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Bill Edge
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Our ref AUASB Discussion Paper – Expanding Key Audit Matters

Cc: enquiries@auasb.gov.au

30 March 2023

Dear Mr Edge

AUASB Discussion Paper – Expanding Key Audit Matters beyond listed entities

As a leading professional services firm, KPMG Australia (KPMG) is committed to meeting the requirements of all our stakeholders – not only the organisations we audit and advise, but also employees, governments, regulators and the wider community. We strive to contribute to the debate that is shaping the Australian economy and welcome the opportunity to provide a submission in response to the AUASB Discussion Paper – Expanding Key Audit Matters beyond listed entities issued in December 2022.

Overall, we recommend Option 1 and support the continued requirement of communicating Key Audit Matters (KAMs) in the auditor's report for listed entities. In the absence of clear and evidence-based feedback from users to support the value of expanding KAMs to other entity types and engagements, we consider the cost of compliance to outweigh the benefit of expansion.

Expanding KAMs to other entities has a twofold impact. Firstly, an increase in fees paid as part of the audit would contribute to cost pressure in an environment where business is facing stressed local and global market conditions, including resource restraints, cost pressures, rising interest rates and inflation. Secondly, the additional workload placed on auditors would further place pressure on a sector that is experiencing challenges due to an external auditor shortage[1]. KPMG considers that

[1] CA ANZ member survey identifies shortages of accountants and auditors | CA ANZ (charteredaccountantsanz.com)

the incremental effort associated with reporting KAMs beyond listed entities is better utilized in continuing to enhance audit quality.

We acknowledge the continued work of the IAASB's Listed Entity /PIE project taskforce which may result in the expansion of KAMs beyond listed entities irrespective of decisions made locally by the AUASB. Where the AUASB or IAASB consider an expansion of KAMs beyond listed entities is appropriate, KPMG would support a Regulatory Impact Statement be developed to ensure that the extension is applied to entities where benefits clearly exceed cost.

Appendix 1 includes our comments on the AUASBs specific questions for stakeholders outlined in the Discussion Paper.

We would be pleased to discuss our comments further with you.

Yours sincerely

Carolyn Ralph
Partner – Department of Professional Practice

Karen Tanner
Director – Department of Professional Practice

Appendix 1 – KPMG Australia's comments on the AUASBs feedback requested

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 types of other entities; or***
> ***Option 3: All audited financial reports***

KPMG Australia supports Option 1 and therefore support retaining the status quo and the continued requirement of communicating Key Audit Matters (KAMs) in the auditor's report for listed entities only and as voluntarily communicated.

The fundamental driver for our view stems from the primary purpose for which KAMs are reported, which is to enhance the communicative value of the auditor's report to users of the financial statements.

In the absence of clear and evidence-based feedback from users to support the value of expanding KAMs to other entity types and engagements, we consider there to be a lack of required need to expand KAMs beyond listed entities at this time. We also consider the cost of compliance to non-listed entities in the form of increased audit fees to outweigh the incremental benefits to users. This is of particular importance given current local and global market conditions, including cost pressures, rising interest rates and inflation, and profession-wide resourcing constraints.

Our view is supported by key items as follows:

- **Focus/needs of users:** A current objective of communicating KAMs for listed entities is to provide greater transparency to shareholders (users) in connection with their investing decisions and to reduce the audit expectation gap. For entity types other than listed entities, this objective may not be met based on the focus and needs of users. In addition, for some entity types, there is greater transparency between the owners and audit process meaning less of an expectation gap exists.

  To illustrate this we provide some non-listed entity-type examples below:

  - *Mutual banks/Credit unions/Insurers:* Users of the financial statements of these entity types, outside of private shareholders, can be viewed as "consumers" (e.g. a customer holding their cash deposit in a mutual bank or a customer taking out an insurance policy). In contrast to listed entity users, these users are not primarily focused on *investing* decisions or on the returns of the listed entity assets. As consumers, their focus is likely directed, for example, at whether the business is capable of servicing their transaction. At the heart of this is whether there is appropriate regulatory oversight of the entity (e.g. APRA), that the government Deposit Guarantee Scheme is applicable or the insurance underwriter. For these entity types, benefits may not exceed costs in relation to reporting KAMs to users given their focus and nature as "consumers" rather than "investors" in the relevant entity.

- *Charities:* Similar to the above example, the focus of members of charities are likely different to that of listed entities. For charities, members are likely to have greater focus, for example, on how much of their donations have been spent on the charitable cause.

- *Large proprietary companies:* For a proprietary company, the structure of the entity often means that the key users of the financial statements have greater proximity to auditors, the audit strategy and findings. The key users receive insights into the areas of greatest audit significance and how the auditor has addressed these areas via required communications with Those Charged with Governance. For these entity types, benefits may not exceed costs of written formal reporting of KAMs into the audit report, given less of an expectation gap exists.

- *Superannuation entities/RSEs:* These entities appear closest in nature to a listed entity given superannuation fund returns on assets are relevant to users (and customers) investing decisions. Where there is evidence to support that the benefits of reporting KAMs to users outweighs the associated cost of compliance, this may be an area where requiring the reporting of KAMs could be considered more closely and should be subject to a Regulatory Impact Statement.

- **Voluntary reporting of KAMs:** ASA 701 currently allows for KAMs to be voluntarily communicated. The request for KAMs to be disclosed voluntarily by users and entities may be seen as a proxy for users need or desire for KAMs to be reported more broadly. At KPMG, we voluntarily report KAMs for a limited number of entities. These include our audits of two professional bodies/societies and indirectly for a small portion of engagements where we are subcontracted by national/state based audit offices in our audits of select government departments and public sector entities. Low uptake of voluntary reporting suggests no substantial driving need from users to expand the requirement to communicate KAMs at this time. We are also aware of limited uptake of voluntary reporting of KAMs in the broader Australian market through our discussions with other major audit firms.

- **Feedback from PIE users in other jurisdictions:** We are aware that other jurisdictions such as the United Kingdom, the Netherlands, South Africa and New Zealand have expanded their local KAM reporting requirements to include Public Interest Entities (PIEs). We are not aware of any feedback to suggest that there is a net benefit to users of PIE financial statements in these jurisdictions that would indicate required expansion to this/or other groups of users in our local jurisdiction at this time. We note in the IAASB Auditor Reporting Post Implementation Review February 2021, respondents explained that in some jurisdictions where KAM reporting is already required for PIEs, this appears to have had the unintended consequence of scoping in entities for which the KAM disclosures are boilerplate in nature or for which stakeholders indicated that they did not find KAMs particularly useful.

- **Questions from users at AGMs:** Internal enquiries with a sample of our audit partners indicate limited/no questioning from users about KAMs at AGMs of listed entities and mutual banks. This was also observed during the COVID-19 pandemic where arguably estimation uncertainty in the preparation of the entity's financial statements and therefore questions regarding the auditors approach to assessing this estimation uncertainty was likely at its peak. Indirectly, this, in combination with the observations above could suggest little need from users to require KAMs to be communicated beyond listed entities at this time.

We also consider the following items as relevant to the decision regarding the expansion of KAMs beyond listed entities:

- **Audit quality:** Audit quality is a focus of our firm, our peers, our local and global regulators and broader stakeholders. In addition, high quality audits are fundamental to enhancing trust and confidence in the capital markets. In light of the above comments regarding the absence of clear evidence to suggest increased value of requiring the KAMs beyond listed entities, our view is that the incremental effort associated with reporting KAMs is better utilized in continuing to enhance audit quality.

- **PIE definition:** The PIE definition included in the ethical standards is open to practical interpretation and may lead to differences in application in practice. Should the AUASB decide to pursue the expansion of KAMs to non-listed PIEs, the application of KAMs to PIEs will need to be clearly defined to enable consistency of application.

- **Financial Statements:** KAMs should not be viewed as a replacement for sufficient and appropriate disclosure by entities. Entities are required to disclose key estimates and judgements in the Financial Statements in accordance with Accounting Standard requirements and this information is key to users decision making. KAMs are supplemental to the Financial Statements and represent the auditor's assessment of those matters of most significance in audit of the current period.

- **Global market views:** In the global market, investors have increasing interest in the auditors views on topical areas such as cyber security, ESG and regulatory non-compliance for listed entities. These observations suggest other focuses of users at this time (i.e. beyond expanding KAMs to non-listed entities).

We acknowledge the continued work of the IAASBs Listed Entity /PIE project taskforce which may result in the expansion of Key Audit Matters beyond listed entities irrespective of decisions made locally by the AUASB.

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.

N/A given our recommendation of Option 1.

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?
Please provide detailed reasons to support your responses.

N/A given our recommendation of Option 1.