

# Key Audit Matters

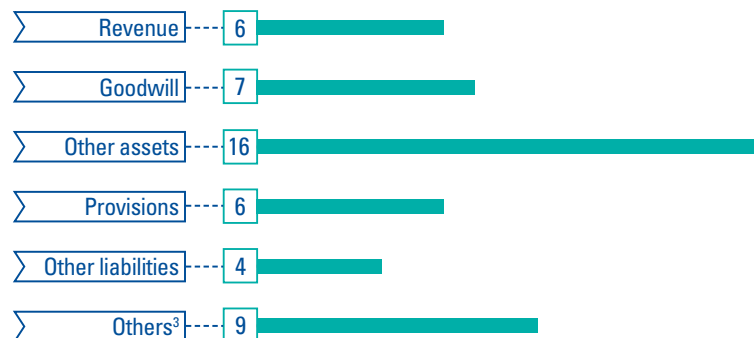
**Auditor's report snapshot 31 August 2016**

This auditor's report snapshot provides an overview of the current state of play<sup>1</sup> of enhanced auditor reporting in Australia. From 15 December 2016<sup>4</sup> all listed entities auditor's reports will be required to provide information about Key Audit Matters (KAMs)<sup>2</sup>. Ahead of the effective date some enhanced auditor's reports have been released. Here we share our insight and observations to date.

## Total enhanced auditors' reports



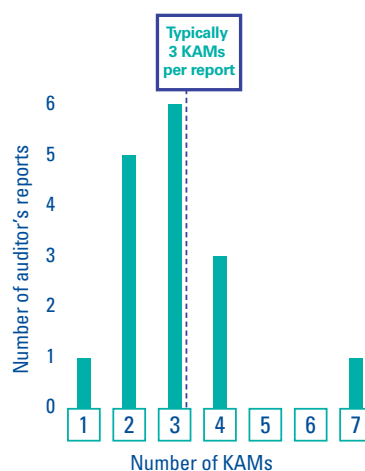
## KAMs by type



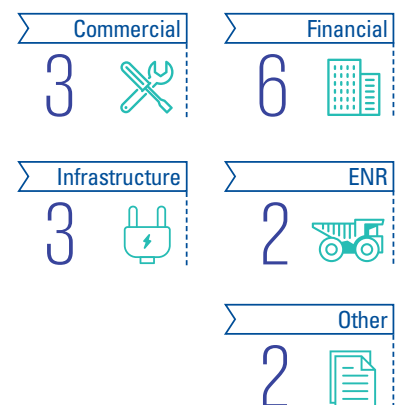
## Reports by firm

KPMG	5
PwC	5
EY	3
Deloitte	1
Other	2

## Number of KAMs in report



## Reports by industry



Sixteen audit reports released with Key Audit Matters (KAMs)<sup>2</sup>, across entities in a range of industries. All Big 4 firms are represented.

### Key observations on the key audit matters

- 1 37.5% of the reports are for ASX top 100 entities, four are ASX top 50.
- 2 There is a large range in the number of KAMs reported, from a low of one to a high of seven.
- 3 The nature of KAMs reported are diverse and bespoke to each entity and its industry. For example, *CI500 Product recall provision*<sup>5</sup>, and *Measurement of outstanding claims liabilities and related assets arising from reinsurance contracts and other recoveries*<sup>6</sup>.
- 4 Complex accounting matters, such as financial instruments, hedging and AASB 10 Consolidated Financial Statements, have been recorded in three key audit matters. Although it is early days, we interpret this as a positive indicator of auditors' selecting KAMs based on their relative audit effort, which may not equate directly to matters of traditional accounting complexity. This new world of enhanced audit reporting is, after all, about key audit matters and not key accounting matters.
- 5 Three KAMs on taxation have been recorded. Is this unusual – given the complexity in the Australian taxation system and recent calls for transparency?
- 6 Valuation of other assets is the largest category of KAMs. Upon further disaggregation, 50% of these are valuation of financial assets, with tangible and intangible assets (other than goodwill) the remaining. We expect the proportion of KAMs relating to valuation of other assets to remain high given the audit effort necessary to address these risks.

Enhanced audit reports are those including Key Audit Matters. Under a new auditing standard with an operative date for years ending on or after 15 December 2016, KAMs will be required to be included in the audit report of all listed entities<sup>7</sup>. The description of the KAM addresses why the matter was considered to be a key audit matter and how the matter was addressed in the audit.

KPMG were the first to issue audit reports containing KAMs, in 2015, publishing key audit matters in the audit reports of Downer EDI Limited and Cochlear Limited 30 June 2015 financial reports.

The implementation of KAMs is the biggest change auditors have seen to the auditing standards since the introduction of the clarity standards in 2004. The platform for change was to provide insights to shareholders on the conduct of the audit, previously only viewed by those in the board room.

1. Based on Australian auditor's reports KPMG viewed between 1 July and 31 August 2016.

2. Key Audit Matters (KAMs) are those matters that required significant auditor attention in performing the audit, ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* issued by the Australian Auditing and Assurance Standards Board.

3. Others include financial instruments, hedging, taxation, decentralised operations, legal and other contractual claims, accounting policies, processes and controls.

4. The new auditing standard requiring the inclusion of Key Audit Matters (KAMs) is released and operative for listed entities with years ending on or after 15 December 2016.

5. Cochlear Limited Independent Auditor's Report on 30 June 2016 financial report.

6. Suncorp Group Limited Independent Auditor's Report on 30 June 2016 financial report.

7. The revised ASAs impacting the audit report do not require the reporting of materiality or scoping of the audit. This is a requirement of UK auditing standards and is not contemplated in the ASAs and ISA equivalents. Five of the six firms to date have reported within the ASA requirements.

The below lists the 16 companies that have released enhanced auditor's reports based on Australian auditor's reports KPMG viewed between 1 July and 31 August 2016:

AGL Energy Limited  
Asia Pacific Data Centre Group  
ASX Limited  
Ausdrill Limited  
Cochlear Limited  
Credit Corp Group Limited  
Downer EDI Limited  
Monadelphous Group Limited  
Pioneer Credit Limited  
Platinum Asset Management Limited  
Saracen Mineral Holdings Limited  
Service Stream Limited  
Steadfast Group Limited  
Suncorp Group Limited  
Telstra Corporation Limited  
WorleyParsons Limited

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