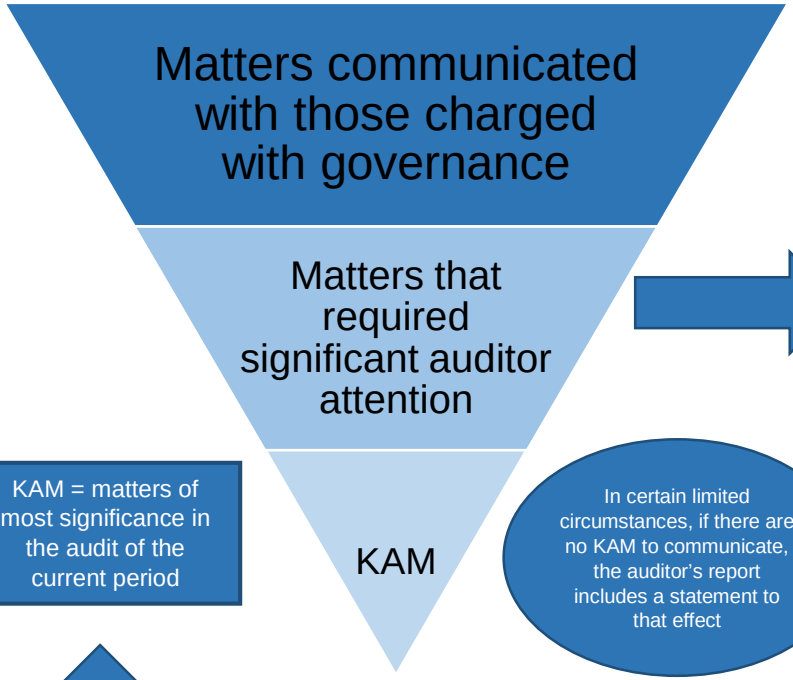
IAASB

Determining and Communicating Key Audit Matters ("KAM")

June 2016



KAM = matters of most significance in the audit of the current period

In certain limited circumstances, if there are no KAM to communicate, the auditor's report includes a statement to that effect

The auditor takes into account the following in making this determination:

- Areas of higher assessed risk of material misstatement, or significant risks
- Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates identified as having high estimation uncertainty
- Effect on the audit of significant events or transactions that occurred during the period

Robust application guidance supports the auditor's judgment

The nature and extent of communication with those charged with governance provides an indication of which matters are of most significance.

Other considerations in determining the relative significance of a matter include:

- Importance of the matter to intended users' understanding of the financial statements as a whole, in particular its materiality to the financial statements
- Nature of the underlying accounting policy or complexity or subjectivity in management's selection of an appropriate accounting policy
- Nature and materiality of corrected and uncorrected misstatements related to the matter
- Nature and extent of audit effort needed to address the matter
- Nature and severity of difficulties in applying audit procedures or obtaining relevant and reliable audit evidence
- Severity of any control deficiencies related to the matter

The concept of significant auditor attention recognizes that an audit is risk-based.

Accordingly, matters that pose challenges to the auditor in obtaining sufficient appropriate audit evidence or in forming an opinion on the financial statements may be particularly relevant in determining KAM.

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 overall audit strategy, allocation of resources, and extent of audit effort. 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.

The description of KAM in the auditor's report shall include a reference to the related disclosure(s), if any, in the financial statements and shall address:

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

b) How the matter was addressed in the audit.