



31 March 2023

The Chair  
Australian Auditing and Assurance Standards Board  
PO Box 204  
Collins St West Victoria 8007  
AUSTRALIA

Dear Mr Bill Edge

### **Request for Comment**

#### **Discussion Paper – Expanding Key Audit Matters beyond listed entities.**

The Australasian Council of Auditors-General (ACAG) welcomes the opportunity to respond to the specific questions raised in the *Discussion Paper - Expanding Key Audit Matters beyond listed entities*. The views expressed in this submission represent those of all Australian members of ACAG. ACAG's comments are primarily in the context of the public sector, which reflects ACAG's significant experience and involvement in the sector.

ACAG considers that the reporting of KAM has been an appropriate and useful reform to auditor reporting. A majority of Auditors-General have exercised their discretion to apply ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* to the audits of significant public sector entities, despite these entities not being listed. This practice indicates that ASA 701 provides sufficient ability for Auditors-General to exercise their discretion as to whether to include KAMs in their auditor's reports. Consequently, ACAG supports the option to maintain the requirement for KAM reporting for listed entities only (Option 1 in Discussion Paper) as it is still the most relevant in the public sector context.

The attachment to this letter addresses the specific questions for stakeholders outlined in the Discussion Paper.

ACAG appreciates the opportunity to respond and trust that you will find the following comments useful.

Yours sincerely

Andrew Richardson  
**Chairman**  
**ACAG Auditing Standards Committee**



## Attachment

### ACAG Feedback

#### Discussion Paper – Expanding Key Audit Matters beyond listed entities

##### Question 1

**Do you support requiring the communication of KAMs in the auditor’s report for the following:**

**Option 1: Listed entities only (i.e., No amendment to ASA 701); or**

**Option 2: Listed entities plus certain other types of entities; or**

**Option 3: All audited financial reports**

ACAG considers the reporting of Key Audit Matters (KAM) has been an appropriate and useful reform to auditor reporting. Consistent with the role of Auditors-General in Australia, ACAG considers that KAM has been an effective tool for increasing the transparency of auditors in the conduct of their work.

A majority of Auditors-General have exercised their discretion to apply ASA 701 to the audits of significant public sector entities, despite these entities not being listed. In exercising this discretion, the Auditors-General have balanced the additional resources required to implement KAM reporting with appropriate quality management controls with the additional transparency benefits. For example, the Auditor-General for Australia has determined that the appropriate balance is to report KAMs for the whole-of-government consolidated accounts and all significant Commonwealth entities, being departments and other entities including the Australian Taxation Office, the Reserve Bank of Australia and NBN Co Limited.

This practice indicates that ASA 701 provides sufficient ability for Auditors-General to exercise their discretion as to whether to include KAMS in their auditor’s reports. As a result, ACAG supports Option 1. The scope should not be extended to make it compulsory for other types or categories of entities. Audit offices use different mechanisms/platforms to report significant matters through Other Matter paragraphs in the auditor’s report and annual results report.

ACAG does not believe that Option 2 is viable as we have not been able to identify a suitably discrete group or groups of entities that are applicable across all jurisdictions in the public sector capable of prescription in the auditing standards for KAM reporting beyond listed entities.

ACAG does not support Option 3 because the value of KAM as a transparency mechanism is significantly lower for audits of entities with small numbers of stakeholders, for example small proprietary companies. This lower value does not justify the resources required to achieve KAM



reporting at this level. Over-reporting of KAM also risks KAM reporting becoming increasingly generic and formulaic.

### **Question 2**

**If in response to Question 1 you support Option 2, for which types of entities do you think auditors should be required to communicate KAMs?**

**Do you support one of the suggested ways to segment the population of entities described in this discussion paper; or is there another way you would segment the population of entities that KAMs should apply to?**

Not applicable

### **Question 3**

**If you do not support any of the Options currently under consideration by the AUASB in this discussion paper, do you have any suggestions for alternative options the AUASB should consider when evaluating the population of entities that KAMs should apply to going forward?**

If the mandatory scope is not to be expanded beyond listed entities, ACAG suggests that AUASB consider developing further guidance to assist auditors, including public sector auditors, to determine which entities to voluntarily adopt KAM reporting for and any relevant application issues, such as including this in engagement terms. For example, Guidance Statement GS 023 *Special Considerations – Public Sector Engagements* could include an additional section to support auditors in exercising professional judgement of where to apply KAM reporting.