described in Appendix 1 of proposed ISA 260 (Revised), and any other matters arising during the audit that were communicated with those charged with governance.

## Effective Date

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

## Objectives

8. ~~The objectives of the auditor, having formed an opinion on the financial statements, is are to:~~
- ~~(a) Determine, from the matters communicated with those charged with governance, communicate in the auditor's report those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements; and~~
  - ~~(b) Having formed an opinion on the financial statements, communicate those matters in the auditor's report.~~

## Definition

- ~~8.9.~~ 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. ~~Key audit matters are, in all cases, a selection of matters communicated with those charged with governance. [MOVED TO PARAGRAPH 2]~~

## Requirements

### Determining Key Audit Matters

- ~~9.10.~~ The auditor shall communicate key audit matters in the auditor's report for audits of listed entities, including when the auditor expresses a qualified or adverse opinion in accordance with ISA 705.<sup>3</sup> The auditor shall not communicate key audit matters in the auditor's report when the auditor expresses a disclaimer of opinion in accordance with ISA 705.<sup>4</sup> (Ref: Para. A3–A5)

- ~~10.11.~~ ~~In determining whether a matter is communicated as a key audit matter, the auditor shall use professional judgment, taking into account the nature and extent of communications with those charged with governance, including, at a minimum~~The auditor shall determine which of the matters communicated with those charged with governance, in the auditor's judgment, are key audit matters. In making this determination, the auditor shall take into account: (Ref: Para. A6–A10)

- ~~(a) Areas of focus in performing the audit, particularly areas~~ ~~Whether the matter was identified as, or is related to, a significant risks~~ in accordance with ISA 315.<sup>5</sup> ~~or other areas assessed as having a high risk of material misstatement or involving significant auditor judgment;~~ (Ref: Para. A11–A12)
- ~~(b) Those areas in which the auditor encountered~~ ~~The degree of significant difficulty encountered in performing the audit, including gaining access to information or obtaining sufficient appropriate audit evidence about the matter;~~ and (Ref: Para. A13)

<sup>3</sup> ISA 705, *Modifications to the Opinion in the Independent Auditor's Report*, paragraphs 7–8

<sup>4</sup> ISA 705, paragraphs 9–10

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

- (c) Circumstances that required significant modification of the auditor's planned approach to the audit, including the identification of a significant deficiency in internal control relating to the matter.~~The difficulty of the judgment involved relating to the matter.~~ (Ref: Para. A14–A15)
- (d) ~~Whether the auditor identified a significant deficiency in internal control relating to the matter.~~  
(Ref: Para. A16)

## Communicating Key Audit Matters

### *Presentation in the Auditor's Report for a Listed Entity*

~~14.12.~~ 12.12. The auditor shall communicate those matters determined in accordance with paragraph 11 in a separate section of the auditor's report under the heading "Key Audit Matters", and include appropriate subheadings for each of the key audit matters communicated. (Ref: Para. A18–A19, A22)

~~12.13.~~ 12.13. ~~When key audit matters are communicated for audits of listed entities,~~ The auditor's report shall state that:

- (a) ~~The *Key Audit Matters*~~This section of the auditor's report describes matters communicated with those charged with governance that, in the auditor's professional judgment, were of most significance in the audit of the financial statements, but is not intended to be a comprehensive list of all matters that were discussed with them; and
- (b) ~~This information is intended to enhance users' understanding of the audit of the financial statements;~~
- (c) ~~The auditor's opinion is not modified with respect to any of these matters, and the auditor's audit procedures relating to these matters were designed in the context of the audit of the financial statements as a whole, and not to express an opinion on individual accounts financial statement items or disclosures;~~
- (d) ~~Although these matters were discussed with [those charged with governance], this communication is not intended to be a comprehensive list of all matters that were discussed;~~
- (e) ~~Reading the auditor's report is not intended to be a substitute for reading the financial statements, including the notes, in their entirety; and~~
- (f)(b) ~~The Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report provides additional information about the objectives of the audit and may assist users in understanding these matters in the overall context of the audit.~~ (Ref: Para. A20–A22)

### *Nature and Extent of the Descriptions of Key Audit Matters in the Auditor's Report*

~~14.~~ 14. ~~In determining the nature and extent of the descriptions of key audit matters to communicate in the auditor's report, the auditor shall consider the sufficiency and appropriateness of the descriptions to enhance users' understanding of the matter in the context of the audit that was performed.~~ The description of key audit matters in the auditor's report shall include:

- (a) Where applicable, a reference to management's disclosure about the matter in the financial statements; and
- (b) Information to describe why the auditor considered the matter to be of most significance in the audit including, to the extent necessary:

- (i) The auditor's response to the matter; and
- (ii) How the matter was resolved. (Ref: Para. A24–A36)

*Interaction between Descriptions of Key Audit Matters and the Basis for Qualified and Adverse Opinions*

~~13-15.~~ When a key audit matter is also a matter that gives rise to a qualified or adverse opinion, the auditor shall:

- (a) Provide a description of the matter in the Basis for Modification paragraph in accordance with ISA 705;<sup>6</sup> ~~and~~
- (b) Not discuss the matter in the *Key Audit Matters* section of the auditor's report; and
- ~~(b)~~(c) Add the phrase "Except for the matter described in the Basis for Modified Opinion paragraph" to the statements required by paragraphs 13(b) and 18(c). (Ref: Para. A37)

*Communicating Key Audit Matters for Entities Other than Listed Entities*

~~14.~~ Paragraph 5 of this ISA acknowledges that auditors of entities other than listed entities may include a discussion of key audit matters in the auditor's report. In such circumstances, the auditor shall discuss doing so as part of agreeing the terms of the audit engagement in accordance with ISA 210.<sup>7</sup> (Ref: Para. A38–A41)

~~15.~~ When key audit matters are communicated for audits of entities other than listed entities, the auditor shall:

- ~~(a)~~ Determine key audit matters in accordance with paragraph 11; and
- ~~(b)~~ Present the key audit matters in the auditor's report in accordance with paragraphs 13, 14 and 16.

*Form and Content of the Auditor's Report Prescribed by Law or Regulation*

16. Law or regulation may require the auditor to provide information that is consistent with the objective of this ISA or the requirement in paragraph 11. In such circumstance, the auditor shall:

- (a) Include a separate section of the auditor's report with a heading "Key Audit Matters," unless a specific heading is prescribed by law or regulation;
- (b) Tailor the statements required by paragraph ~~13~~14 to explain why the information is being provided, for example by making reference to the relevant law or regulation;
- (c) Include appropriate subheadings for each of the key audit matters communicated; and
- (d) Provide a description of the matter as required by paragraph ~~14~~16 of this ISA, unless law or regulation prescribes the nature and extent of the description of the matter. (Ref: Para. A42–A43)

~~17.~~ When law or regulation requires the auditor of an entity other than a listed entity to communicate key audit matters in the auditor's report, the auditor shall comply with the requirements in paragraph 20 of this ISA. (Ref: Para. A44)

<sup>6</sup> ISA 705, *Modifications to the Opinion in the Independent Auditor's Report*, paragraphs 16–21

<sup>7</sup> ISA 210, *Agreeing the Terms of Audit Engagements*

Communication with Those Charged with Governance

~~18.17.~~ The auditor shall communicate with those charged with governance which matters the auditor will include as key audit matters in the auditor's report. (Ref: Para. AX) [MOVED FROM PROPOSED ISA 260 (REVISED) PARAGRAPH 16(g)]

**Circumstances in which the Auditor Has Determined There Are No Key Audit Matters**

~~19.18.~~ In the rare circumstances where ~~When~~ the auditor of a listed entity determines, in the auditor's professional judgment, that there are no key audit matters to communicate in the auditor's report, the auditor shall, in addition to the reporting required by paragraph 15 of this ISA:

- (a) Where applicable, discuss this conclusion with the engagement quality control reviewer;
- (b) Communicate this conclusion with those charged with governance; and
- (c) ~~Document the rationale for this conclusion in the audit file. (Ref: Para. A17) When the auditor of a listed entity determines that there are no key audit matters to report, in addition to complying with the requirements in paragraphs 12–13, the auditor shall s~~State in the auditor's report that, the auditor this section of the auditor's report is intended to describe matters communicated with those charged with governance that, in the auditor's professional judgment, were of most significance in the audit of the financial statements and the auditor has determined that there are no matters on which to report. (Ref: Para. A23) [MOVED FROM PARAGRAPHS 12 AND 15]

**Documentation**

~~20.19.~~ In addition to the documentation required in the circumstances described in paragraph 12, the auditor shall include in the audit documentation: ~~The auditor shall include in the audit documentation:~~<sup>8</sup>

- (a) ~~Reference to the documentation relating to matters communicated with those charged with governance considered in determining the key audit matters;~~
- (a) The rationale for key judgments in the auditor's decision-making process~~selection of key audit matters, including the conclusions in relation to the factors in paragraph 11, where these are not otherwise clear; and~~
- (b) When applicable, the rationale for the auditor's conclusion that there are no key audit matters to communicate in the auditor's report. (Ref: Para. A42)

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<sup>8</sup> ISA 230, Audit Documentation

## Revised Proposed Presentation in the Auditor’s Report

### Illustration 1 – When KAM Are Presented for a Listed Entity

#### Key Audit Matters

##### Clean

This section of our auditor’s report describes matters communicated with *[those charged with governance]* that, in our professional judgment, were of most significance in our audit of the financial statements, but is not intended to be a comprehensive list of all matters that were discussed with them. Our opinion is not modified with respect to any of these matters, and our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual financial statement items or disclosures.

##### Marked

~~This section of our auditor’s report describes matters communicated with *[those charged with governance]* that, in our professional judgment, were of most significance in our audit of the financial statements, but is not intended to be a comprehensive list of all matters that were discussed with them. This information is intended to enhance users’ understanding of our audit of the financial statements. Our opinion is not modified with respect to any of these matters, and our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts financial statement items or disclosures. Although these matters were discussed with *[those charged with governance]*, this communication is not intended to be a comprehensive list of all matters that were discussed. Reading our auditor’s report is not intended to be a substitute for reading the financial statements, including the notes, in their entirety. The *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our auditor’s report provides additional information about the objectives of our audit and may assist users in understanding these matters in the overall context of our audit.~~

[EXAMPLES AS APPROPRIATE]

#### Further Information Relevant to Understanding Key Audit Matters

~~This information is intended to enhance users’ understanding of our audit of the financial statements. Our opinion is not modified with respect to any of these matters, and our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Although these matters were discussed with *[those charged with governance]*, this communication is not intended to be a comprehensive list of all matters that were discussed. Reading our auditor’s report is not intended to be a substitute for reading the financial statements, including the notes, in their entirety. The *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our auditor’s report provides additional information about the objectives of our audit and may assist users in understanding these matters in the overall context of our audit.~~

## Auditor's Responsibilities for the Audit of the Financial Statements

...

We are required to communicate with [*those charged with governance*] regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We ~~take the nature and extent of these communications into account and exercise professional judgment in determining~~ determine which of these matters, in our professional judgment, ~~are~~ the key audit matters to communicate in our auditor's report. ~~We also consider those risks of material misstatement that we have assessed as requiring special audit consideration, the degree of difficulty we encountered in obtaining sufficient appropriate audit evidence, the difficulty of the judgment involved, and whether we have identified any significant deficiencies in internal control relating to these matters.~~

~~For audits of listed entities, w~~ We are also required to communicate with [*those charged with governance*] regarding all relationships and other matters that we believe may reasonably be thought to bear on our independence.

## Illustration 2 – When KAM Are Presented for an Entity Other than a Listed Entity

### Key Audit Matters

This section of our auditor’s report describes matters communicated with [*those charged with governance*] that, in our professional judgment, were of most significance in our audit of the financial statements, but is not intended to be a comprehensive list of all matters that were discussed with them. Our opinion is not modified with respect to any of these matters, and our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual financial statement items or disclosures.

[EXAMPLES AS APPROPRIATE]

### Auditor’s Responsibilities for the Audit of the Financial Statements

...

We are required to communicate with [*those charged with governance*] regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We are required to determine, in our professional judgment, which of these matters are key audit matters to communicate in our auditor’s report.

### **Illustration 3 – When the Auditor of a Listed Entity Determines There Are No Key Audit Matters to Report**

#### **Key Audit Matters**

This section of our auditor’s report is intended to describe 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. We have determined there are no matters to report.

#### **Auditor’s Responsibilities for the Audit of the Financial Statements**

...

We are required to communicate with *[those charged with governance]* regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We are required to determine, in our professional judgment, which of these matters are key audit matters to communicate in our auditor’s report.

We are also required to communicate with *[those charged with governance]* regarding all relationships and other matters that we believe may reasonably be thought to bear on our independence.