AICPA

Agenda Item 4E

Auditor Reporting — Proposed SAS *Communicating Key Audit Matters in the Independent Auditor's Report*

Comment letters on the Exposure Draft of the proposed SAS *Communicating Key Audit Matters in the Independent Auditor's Report* [Responses to Questions 5-6 in Requests for Comment]

Letter Number	Name	Affiliation
1	Mark Baroulia, CPA	
2	Technical Issues Committee	TIC (2)
3	Tennessee Division of State Audit	TN State (3)
4	New York State Society of Certified Public Accountants	NYSSCPA (4)
5	RSM US LLP	RSM (5)
6	New Jersey Society of Certified Public Accountants	NJCPA (6)
7	National Association of State Boards of Accountancy	NASBA (7)

Letter Number	Name	Affiliation
8	Office of the Washington State Auditor	Office of the Washington State Auditor (8)
9	Smith & Howard PC	Smith & Howard PC (9)
10	CliftonLarsonAllen LLP	CliftonLarsonAllen LLP (10)
11	ALEXANDER, ARONSON, FINNING & CO., P.C.	AAFCPAs (11)
12	Federal Accounting Standards Advisory Board	FASAB (12)
13	Cherry Bekaert	Cherry Bekaert (13)
14	Michigan Office of the Auditor General	OAG (14)
15	Maryland Association of Certified Public Accountants	MACPA (15)
16	Piercy Bowler Taylor & Kern	PBTK (16)
17	Florida Institute of Certified Public Accountants	FICPA (17)
18	Dixon Hughes Goodman	DHG (18)
19	BDO USA, LLP	BDO (19)
20	Illinois CPA Society	ICPAS (20)
21	SVA Certified Public Accountants, S.C.	SVA (21)

Letter Number	Name	Affiliation
22	Association of Local Government Auditors	Association of Local Government Auditors (22)
23	GAO U. S. Government Accountability Office	GAO (23)
24	Massachusetts Society of CPAs	MSCPA (24)
25	Grant Thornton LLP	GT(25)
26	Crowe Horwath LLP	Crowe Horwath (26)
27	North Carolina Association of CPAs	NCACPA (27)
28	California Society of CPAs	CALCPA (28)
29	Anders CPAs & Advisors	Anders (29)
30	Baker Tilly Kirchow Krause, LLP	Baker Tilly (30)
31	The Ohio Society of CPAs	OHIOCPA (31)
32	PricewaterhouseCoopers LLP	PWC (32)
33	Ernst & Young LLP	EY (33)
34	KPMG LLP	KPMG (34)
35	Laura Lindal	Laura Lindal (35)

Letter Number	Name	Affiliation
36	National State Auditors Association	NSAA (36)
37	Deloitte & Touche LLP	D&T (37)
38	Abraham D. Akresh	Abraham D. Akresh (38)

Request for Comment – Proposed SAS Communicating Key Audit Matters in the Auditor's Report (AU-C 701)

The ASB would like your views on the following:

ED Question 5 — What are your views regarding whether the requirements and guidance in the proposed SAS will be helpful for auditors in determining and communicating KAMs?

Responder	Comment	TF Consideration / Response
TIC (2)	As discussed earlier in this letter, TIC believes the optionality of KAMs for nonissuers should be addressed first in section 700, as noted in our response to question 4 above. Similarly, paragraph 1 should contain guidance such as what is currently suggested to be included in .A1, indicating that KAMs are not required for audits of nonissuers. Paragraph .A2 (on page 93) reads as follows: The communication of key audit matters in the auditor's report may also enhance communications about those matters between the auditor and those	Supportive with comments Wording added to new par 3A of AU-C 700 and paragraph 1 of this proposed SAS to indicate that communication of KAM is not required.

ED Question 5 — What are your views regarding whether the requirements and guidance in the proposed SAS will be helpful for auditors in determining and communicating KAMs?

Responder	Comment	TF Consideration / Response
	charged with governance and may increase attention by management and those charged with governance to the disclosures in the financial statements to which reference is made in the auditor's report. TIC does not believe that the final standard should suggest that, by adding key audit matters, we may enhance communication with governance and increase attention by management. This implies that, by not adding KAMs, your audit may be something less than if you did add KAMs. Further, TIC does not agree that putting an item in your report would necessarily improve audit quality. Again, this is consistent with our comments related to reporting of findings in the EBP Auditor Reporting ED. Therefore, TIC would suggest the removal of paragraph .A2 altogether. TIC also believes the ED should also have some precautions for those who wish to note KAMs in their reports. Paragraph A7 of the ED indicates the following: This proposed SAS does not require the communication of key audit matters in the auditor's report. However, the auditor may be engaged to communicate key audit matters or may be required by law, regulation, or contractual agreement to do so. TIC was confused as to the placement of this paragraph as it does not seem to correlate to the related required guidance. In addition, as noted in TIC's response to question 4 above, TIC does not foresee situations where this would be applicable and, therefore, we suggest removal altogether.	See changes made to this proposed SAS in agenda item 4A. TF proposes to remove paragraph A2. See changes made to this proposed SAS in agenda item 4A. Moved to first paragraph.
TN State (3)	We believe the guidance is clear, except for one notion. We believe the intent of the KAM, emphasis-of-a-matter (EOM), and other-matter concepts is to establish a	Supportive with comments.

ED Question 5 — What are your views regarding whether the requirements and guidance in the proposed SAS will be helpful for auditors in determining and communicating KAMs?

Responder	Comment	TF Consideration / Response
	hierarchy. However, this intent is not clear in each of those proposed AU-C sections (¶A5-A6 on page 96 ¶A-1 on page 185). Those paragraphs indicate that, "When proposed SAS *Communicating Key Audit Matters in the Independent Auditor's Report* applies, the use of emphasis-of-matter paragraphs is not a substitute for a description of individual key audit matters." We believe a better way to describe the requirement is that if the auditor chooses, is engaged to, or is required by law or regulation to present KAM, the presentation in the auditor's report would be in the order of KAM, EOM, and other matter paragraphs. For example, when an item meets the definition of both KAM and EOM, the requirement is that the item should be presented in a KAM paragraph, not an EOM paragraph. If the board agrees, we believe Illustration 2 (page 201) needs to be amended to present KAM before the EOM paragraph.	TF continues to support flexibility in the ordering of sections other than the opinion and basis for opinion sections.
NYSSCPA (4)	In our view, auditor reporting of KAMs provides little or no benefit for aiding any audit report user in making a credit or investment decision. Rather, we believe its sole potential benefit would be to aid an adversary pursuing a claim for damages against an auditor. Also, a claim of omission of a KAM that later surfaces as a significant audit risk could enable another adversarial assertion when KAMs are presented. Accordingly, if KAMs are undertaken, it could result in considerable time demands on auditors. See also our response to Question 1. The preparation of such nonstandard reporting language would also potentially create for the auditor unwarranted exposure to significant liability risks. Although the Exposure Draft provides some guidance for auditors in determining and communicating KAMs, there should be more clarity and emphasis indicating that communication of KAMs is optional and should not be considered a requirement of	Not supportive. Clarification added to paragraph 1. See changes

ED Question 5 — What are your views regarding whether the requirements and guidance in the proposed SAS will be helpful for auditors in determining and communicating KAMs?

Responder	Comment	TF Consideration / Response
	the independent auditor's report, nor a required communication to those charged with governance (beyond those already covered by AU-C 260 "The Auditors Communications with Those Charged with Governance") (also see Question 6, below). Additional guidance should be provided so the auditor can have a better understanding of when it might be appropriate to consider communication of KAMs to users of the financial statements or to those charged with governance. This additional guidance would be helpful to an auditor considering KAMs in planning the engagement and in determining if KAMs should be mentioned in the engagement letter.	made to this proposed SAS in agenda item 4A.
RSM (5)	We believe the definition of *key audit matters* in paragraph 7 of the proposed SAS and the requirements in paragraphs 8 and 9 will be helpful for auditors in determining key audit matters (KAMs). Although these paragraphs often use the word "significant" with respect to key audit matters, we believe it would be helpful if clarifying guidance was provided in an application paragraph to also overtly state that key audit matters would not include those related to accounts or disclosures that are not material to the financial statements. The reason we believe materiality should be considered as it relates to KAMs is that we foresee circumstances in which matters could be significant, but not material to the financial statements (e.g., an auditor's communication with those charged with governance about management's financial reporting competence).	Supportive with comments. See changes made to this proposed SAS in agenda item 4A, including new paragraph A27A.
NJCPA (6)	It is not clear how users will benefit from KAMs in the report. The purpose of the audit report is to provide stakeholders an opinion and report on financial statements. The Group believes KAMs do not belong in the auditor's report, because KAMs have to do with the mechanics of the audit - not the financial statement accounts. KAMs	Not supportive. Noted.

ED Question 5 — What are your views regarding whether the requirements and guidance in the proposed SAS will be helpful for auditors in determining and communicating KAMs?

Responder	Comment	TF Consideration / Response
	are an attempt to bridge the communication gap between the auditor and stockholders. Users who understand the dynamics of the report will start to expect more from auditors. But most users will be left behind trying to interpret technical accounting language. There is also the possibility KAMs become standard descriptions with little variation from report to report. With the Opinion paragraph moved to the top – users might not even be interested in reading the rest of the report. If regulators and users insist on KAMs perhaps they can be included in a separate report on KAMs only. Nevertheless, the Group strongly agrees there is no advantage to include KAMs in reports of non-issuers.	
NASBA (7)	As noted in paragraph A39, the auditor may be required to communicate key audit matters by law, regulation or contractual agreement. We have some concern as to what an auditor may do when engaged to communicate KAM, yet then is asked to exclude a KAM in its report when management disagrees with the auditor's report. We suggest that the ASB make reference to other professional guidance as to what the auditor is to do in those situations. While it is unlikely that there will be much voluntary call for KAM reporting, there will be some level of reporting in this area from non-public entities.	Supportive with comments.
Office of the Washington State Auditor (8)	We are pleased to see that communicating key audit matters is not required. Under current standards, if there is a matter necessary for fair presentation of the financial statements, it would affect the auditor's opinion. If there is a matter necessary for the user's understanding of the financial statements or the audit engagement, it would be an emphasis or other matters paragraph. In contrast, key audit matters represent potential concerns that were addressed during the course of	Not supportive Noted

ED Question 5 — What are your views regarding whether the requirements and guidance in the proposed SAS will be helpful for auditors in determining and communicating KAMs?

Responder	Comment	TF Consideration / Response
	the audit and are – by definition – not necessary for fair presentation or the user's understanding of the financial statements or the audit engagement. We believe reporting key audit matters is more likely to cause misunderstanding (either implications of unresolved issues or qualifications, or that specific assurance is given on the matter) than provide additional value. KAMs add an element of confusion and complexity to audit reports for both auditors and report users that does not seem necessary or beneficial. We are unclear how an auditor could accurately report key audit matters while not providing original information (AU-C section 701.A34-A38), especially when the key audit matter relates to an item that is relevant to the audit but is not required to be disclosed in the financial statements (AU-C section 701.A17), and also not reiterating matters appropriately disclosed in the financial statements (AU-C section 701.A40). We are also unclear on how an auditor could communicate that specific matters described in detail were addressed by the audit without implying specific assurance on those items (AU-C section 701.10.b). Additionally, report users might inappropriately conclude that certain matters were not considered or evaluated through the course of the audit, or did not receive a heightened amount of auditor focus or efforts, merely because that matter was omitted from the KAM discussion. This might unnecessarily lead report users to question the veracity of the audit report, the audit opinion or the credibility of the independent auditor, or to otherwise minimize the value of the audit process. Therefore, we do not anticipate using key audit matter paragraphs.	
Smith & Howard PC (9)	We believe the potential inclusion of KAMs in the auditors' report for nonissuers to be inappropriate and potentially harmful to the audit process; we believe this will potentially lead to situations with nonissuers where KAMs are decided on by	Not supportive.

ED Question 5 — What are your views regarding whether the requirements and guidance in the proposed SAS will be helpful for auditors in determining and communicating KAMs?

Responder	Comment	TF Consideration / Response
	nonissuers and "audit shopping" occurs until a Firm/practitioner is found that will agree to the KAMs as decided on by the nonissuer. We understand that the inclusion of KAMs in the auditors' report is not required unless so specified in the terms audit engagement, however we believe this can lead to situations where those nonissuers inclined to influence their auditors' judgement will have a mechanism wherein they can attempt to set KAMs as part of agreeing to the terms of the audit engagement. Additionally, we believe that specific inclusion of KAMs in the auditors' report will subject the experienced auditors' professional judgment to review by those without such expertise, which we do not believe adds value to the audit process. We also believe this leads to potential scope creep of the audit as, in order to eliminate potential questions of completeness, more items become identified as KAMs, and thereby the assessed risk is increased and additional audit procedures performed. Effectively, the cost of the audit is driven up without providing any additional benefit. The value perceived in the auditors' opinion is based on the expertise and the experience of the auditors; this should remain sufficient. Additional scrutiny of KAMs included in the auditors' report only devalues the auditors' opinion.	Same response for questions 5 and 6 Noted.
CliftonLarsonAllen LLP (10)	We believe the guidance is vague in terms of identifying KAMs and what the communication would look like because there are no specific examples. While we understand the intention behind not including examples is to ensure KAMs are unique to the client situation, without additional guidance we believe the communications will differ significantly from one audit to the next based on interpretations of the standard rather than uniqueness of the client. We recommend that the proposed SAS provide an example of a KAM and how it might be described in the report for better clarity.	Supportive with comments. Proposed SAS will not include illustrative KAM based on ASB discussion.

ED Question 5 — What are your views regarding whether the requirements and guidance in the proposed SAS will be helpful for auditors in determining and communicating KAMs?

Responder	Comment	TF Consideration / Response
AAFCPAs (11)	We recommend to eliminate AU-C 701 for the following reasons: ○ It does not add much value to the audits of nonpublic companies and their users. The information that will be reported as KAM will not be disclosed in the financial statements and footnotes and therefore in most cases it will not affect the users' understanding of the entity's financial statements. ○ If KAM is important for the users of financial statements, it should be disclosed as other matters in the opinion, or it should be disclosed in the footnotes. ○ It is not very clear that KAM communication is not required for non-issuers. ○ If auditors need to be engaged to report on KAM, this is comparable to Agreed-Upon Procedures engagements, which already have established standards and requirements. ○ KAM is a very broad concept, and we foresee a number of inconsistencies regarding it in the reports. ○ KAM reporting requires a number of items be disclosed, which will lengthen the auditor's report and dilute its message. Reporting KAM will increase the auditor's report by at least a page, and if the KAM is complex the disclosure will increase the report even more, causing the user of the report to lose focus on what's important.	Not supportive. Noted.
Cherry Bekaert (13)	We believe the requirements and guidance proposed in AU-C section 701 will be helpful in determining and communicating key audit matters ("KAMs"). However, as discussed further in our response to question 6 below, we believe additional guidance should be added to clarify when the communication of KAMs is required.	Supportive with comments

ED Question 5 — What are your views regarding whether the requirements and guidance in the proposed SAS will be helpful for auditors in determining and communicating KAMs?

Responder	Comment	TF Consideration / Response
OAG (14)	Since this is a new concept and not necessarily required for nonissuers, AICPA audit guides and training will be necessary to properly implement and consistently apply this section.	Supportive.
MACPA (15)	We agree the proposed requirements and guidance are helpful materials.	Supportive.
PBTK (16)	**KAM reporting.** Despite the assertions set forth by the Board under the caption, **Auditor Reporting**, on pp. 7-8 of the ED, we are unaware, and seriously question the existence, of persuasive evidence of any significant user demand for this kind of reporting by auditors of privately held companies in the U.S since users of their financial statements are primarily creditors not known or likely to be particularly interested in such matters. Users of financial statements of publicly-held issuers, on the other hand, are primarily investors in their equity instruments that are traded freely in capital markets. Sound auditing decisions, most particularly those made in connection with selecting an audit scope that adequately addresses perceived risks of material misstatement, necessarily must be based on extensive training, years of experience, knowledge of the client's business and industry, and seasoned judgment. In our view, primarily because report users are not likely to have such training, knowledge, experience and judgment, they are unlikely to gain any benefit from this kind of reporting that is either meaningful or useful for making credit or (less frequently) investment decisions. Rather, it is best if report users rely on the effectiveness of the standard-setting process, the applicable internal quality control and external practice monitoring systems and the reputation of the audit firm to assess the quality of the auditing. Accordingly, we see the only class of users with any significant probability of	Not supportive

ED Question 5 — What are your views regarding whether the requirements and guidance in the proposed SAS will be helpful for auditors in determining and communicating KAMs?

Responder	Comment	TF Consideration / Response
	obtaining any benefit from this kind of_reporting to be potential adversaries who would make damage claims against auditors. Upon adoption of this proposed standard, reports containing "key audit matters" (KAMs) will essentially have come full circle back to something similar to the nonstandardized reporting format once called the "long-form" audit report that dominated reporting in the first half of the 20th century. Historically, long-form reporting continued as a popular reporting option after the1948 introduction in Statement on Auditing Procedures (SAP) No. 24 of a so-called "short-form" or standard report until 1957 when SAP No. 27 was issued. SAP No. 27 recognized effectively that typical long-form audit reports that summarized the audit procedures applied in most, if not all, areas of the audit resulted in vague and inconsistent report language that did not serve the needs of users, and it discouraged long-form reports by cautioning auditors wisely against certain risks associated with it and emphasized: • That any client financial information that was contained in such a report could "support a contention that the auditor has made factual representations rather than express an opinion … [on] management representations," • That there was a need to maintain a "clear-cut distinction" between representations of management and the auditors, and • The observation that "comments or other data contained in a long-form report likely lent themselves to an incorrect contention that they constituted exceptions or reservations, as distinguished from mere explanations." As a result, long-form audit reports virtually vanished from practice thereafter.	

ED Question 5 — What are your views regarding whether the requirements and guidance in the proposed SAS will be helpful for auditors in determining and communicating KAMs?

Responder	Comment	TF Consideration / Response
	We further assert that the foregoing risks remain among the most compelling reasons to discourage reporting on KAMs. Other reasons that we believe should be set forth in any final standard that would suggest, if not require, KAM reporting follow: • Making meaningful assessments and useful judgments about risks and audit scope without opportunities for two-way dialogue with auditors (which is not practicable), and without all the factual and technical knowledge and experience available to the auditor, would be beyond the capabilities of typical users and, therefore, quite probably prone to misunderstandings and/or confusion, • Since human nature is such that if audit reports were to become too long (say, more than one page), users will be unlikely to read them, and as a practical matter, disclosures of details in KAMs would likely be limited inherently by available space. Moreover, in the view of many, KAMs may eventually tend to evolve to become relatively boilerplate. Therefore, their content will necessarily be insufficient to assure an adequate understanding among users, and the probability of their effectively achieving any meaningful communication objective, or even being read, will be reduced from expectations, • Public knowledge of the availability of optional KAM reporting will likely create artificial user demand among lenders (*i.e.*, "if you build it, they will come") and pose added litigation risk to auditors that will, in turn, generate increased report drafting and review time, additional fees and delays that could prevent timely issuance, and • Auditors who although engaged to report KAMs find little or nothing to explain or comment upon, might likely face the undesirable effect of perceived user pressure impairing the auditor's objectivity because of a risk of being viewed	

ED Question 5 — What are your views regarding whether the requirements and guidance in the proposed SAS will be helpful for auditors in determining and communicating KAMs?

Responder	Comment	TF Consideration / Response
	adversely of having failed to meet their reporting responsibilities; thus, they may likely report more than is warranted by the circumstances, also causing a tendency for excessive, costly, self-serving, obtuse and unwieldy language in audit report.	
FICPA (17)	The Committee concluded that the guidance in the proposed SAS are adequate for the auditors in determining and communicating KAMs. However, the Committee also recognizes that there may be unintended consequences and increased audit costs, which the auditor should be able to pass on to the client since this is an optional service. The wording in the SAS is sufficiently clear that this is an optional service for audits of nonissuers. The committee appreciates the effort of the ASB in clarifying the optional nature of this service.	Supportive. Same response for question 6
BDO (19)	We do believe that the requirements and guidance in the proposed SAS will be helpful for auditors in determining and communicating KAMs. However, we believe that such requirements and guidance should be revisited and reconsidered after the post-implementation reviews of the implementation of CAMs for audits conducted in accordance with PCAOB standards. As noted in our general comments above, a delayed effective date would provide auditors of private companies with the benefit of the experience of public company auditors.	Supportive with comments. Effective date to be discussed at the October meeting. See issue 8 in agenda item 4.
ICPAS (20)	Yes. However, the Committee believes it would be appropriate for the Proposed SAS to clearly state that auditors are not expected to and should not report material weaknesses and/or significant deficiencies, which are otherwise required to be reported to those charged with governance, as Key Audit Matters in the auditor's report. Such clarification in the standard may help avoid potential misapplication of the Proposed SAS and, in other situations, misunderstanding on behalf of the users	Supportive with comments.

ED Question 5 — What are your views regarding whether the requirements and guidance in the proposed SAS will be helpful for auditors in determining and communicating KAMs?

Responder	Comment	TF Consideration / Response
	(especially in situations where auditor combine their SAS 114 and SAS 115 letters to fulfill reporting requirements).	
SVA (21)	It is sufficiently clear that communication of Key Audit Matters (KAMs) is not required for audits of nonissuers. However, I can envision scenarios where management of nonissuers may be required to request that the auditor communicate key audit matters in the auditor's report by the users of their financial statements either by law, regulation, or contractual agreement. In fact, it may become a de facto requirement for all nonissuers. I believe that reporting these KAMs requires significant judgment that would not be consistently applied resulting in a lack of comparability of results as reported by the auditor. I also believe that reporting KAMs in the auditor's report (including those of nonissuers when required) will create more of an adversarial relationship between the auditor and those charged with governance, increase the likelihood of opinion shopping, and add additional cost to the audit and related reporting. The requirements and guidance in the proposed SAS are not helpful due to the number of items that would have to be considered, evaluated, concluded upon and documented, and ultimately reported. This particular effort at transparency is excessive and costly and is opening auditors up to further risk due to management and/or third party users having the opportunity to question why certain items were considered KAMs or why certain items were not considered KAMs. See further related comments regarding the proposed changes to AU-C 260.	Not supportive
GAO (23)	We generally agree that the requirements and guidance in the proposed SAS will be helpful for auditors in determining and communicating KAMs. We agree that	Supportive

ED Question 5 — What are your views regarding whether the requirements and guidance in the proposed SAS will be helpful for auditors in determining and communicating KAMs?

Responder	Comment	TF Consideration / Response
	communicating KAMs should not be required for audits of nonissuers. We will assess whether generally accepted government auditing standards should provide requirements for communicating KAMs. Also, we suggest that the ASB consider using the term "intended users" consistently throughout the standards. For example, the term "user" rather than "intended user" is used in paragraph 35(c) in the proposed SAS and paragraph A3 of SAS *Communicating Key Audit Matters in the Independent Auditor's Report.* It is unclear whether these two terms have different meanings.	
MSCPA (24)	See the Committee comments under the general section above. [*General comments repeated here*] Members of the Committee have expressed the concern with the provisions relating to Key Audit Matters. Members are concerned that there is subjective judgement by the auditor put forth to determine what is a Key Audit Matter is. Members have concerns about how to evaluate matters that will need to rise to the level of Key Audit Matters and thus need to be included in the auditor's report. There needs to be greater clarity by way of illustrative examples of Key Audit Matters. Members are concerned with the possible liability of determining a matter is not a Key Audit Matter and it is later determined that it could have been a Key Audit Matter. The members are concerned since there is substantial judgement involved about the completeness of the Key Audit Matters disclosure and possible liability thereon for not disclosing enough.	Not supportive

ED Question 5 — What are your views regarding whether the requirements and guidance in the proposed SAS will be helpful for auditors in determining and communicating KAMs?

Responder	Comment	TF Consideration / Response
	Some members are concerned with possible unforeseen consequences of the use of Key Audit Matter disclosures being categorized into databases and used in analytics that may lead to inappropriate conclusions. Members, who work with small and medium entities, express the concern that there will be additional cost to this requirement that those entities will not pay the auditor for. Finally the members are concerned, that although the proposal does not make the Key Audit Matters disclosure mandatory, regulators and other interested parties (e.g. - banks) will step in and require it for all reports to be filed with governments and those other interested parties. As an example in Massachusetts the Attorney General's Office of Massachusetts requires any non-profit with revenue in excess of $500,000 to have an audit and that a copy of the financial statements and report thereon to be filed with their office. Members foresee that regulators and other parties will believe Key Audit Matters disclosure is a good thing to protect the public and thus make it mandatory for all applicable audit reports. It is the recommend of the Committee that the ASB remove the Key Audit Matter provision from the Proposal. Key Audit Matters is presently required by the PCAOB for public company audits. It is the contention of the Committee that the ASB wait at this time at least a couple of the years to see what the public company experience is in dealing with Key Audit Matters disclosure. That way the auditors of small and medium entities will have knowledge and experience to rely on.	
GT (25)	**Key audit matters**	Supportive

ED Question 5 — What are your views regarding whether the requirements and guidance in the proposed SAS will be helpful for auditors in determining and communicating KAMs?

Responder	Comment	TF Consideration / Response
	We support the Board's inclusion of proposed requirements for communicating key audit matters (KAM) in the auditor's report and its alignment of such requirements with the corresponding ISA. Further, we agree with the Board's decision not to require KAM reporting, unless the auditor is engaged to do so. While we support the notion of KAMs as providing additional transparency, we note that there are many nonissuer situations where the users of the financial statements are already receiving information through other means (for example, a lender may have regular meetings with owners and management to discuss matters of interest, including the results of the audit). There may be circumstances where KAM reporting would be required by contract or otherwise, and we believe the adoption of the requirements to develop and report KAM would be useful in those circumstances.	
Crowe (26)	It is clear in the Proposed Standards (AU-C 701, Communicating Key Audit Matters in the Independent Auditor's Report) that the communication of Key Audit Matters (KAMs) is not required for audits of nonissuers. We agree with the decision to include guidance related to determining and communicating KAMs, in the instances where the auditor is engaged to do so. Further, we agree with the proposed modifications to AU-C section 210, *Terms of Engagement*, to provide application guidance for when the auditor is engaged to report on KAMs. Overall, we support the Proposed Standards and have provided are views on certain specific requirements. Attachment A to this letter has other observations that are less significant that include cross-references to specific paragraphs.	Supportive
NCACPA (27)	We believe that while the guidance does provide some general framework for developing KAMs, inherent within an audit are too many factors involved with determining what constitutes a significant risk factor to objectively say an item should	Not supportive

ED Question 5 — What are your views regarding whether the requirements and guidance in the proposed SAS will be helpful for auditors in determining and communicating KAMs?

Responder	Comment	TF Consideration / Response
	or should not be included. Auditors could very easily become fearful of not including "borderline" risk factors for fear of issuing a deficient audit opinion. Conversely, the auditee may be unwilling to have statements issued with KAMs that will either put them in a poor light with the end users or could potentially disclose proprietary information. We are also concerned that the inclusion of KAMs would subject auditors to additional litigation from opposing counsel. We recommend following PCAOB in that if this standard is passed, the inclusion of KAMs be deferred an additional year.	
CLCPA (28)	We believe the information communicated in KAM's are helpful, but the majority of our committee does not believe private companies will want this information included in an auditor's report. The majority of our committee also does not support the divergence in practice resulting from giving the company or the auditor the option to include the KAM disclosures in the auditor's report. Such option will create significant divergence in practice and make comparability among auditor's reports among non-issuers confusing. In addition, we believe the auditor addressing which matters discussed with those charged with governance rise to the level of "most significant" or requiring significant auditor attention, for inclusion as a KAM is subject to significant judgment that may increase the risk for the auditor to either wrongfully included, or wrongfully exclude an item as being a KAM. We generally do not believe the public will be served by allowing optional disclosures of KAMs.	Not supportive
Anders (29)	As stated in our Introduction and General Comments Letter, we feel strongly that the requirements and guidance in the proposed SAS will undoubtedly lead to divergence in practice and, in turn, general misperceptions and misunderstanding between practitioners, clients, and users of the financial statements of nonissuers.	Not supportive

ED Question 5 — What are your views regarding whether the requirements and guidance in the proposed SAS will be helpful for auditors in determining and communicating KAMs?

Responder	Comment	TF Consideration / Response
Baker Tilly (30)	Generally we believe that the requirements and guidance in the proposed standard will be helpful for auditors in determining and communicating KAMs, but we did have the following comments with respect to communicating KAMs. Paragraph 15 of AU-C section 701 and the related application paragraph discuss the auditor's reporting requirements when no KAMs have been identified. Based on the criteria used in the proposed standard to determine which matters are KAMs, we believe that this circumstance will be fairly infrequent, therefore, we believe that it would be helpful if the proposed standard included such guidance. Paragraph A31 states that "placing the separate 'Key Audit Matters' section in close proximity to the 'Opinion' and 'Basis for Opinion' sections may give prominence to such information." It is not clear from the proposed standard whether giving this information prominence is the desired outcome, therefore, we believe that the intent of this guidance be clarified (i.e., is giving this information prominence the desired outcome). Alternatively, a requirement could be added to the proposed standard specifying the location of this information. While we understand why paragraph 13b allows the auditor not to communicate certain KAMs, we believe that communicating certain KAMs, but not communicating others could be misleading to financial statement users. Possible ways to avoid this from being misleading include: > Requiring the auditor to state in the auditor's report that certain KAMs could not be communicated due to the adverse consequences that might result from their communication.	Supportive with comments. See changes made to this proposed SAS in agenda item 4A, including paragraph A56. TF supports retaining flexibility in placement of sections See issue 7 of agenda item 4.

ED Question 5 — What are your views regarding whether the requirements and guidance in the proposed SAS will be helpful for auditors in determining and communicating KAMs?

Responder	Comment	TF Consideration / Response
	> Requiring the auditor to withdraw from the KAM engagement, but not requiring the auditor to include a statement in the auditor's report that the auditor was engaged to report on KAMs, but was unable to complete the engagement. > Requiring the auditor to withdraw from the KAM engagement, but requiring the auditor to include a statement in the auditor's report that the auditor was engaged to report on KAMs, but was unable to complete the engagement (i.e., similar to a scope limitation).	
OHIOCPA (31)	While the committee had concerns about non-issuers having the required time, effort, capabilities and understanding of the costs and risks, the requirements are clear for those electing the option. Since it is anticipated that fewer private companies will elect this option, more implementation guidance would be helpful.	Not supportive
PWC (32)	The ASB is proposing to adopt a new standard similar to the IAASB's KAM framework in accordance with ISA 701, including its definition and requirements. Reporting of KAMs for US private companies would be voluntary, though we note the ASB's view in paragraph A39 of proposed AU-C section 700 that communication of KAM could be required by law, regulation or contractual agreement. We support the ASB's view that any enhanced reporting about matters arising from the audit should be voluntary for private companies, consistent with the approach in the ISAs. However, we believe the ASB should explore why private companies might elect to request their auditors to communicate these matters in order to determine how best to structure that framework.	Supportive with comments TF supports converging with IAASB. However, TF has considered whether a reference to paragraph 45 in Proposed SAS *Forming an Opinion and Reporting on Financial Statements* would be helpful. See issue 6 in agenda item 4.

ED Question 5 — What are your views regarding whether the requirements and guidance in the proposed SAS will be helpful for auditors in determining and communicating KAMs?

Responder	Comment	TF Consideration / Response
	We believe the following matters are relevant to the ASB's consideration of how to move forward: • Private companies could request auditors to communicate additional information about matters arising from the audit in anticipation of an IPO or because there are expectations that their reporting should be comparable to their public company peers. Similarly, private equity holders, lenders or regulators could set out an expectation that companies would request their auditors to do so. In these circumstances, we believe the PCAOB's CAM framework may be more relevant to users because of the consistency that would result between public and private company reports. • Users of reports may not understand the differences between KAM and CAM reporting in light of the different definitions and the resulting potential that some matters reported as KAMs would not meet the definition of CAMs. It is important to acknowledge the PCAOB conducted extensive outreach and research in developing their approach, which considered the US legal environment and focused on retaining an appropriate balance between management's and the auditor's responsibilities. The ASB should carefully consider those efforts and conclusions. • Engagements conducted under dual standards would be required to apply the PCAOB's CAM requirements, unless they meet the definition of companies for which the CAM requirements do not apply. Paragraph A66 in AU-C section 700 acknowledges this scenario. The result is that auditor's reports for private companies that refer to the ASB's standards could include communication of CAMs in accordance with PCAOB standards, while audits	

ED Question 5 — What are your views regarding whether the requirements and guidance in the proposed SAS will be helpful for auditors in determining and communicating KAMs?

Responder	Comment	TF Consideration / Response
	conducted solely in accordance with the ASB's standards may include voluntary communication of KAMs. This could create a lack of comparability within private company reports when such additional information is included. We see three potential options the ASB could pursue: • Replace proposed AU-C 701 with requirements similar to the PCAOB's CAM framework in AS 3101. Adopting the same framework for private companies that would apply in the public company context would promote consistency if private companies elect to have their auditors communicate CAMs, and would allow audit firms to recognize synergies from leveraging the PCAOB's approach and implementation process. • Since reporting would be voluntary, allow companies and auditors to choose whether to report CAMs or KAMs depending on their circumstances. This approach acknowledges the possibility that auditors of US private companies may be requested to report KAMs (although this may be limited to interoffice reporting) and may find it helpful to have such a framework in the ASB's literature. However, this approach risks confusing users of private company reports given the differences in the frameworks. • Continue moving ahead with its KAM standard and allow for reporting of CAMs in accordance with the PCAOB's framework only when the audit is conducted under dual standards. The drawback of this approach would be US private companies that wish to voluntarily report CAMs would have to procure a dual standards audit.	

ED Question 5 — What are your views regarding whether the requirements and guidance in the proposed SAS will be helpful for auditors in determining and communicating KAMs?

Responder	Comment	TF Consideration / Response
	If enhanced reporting is pursued, our preliminary recommendation is the ASB should adopt an approach similar to the PCAOB and align the proposed requirements with those addressing CAMs. Adopting the same framework for private companies would promote consistency if companies elect to have their auditors communicate CAMs, and would allow audit firms to recognize synergies from leveraging the PCAOB's approach and implementation process. Importantly, the PCAOB's standard has been developed taking into account the US regulatory and legal environment, and we support its position that CAMs must relate to accounts or disclosures material to the financial statements. And as the new CAM requirements are implemented, auditors and users in the US will begin to become familiar with the intent of auditors communicating CAMs and how they are identified and drafted. If instead the ASB decides to move forward with a framework similar to KAMs, we believe the proposed standard should be modified to incorporate the concept that the matter must relate to accounts or disclosure material to the financial statements into the definition of a KAM.	See changes made to this proposed SAS in agenda item 4A.
EY (33)	As stated in our cover letter, the communication of KAMs in the auditor's report in certain cases should contribute to enhancing its informational value to users by highlighting matters that were of most significance to the audit of the financial statements. Having auditors communicate such matters may also assist users in understanding the areas of significant management judgment and draw users' attention to management's disclosures of those matters. We support the principles-based approach the ASB has proposed for determining KAMs, because we don't believe it is appropriate or feasible to prescribe the number,	Supportive with comments. TF supports continued convergence with IAASB.

ED Question 5 — What are your views regarding whether the requirements and guidance in the proposed SAS will be helpful for auditors in determining and communicating KAMs?

Responder	Comment	TF Consideration / Response
	subject or content of KAMs that arise in a given audit. We also support the ASB's decision to set requirements the auditor must comply with when engaged to report on KAMs rather than require the reporting of KAMs. We also believe these requirements are clearly stated in the proposed SAS. However, we believe it would be preferable for the ASB to align the requirements for determining and reporting on KAMs with the standards of the PCAOB. Aligning the ASB's requirements with those of the PCAOB would provide greater comparability among auditor's reports issued in the US and may benefit users of those reports. Doing so would also make it easier for auditors to develop the policies and training they would need to develop to adopt the reporting standard, without resulting in significant differences with the international auditing standards. We also note that we expect auditors to be engaged to communicate KAMs most often when the engaging party needs to have the auditor follow the PCAOB standards or prefers to have the auditor do so (e.g., when an entity is considering an initial public offering). In these cases, the auditor would follow the guidance in SAS 131, which would require the auditor to follow the PCAOB's framework for determining and reporting on CAMs. We recognize that certain US regulators (other than the Securities and Exchange Commission) and other state and local governing bodies may require KAMs reporting in the future. Additionally, component auditors in the US reporting to a group auditor under international auditing standards may also be required to follow the KAMs reporting framework. As a result, practitioners in the US would be required to understand the differences between the requirements for reporting on KAMs and CAMs. Accordingly, if the ASB moves forward with the SAS as proposed, we encourage the ASB to work with the PCAOB to separately develop interpretive guidance to explain the key similarities and differences between the standards, similar	

ED Question 5 — What are your views regarding whether the requirements and guidance in the proposed SAS will be helpful for auditors in determining and communicating KAMs?

Responder	Comment	TF Consideration / Response
	to what the IAASB did when the PCAOB issued its reporting standard. We believe such guidance would help certified public accountants more easily identify factors that could reasonably result in different matters (both number and type) being reported as KAMs and CAMs. We believe all stakeholders, including users of these reports, would benefit from such guidance.	
KPMG (34)	**Proposed SAS Communicating Key Audit Matters in the Independent Auditor's Report (proposed new AU-C section 701)** As drafted, the requirements and guidance will help auditors determine KAMs, and it is sufficiently clear that communication of KAMs are not required unless engaged to do so. However, as previously stated, we believe closer alignment with the PCAOB regarding CAMs would benefit the users of the auditor's report that include such matters as it facilitates comparability among entities. We believe that this divergence between KAMs and CAMs will limit the extent to which auditors are engaged to report in accordance with [AU-C section 701].	Supportive with comments.
Laura Lindal (35)	The information on what is not a KAM is helpful and clear. The application material on how to determine KAMs is extensive and helpful.	Supportive
NSAA (36)	We are pleased that communicating key audit matters is not required for nonissuers. Regarding whether the requirements and guidance in the proposed SAS will be helpful for auditors in determining and communicating KAMs, some of our members consider the requirements and guidance too prescriptive, while others believe they are too subjective. Because of this, we question whether the requirements will be	Supportive with comments TF supports flexibility in the ordering of sections in the report.

ED Question 5 — What are your views regarding whether the requirements and guidance in the proposed SAS will be helpful for auditors in determining and communicating KAMs?

Responder	Comment	TF Consideration / Response
	consistently applied as it requires much judgment and subjectivity on the part of the auditor. We do have a suggestion regarding hierarchy. We believe the intent of the KAM, emphasis-of-a-matter, and other-matter concepts is to establish a hierarchy. However, this intent is not clear in each of those proposed AU-C sections (paragraphs A5-A6 on page 96 and paragraph A1 on page 185). Those paragraphs state, "When proposed SAS *Communicating Key Audit Matters in the Independent Auditor's Report* applies, the use of emphasis-of-matter paragraphs is not a substitute for a description of individual key audit matters." We believe a better way to describe the requirement is that if the auditor chooses, is engaged to, or is required by law or regulation to present KAM, the presentation in the auditor's report would be in the order of KAM, EOM, and other-matter paragraphs. For example, when an item meets the definition of both KAM and EOM, the requirement is that the item should be presented in a KAM paragraph, not an EOM paragraph. If the Board agrees, we believe Illustration 2 (page 201) should be amended to present KAM before the EOM paragraph.	TF believes "auditor is engaged to communicate KAM" is the most accurate description
D&T (37)	D&T believes the requirements and guidance will be helpful for auditors in determining and communicating KAMs that will assist intended users in understanding the entity and areas of significant management judgement.	Supportive

ED Question 6 — Is it sufficiently clear that the communication of KAMs is not required for audits of nonissuers?

Responder	Comment	TF Consideration / Response
TIC (2)	TIC does not believe it is sufficiently clear that the communication of KAMs is not required for audits of nonissuers and we have made some suggestions in the preceding comments as to how this might be resolved and made clearer for constituents.	Not clear
TN State (3)	Yes	Yes clear
NYSSCPA (4)	Pursuant to SAS 131, dual reporting requires the use of the PCAOB reporting format, rather than the ASB format and, thus should include the PCAOB's Critical Audit Matters (CAM), rather than KAMs, when dual reporting is opted. Accordingly, we believe some clarification is needed in the proposed standards as to the use of CAM versus KAM in dual reporting. In addition, although communication of KAMs is discussed in various sections of the Exposure Draft, the word "not" should be in bold print where applicable to emphasize that KAM reporting is optional. In addition, on page 44 of the Exposure Draft, paragraph 28 should be modified as follows: 28. When applicable, if key audit matters are communicated in the auditor's report, the auditor should do so in accordance with SAS No. [tbd] , *Communicating Key Audit Matters in the Independent Auditor's Report*. (Ref. par. A39–A40)	Clear – with comments See issue 6 in agenda item 4. See changes made to this proposed SAS in agenda item 4A and proposed changes to paragraph 28 of proposed SAS AU-C 700
RSM (5)	We believe the proposed SAS clearly states that the communication of KAMs is not required for audits of nonissuers. We think auditors will be well aware that the standard only applies when they are engaged to communicate key audit matters in the auditor's report.	Yes clear that KAM not required

ED Question 6 — Is it sufficiently clear that the communication of KAMs is not required for audits of nonissuers?

Responder	Comment	TF Consideration / Response
NJCPA (6)	It is clear in the proposed standard non-issuers do not need to communicate KAMs, but it is not clear why this is important. As explained in previous responses the Group firmly agrees with excluding non-issuers from the KAMs requirement because it is not relevant information to Users.	Clear with comments
NASBA (7)	As noted in the proposed statement, the communication of KAMs is not required for audits of nonissuers. However, we have some concern as to whether there may be confusion as to whether or not a "public business entity," as defined in the Master Glossary of the FASB Accounting Standards Codification, would be considered an issuer, as it would have publicly held debt. It would seem that a holder of those types of debt obligations would be just as concerned over KAMs as an investor in an issuer. To make it clearer for auditors that KAM is not required for nonissuers, we suggest that the reporting examples including KAM sections contain a reference to par A39 of the Proposed SAS *Forming an Opinion and Reporting on Financial Statements*. We understand this may be a violation of the ASB's drafting convention, but we believe that this may be warranted to avoid confusion	Clear with comments
Office of the Washington State Auditor (8)	No. To make this sufficiently clear, we recommend: a. That the objective statement in proposed paragraph 6 include language such as "when the auditor is engaged to do so" so as to not indicate that it would apply to all audits. This would match the pattern of other sections such as AU-C sections 720, 725, 800, 805, 806, etc. We would also recommend this in paragraphs 7, 8, 10 and 13.	Not clear See changes made to this proposed SAS in agenda item 4A.

ED Question 6 — Is it sufficiently clear that the communication of KAMs is not required for audits of nonissuers?

Responder	Comment	TF Consideration / Response
	b. That application material be added to explain that audits of issuers is an example of when the auditor would be engaged to report on key audit matters, similar to what AU-C section 935.A1-A2 does for single audits. That this section be located in AU-C 8XX Special Considerations.	
Smith & Howard PC (9)	We believe the potential inclusion of KAMs in the auditors' report for nonissuers to be inappropriate and potentially harmful to the audit process; we believe this will potentially lead to situations with nonissuers where KAMs are decided on by nonissuers and "audit shopping" occurs until a Firm/practitioner is found that will agree to the KAMs as decided on by the nonissuer. We understand that the inclusion of KAMs in the auditors' report is not required unless so specified in the terms audit engagement, however we believe this can lead to situations where those nonissuers inclined to influence their auditors' judgement will have a mechanism wherein they can attempt to set KAMs as part of agreeing to the terms of the audit engagement. Additionally, we believe that specific inclusion of KAMs in the auditors' report will subject the experienced auditors' professional judgment to review by those without such expertise, which we do not believe adds value to the audit process. We also believe this leads to potential scope creep of the audit as, in order to eliminate potential questions of completeness, more items become identified as KAMs, and thereby the assessed risk is increased and additional audit procedures performed. Effectively, the cost of the audit is driven up without providing any additional benefit. The value perceived in the auditors' opinion is based on the expertise and the experience of the auditors; this should remain sufficient. Additional scrutiny of KAMs included in the auditors' report only devalues the auditors' opinion.	Not supportive or clear Same response for questions 5 and 6

ED Question 6 — Is it sufficiently clear that the communication of KAMs is not required for audits of nonissuers?

Responder	Comment	TF Consideration / Response
CliftonLarsonAllen LLP (10)	We do not believe it is sufficiently clear that the communication of KAMs is not required for audits of nonissuers when reading this section on its own. It is implied that there are situations when it would not be required as the scope states that guidance applies "when the auditor is engaged to communicate key audit matters in the auditor's report," but not specifically addressed when it is acceptable to not be engaged. In order to know that it is not required for audits of nonissuers, the auditor must refer to AU-C Section 210, *Terms of Engagement*. We believe it would be beneficial to also include in the application material of this section. **Other Comments:** We are concerned with the potential misunderstanding by users, particularly in the not-for-profit industry, when comparing one audit report to another if one includes KAM and the other does not. In our current environment, the financial statements of not-for-profit entities are typically readily available to the general public. Additionally, they come under great scrutiny and are subject to misunderstanding by individuals and organizations who want to deter donors from giving to a particular not-for-profit entity. We are concerned that users (e.g., the general public) may assume there are more risks and problems with the entity including KAMs than the entity that does not include KAMs and that the inclusion of KAMs can be used as a way to target those entities. We believe this can be easily alleviated by including a sentence in the report letter that specifically addresses that we were not engaged to communicate KAMs in those instances rather than not addressing KAMs.	Not clear TF continues to support the KAM model.
AAFCPAs (11)	No, it is not. The fact that this SAS does not require the communication of key audit matters (KAM) in the auditor's report is not disclosed until paragraph 4, application	Not clear

ED Question 6 — Is it sufficiently clear that the communication of KAMs is not required for audits of nonissuers?

Responder	Comment	TF Consideration / Response
	material A7. This should be more obvious and stated in paragraph 1 of the Scope of this SAS.	Clarification added to par 1 See changes made to this proposed SAS in agenda item 4A.
Cherry Bekaert (13)	We do not believe that the proposed standards are clear that the communication of KAMs is not required for audits of nonissuers. We believe that the communication of KAMs should only be required if the auditor has been engaged to do so. If it is the ASB's intent for the communication of KAMs not to be required under the auditing standards, then we believe this communication should only be required if specifically requested by management or those charged with governance of the entity under audit and agreed to by all parties entering into the engagement letter as discussed in AU-C section 210. Proposed paragraph 4 of AU-C section 701 notes: "This proposed SAS applies to audits of complete sets of general purpose financial statements when the auditor is engaged to communicate key audit matters in the auditor's report." We believe this wording would be sufficiently clear that the communication of KAMs is not required. However, the application material in A7 of AU-C section 701 (as well as A39 of AU-C section 700) states that the auditor may be required "by law, regulation, or contractual agreement" to communicate KAMs. We do not consider this to be clear that the communication of KAMs is not required. Based on the above, we would support updates to the wording in paragraphs 28 of AU-C section 700 to match the wording included in paragraph 4 of AU-C section 701, indicating that the communication of KAMs is only required when the auditor has been engaged to do so. We would also support updates to paragraphs A39 of AU-C	Not clear See changes made to this proposed SAS in agenda item 4A and proposed

ED Question 6 — Is it sufficiently clear that the communication of KAMs is not required for audits of nonissuers?

Responder	Comment	TF Consideration / Response
	section 700 and A7 of AU-C section 701, in order to remove any wording indicating that KAMs may be required under law or regulation.	changes to paragraph 28 in proposed AU-C 700
OAG (14)	No. When we searched for the word "nonissuers" in this SAS, we could not locate it. The fact that KAM's are not required for audits of nonissuers is so important that we encourage the Board to specifically state this fact in the first paragraph of this standard.	Not clear Included in par 1. See changes made to this proposed SAS in agenda item 4A.
MACPA (15)	• It is sufficiently clear in the Explanatory Memorandum, however it is not as clear in the Exposure Draft. We recommend including, "*Communication of KAMs would not be required for audits of nonissuer*s" in the respective proposed SAS.	Clear – with comments Clarified in par 1. We don't need to specify nonissuers because GAAS only applies to nonissuers. See changes made to this proposed SAS in agenda item 4A.
PBTK (16)	With respect to question 6 in the ED, we appreciate the Board's wisdom in proposing that the inclusion of KAMs in audit reports only as an optional feature rather than a requirement. However, we are concerned that its optional nature is not sufficiently emphasized in the proposed standard. If KAM reporting is not entirely withdrawn in its final version (which is our preference), we strongly encourage the Board to include cautionary language such as the above describing its disadvantages to inspire due	Not clear

ED Question 6 — Is it sufficiently clear that the communication of KAMs is not required for audits of nonissuers?

Responder	Comment	TF Consideration / Response
	consideration thereof by auditors who are contemplating including it voluntarily in audit reports.	
FICPA (17)	The Committee concluded that the guidance in the proposed SAS are adequate for the auditors in determining and communicating KAMs. However, the Committee also recognizes that there may be unintended consequences and increased audit costs, which the auditor should be able to pass on to the client since this is an optional service. The wording in the SAS is sufficiently clear that this is an optional service for audits of nonissuers. The committee appreciates the effort of the ASB in clarifying the optional nature of this service.	Clear Same response for question 5
BDO (19)	We agree that it is sufficiently clear that the communication of KAMs is not required for audits of nonissuers, and that the auditor would only be required to communicate KAMs if the terms of the audit engagement include reporting KAMs.	Clear
ICPAS (20)	Yes	Clear
SVA (21)	See response above.	Clear
GAO (23)	No, we suggest that the language in paragraph A7 be incorporated into the scope of the SAS to sufficiently clarify that the communication of KAMs is not required for audits of nonissuers.	Not clear Included in par 1
MSCPA (24)	It is clear in the proposal that Key Audit Matter are not required for audits of nonissuers. However as the Committee expressed under our general comments above	Clear with comments

ED Question 6 — Is it sufficiently clear that the communication of KAMs is not required for audits of nonissuers?

Responder	Comment	TF Consideration / Response
	regulators in the interest of consumer protection will require the inclusion of the Key Audit Matters. See the Committee comments under the general section above.	
Crowe (26)	It is clear in the Proposed Standards (AU-C 701, Communicating Key Audit Matters in the Independent Auditor's Report) that the communication of Key Audit Matters (KAMs) is not required for audits of nonissuers. We agree with the decision to include guidance related to determining and communicating KAMs, in the instances where the auditor is engaged to do so. Further, we agree with the proposed modifications to AU-C section 210, *Terms of Engagement*, to provide application guidance for when the auditor is engaged to report on KAMs. Overall, we support the Proposed Standards and have provided are views on certain specific requirements. Attachment A to this letter has other observations that are less significant that include cross-references to specific paragraphs.	Clear
NCACPA (27)	We believe it would only be clear to those in the auditing profession that the communication of KAMs is not required of non-issuers. Non-auditors, such as bankers or governmental entities, would be more likely to expect KAMs to be included in the audit and question if they were missing from an audit. Our task force would recommend adding wording regarding optionality in section 700 directly so that constituents would only look to section 701 in the event they chose to include KAMs in their audit report.	Not clear Clarified in par 1. See changes made to this proposed SAS in agenda item 4A.
CLCPA (28)	Yes.	Clear

ED Question 6 — Is it sufficiently clear that the communication of KAMs is not required for audits of nonissuers?

Responder	Comment	TF Consideration / Response
Anders (29)	On this matter, the proposal may be sufficiently clear to the practitioner. However, we feel the divergence in practice will cause great confusion to the users of the financial statements. Banks, lenders, grantors, etc. will certainly lose comparability from one entity to the next as some auditors communicate KAMs while other do not. The inclusion of KAMs may very likely be considered a "best practice" by some readers, which would call into question those auditors and entities whose reports lack this information. Furthermore, what constitutes a KAM is subject to interpretation.	Clear with comments
Baker Tilly (30)	We believe that it would be helpful to emphasize earlier in the proposed standard that reporting KAMs is not required. This could be accomplished by combining paragraph 4 of AU-C section 701 with paragraph 1 and referencing the associated application guidance in paragraph A7 to the newly created paragraph 1.	Not clear Clarified in par 1 See changes made to this proposed SAS in agenda item 4A.
OHIOCPA (31)	Yes, and the committee supports the communication of KAMs being optional for nonissuers. The Committee felt further consideration should be given to *not* having the option to communicate KAMs available to nonissuers. This is due to the fact there may be undue influence from certain users of an entity's financial statements that would compel the entity to elect the option for communication of KAMs as part of the independent audit. There are several issues that could arise with the communication of KAMs including: 1) the auditor's report inherently has limited space to describe the KAM and may not provide a complete picture of the KAM, 2) the determination of a KAM is highly subjective and will create inconsistencies and	Clear with comments

ED Question 6 — Is it sufficiently clear that the communication of KAMs is not required for audits of nonissuers?

Responder	Comment	TF Consideration / Response
	variability in practice, and 3) it creates potential liability for both entities and auditors. The inclusion of KAMs in the independent auditor's report may not provide the intended benefits, with any incremental benefits likely outweighed by the additional costs and liability exposure.	
PWC (32)	We believe the revisions to the proposed SAS and application material are sufficiently clear that the communication of KAMs is not required for audits of nonissuers. However, the ASB could be more explicit in paragraph A40 of proposed AU-C 700 that, as part of agreeing to the terms of the audit engagement, management or those charged with governance may request the auditor to communicate KAMs, and consider whether to provide additional guidance in AU-C section 700 or AU-C section 210 when this may be the case.	Clear with comments
Laura Lindal (35)	No, it is not clear at all in the proposed SAS that the communication of KAMs is not required for audits of nonissuers. Veiling the requirement as "when the auditor is engaged to communicate key audit matters" is not sufficiently clear. The introduction to AU-C section 701 does not even refer to AU-C section 210 (which I thought the Introduction under the clarified format was to reference other AU-C sections that directly related to the section being described). It is very clear that the communication of KAMs is not required for audits of nonissuers in the information of the exposure draft, but such information will not be part of the standard. A statement that "*Forming an Opinion and Reporting on Financial Statements* would not require the communication of KAMs for audits of nonissuers but, if done as part of the terms of the audit engagement, the auditor is required to communicate KAMs in accordance with the following requirements." should be included in paragraph of 1 of AU-C section 701.	Not clear

ED Question 6 — Is it sufficiently clear that the communication of KAMs is not required for audits of nonissuers?

Responder	Comment	TF Consideration / Response
NSAA (36)	We believe the requirements could be clearer. The fact that KAMs are not required for audits of nonissuers is so important that we encourage the Board to explicitly state this fact in the first paragraph of this standard. To make it sufficiently clear, we recommend the Board: • Move the information in proposed paragraph A7 to paragraph 1 or move paragraph A7 to be paragraph A1 and reference it from paragraph 1. • Revise paragraph 6 by adding language such as "…when the auditor is engaged to do so…." so as not to indicate that it would be applicable to all audits. • Add application guidance to explain that an audit of an issuer is an example of when the auditor would be engaged to report on key audit matters. We also believe the Board should clarify what the auditor should do if engaged to communicate KAMs and the client subsequently decides they do not want the KAMs included in the report. Paragraph A25 on page 218 provides that, in situations when there is a change in expectations about these communications, the auditor should update the engagement letter accordingly. We assume this is addressing instances early in the audit process when management and/or those charged with governance re-evaluates its needs or based on a change in a law or regulation. In reading the guidance, however, it is not clear how an auditor should approach a scenario when the auditor is engaged to report on KAMs and the auditee decides to change the terms of the engagement because the auditee doesn't want certain KAMs to be included in the report.	Not clear Clarified in par 1. See changes made to this proposed SAS in agenda item 4A.
D&T (37)	As noted above, we do not believe that it is sufficiently clear that the communication of KAMs is not required for audits of nonissuers. We therefore recommend that the	Not clear

ED Question 6 — Is it sufficiently clear that the communication of KAMs is not required for audits of nonissuers?

Responder	Comment	TF Consideration / Response
	introductory paragraph of proposed new AU-C section 701 explicitly state that the communication of KAMs is not required for audits of nonissuers.	Clarified in par 1. See changes made to this proposed SAS in agenda item 4A.

Summary of Comments (by paragraph) on the Exposure Draft of the Proposed SAS Communicating Key Audit Matters in the Auditor's Report

Topic/ Paragraph No. (KAM)	Commenter	Comment	Response to Comment
Scope of This Proposed SAS (paragraphs 1-4; A1-A6)			
A2	TIC (2)	Paragraph .A2 (on page 93) reads as follows: > The communication of key audit matters in the auditor's report may also enhance communications about those matters between the auditor and those charged with governance and may increase attention by management and those charged with governance to the disclosures in the financial statements to which reference is made in the auditor's report. TIC does not believe that the final standard should suggest that, by adding key audit matters, we may enhance communication with governance and increase attention by management. This implies that, by not adding KAMs, your audit may be something less than if you did add KAMs. Further, TIC does not agree that putting an item in your report would necessarily improve audit quality. Again, this is consistent with our comments related to reporting of findings in the EBP Auditor Reporting ED. Therefore, TIC would suggest the removal of paragraph .A2 altogether. TIC also believes the ED should also have some precautions for those who wish to note KAMs in their reports.	See changes made to this proposed SAS in agenda item 4A.

Topic/ Paragraph No. (KAM)	Commenter	Comment	Response to Comment
A3	KPMG (email)	The indentation in bullets b-d does not match the indentation of bullet a.	editorial
4	D&T (37)	• As stated above, D&T recommends the ASB replace the word "engaged" with "requested or required" in proposed new AU-C section 701 as follows: This proposed Statement on Auditing Standards (SAS) addresses the auditor's responsibility when the auditor is engaged **requested or required** to communicate key audit matters in the auditor's report. As a result of this change, D&T recommends the ASB also replace the "engaged" with "requested or required" in the following instances: • Proposed new AU-C section 701, paragraph 4, "This proposed SAS applies to audits of complete sets of general purpose financial statements when the auditor is ~~engaged~~ **requested or required** to communicate key audit matters in the auditor's report."	The word "engaged" was used intentionally because it is an agreement between the auditor and client - no change made
A7	TIC (2)	TIC was confused as to the placement of this paragraph as it does not seem to correlate to the related required guidance. In addition, as noted in TIC's response to question 4 above, TIC does not foresee situations where this would be applicable and, therefore, we suggest removal altogether.	Clarified in par 1. See changes made to this proposed SAS in agenda item 4A.
A7	GT (25)	We believe this guidance creates an inconsistency within the scope of the standard, as described in paragraph 1. Paragraph	Change made to clarify

Topic/ Paragraph No. (KAM)	Commenter	Comment	Response to Comment
		1 discusses the auditor being engaged to communicate KAMs in the auditor's report, but paragraph A7 adds the notion of being required by law, regulation, or contractual agreement to do so. We recommend the following edits to address this potential inconsistency: However, the auditor may be engaged to communicate key audit matters, ***including when such communication*** may be required by law, regulation, or contractual agreement~~ to do so~~.	See changes made to this proposed SAS in agenda item 4A.
A7	D&T (37)	Proposed new AU-C section 701, paragraph A7, "This proposed SAS applies to audits of complete sets of general purpose financial statements when the auditor is ~~engaged~~ **requested or required** to communicate key audit matters in the auditor's report."	No change made.
Effective Date (paragraph 5)			
Objectives (paragraph 6)			
Definition (paragraph 7)			

Topic/ Paragraph No. (KAM)	Commenter	Comment	Response to Comment
7, A28-A29	**KPMG (34)**	For the Board's consideration our comments on specific paragraphs follows (additions are underlined; deletions are ~~strikethrough~~): • Paragraphs 7, A28 and A29 – We recommend that the Board converge the definition of KAMs to the PCAOB's definition of CAMs in paragraph 11 of AS 3101. The PCAOB's definition is more relevant to complexity and subjectivity and easier to apply than the proposed AICPA definition. Also, as previously noted in this letter, given the number of entities that have a desire to raise capital through a public offering, which would require them to be audited under PCAOB standards, it would be in the public interest to minimize differences between the AICPA and PCAOB standards. If the definitions differ, there could be scenarios in which key audit matters in accordance with GAAS would not be considered CAMs in accordance with PCAOB standards. Specifically: ○ In performing an audit in accordance with GAAS, an auditor determined that an entity had a number of control deficiencies, which significantly impacted the nature, timing, and extent of the auditor's substantive procedures. Under the Proposed Standard, this could be considered a key audit matter, but under the PCAOB standards, would be specifically excluded as a CAM.	No change made

Topic/ Paragraph No. (KAM)	Commenter	Comment	Response to Comment
		○ Under GAAS, the auditor has to consider the nature and materiality of corrected and uncorrected audit misstatements when determining the significance of the matter communicated to those charged with governance. These may require significant attention by the auditor, which implies they would be KAMs, but under the PCAOB standards these would not be included as CAMs. Also, these two examples of KAMs would result in publically disclosing information in the auditor's report that is not currently required to be disclosed as part of an entity's financial statements. Further, communication of internal control deficiencies might lead a user of the financial statements to believe that the auditor has performed an audit of internal control over financial reporting. If this is the Board's intent, we suggest that the Board provide clarifying guidance that this is the intent and how these communications should be made in the report.	
Determining Key Audit Matters (paragraphs 8-9; A8-A30)			
8	KPMG (34)	Paragraph 8 and related application material paragraphs A8 and A9 – We suggest that the Board provide clarifying guidance when those charged with governance are involved in managing the entity (small owner-managed entity) and how that impacts the determination of what is considered to be a KAM. An auditor may make a number of formal and informal communications to those managing the entity through the	See changes made to application material in AU-C 260 and issue 1 in agenda item 4

Topic/ Paragraph No. (KAM)	Commenter	Comment	Response to Comment
		course of an audit, and we do not believe that it was the Board's intent for an auditor to use matters communicated to those managing the entity as the population to choose from when determining KAMs, rather, an auditor would consider communications made in the context of the required communications to be made in accordance with AU-C Section 260, *The Auditor's Communication With Those Charged With Governance*. In addition, A8 and A9 seem to be redundant and should be combined into one paragraph and to remove the redundancy with the requirement. If the requirement is not changed related to timing on required communication with those charged with governance, we also suggest that the Board provide application material for when the auditor does not make the required communications to those charged with governance until after the report release date, how and when key audit matters should still be included in the report.	
A14	GT (25)	We believe the examples in A14a are better suited in AU-C section 260, *The Auditor's Communication with Those Charged With Governance.* We believe these examples could enhance the guidance in that standard and would be more readily seen by all auditors since the section applies to all audit engagements, whereas this proposed standard would only be followed when the auditor is engaged to report on KAMs.	TF believes location of application material is appropriate as placed

Topic/ Paragraph No. (KAM)	Commenter	Comment	Response to Comment
		Further, we recommend the notion of "significant difficulties" in A14a be revised to say "significant findings or issues" to align more closely with the terms used in AU-C section 260.	No change made. Fixed footnote references.
A20	KPMG (34)	Paragraph A20 – This paragraph discusses how risks of fraud are significant risks, which by definition require special audit consideration, yet the last sentence of the paragraph states that these significant risks may not require significant auditor attention. We believe that auditors will be confused as to the difference between special audit consideration and significant auditor attention. If the Board's intent was to clarify that not all significant risks would result in a KAM, we suggest that the Board consider revising this paragraph to focus more on the fact that, even with significant risks, there are varying levels of risk, and that only those at the higher end of the risk continuum should be considered when identifying KAMs. We suggest the following: However, this may not be the case for all significant risks. For example, AU-C section 240, Consideration of Fraud in a Financial Statement Audit, presumes that there are risks of fraud in revenue recognition and requires the auditor to treat those assessed risks of material misstatement due to fraud as significant risks. In addition, AU-C section 240 indicates that, due to the unpredictable way in which management override of controls could occur, it is a risk of material misstatement due to fraud and thus a significant risk. <u>Although risks of material misstatement due to fraud</u>	No changes made.

Topic/ Paragraph No. (KAM)	Commenter	Comment	Response to Comment
		are considered significant risks, the auditor's response to a significant risk can vary depending on the nature of the risk of material misstatement. For example, the auditor's response to a significant risk due to fraud may require less auditor attention than a significant risk that is identified due to the complexity and judgment involved in auditing an estimate. Depending on their nature, significant these risks may not require significant auditor attention and therefore would not be considered in the auditor's determination of key audit matters in accordance with paragraph 9.	
A22	GT (25)	We recommend the following edits to this paragraph because we believe the guidance is generally impractical and auditors may not have that type of visibility into an entity's industry peers: In particular, this may include accounting policies that have a significant effect on the financial statements (and significant changes to those policies)~~, especially in circumstances in which an entity's practices are not consistent with others in its industry~~.	See changes made to this proposed SAS in agenda item 4A.
A22-A23	KPMG (34)	Paragraphs A22 and A23 – We believe the second sentence of paragraph A22 is inconsistent with AU-C 260 because the wording used does not align with AU-C 260, and therefore recommend deleting this sentence in favor of a reference to AU-C 260. In addition, we believe A23 should better align with the wording in the AU-C 260 application material or just	See changes made to this proposed SAS in agenda item 4A.

Topic/ Paragraph No. (KAM)	Commenter	Comment	Response to Comment
		refer to AU-C 260. We propose the following wording (additions are underlined; deletions are ~~strikethrough~~): A23. In many cases, the auditor's communication with those charged with governance relates to accounting estimates and related disclosures. Among other things, sensitive estimates ~~may be highly dependent on management judgment and are often the most complex areas of the financial statements, and the estimates may require the involvement of both a management's expert and an auditor's expert.~~ Such estimates are often areas of significant auditor attention, and they may be identified as significant risks.	No changes made.
A24	GT (25)	We call the Board's attention to the use of the phrase "significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual" in this paragraph. If the Board adopts the Proposed Statement on Auditing Standards, *Omnibus Statement on Auditing Standards—2018*, we believe this language would then need to be replaced with the defined term "significant unusual transactions."	To be monitored
Communicating Key Audit Matters (paragraph 10; A31-A33)			
10(a)	KPMG (34)	Paragraph 10a – If the Board does not change the timing of required communications to those charged with governance, then we suggest that the Board change this paragraph to reflect the fact that matters may not be communicated prior to the	See issue 1 in agenda item 4.

Topic/ Paragraph No. (KAM)	Commenter	Comment	Response to Comment
		report release date, and how or whether they would be considered by the auditor when determining key audit matters.	
Key Audit Matters Not a Substitute for Expressing a Modified Opinion (paragraph 11)			
Descriptions of Individual Key Audit Matters (paragraphs 12; A34-A50)			
A34	KPMG (34)	Paragraph A34 – As part of the convergence and formatting style from the ISA, the proposed standard changes the word "do" to "may." In most instances this change is appropriate, however there are instances which changing to "may" is inappropriate. For example, by changing "do" to "may" in this instances makes the statement endless and should be changed back to "do". Paragraphs A21, A23, and A36 are other instances where the "may" appears to change meaning of the application material.	No change made.
Circumstances in Which a Matter Determined to Be a Key Audit Matter Is Not Communicated in the Auditor's Report (paragraphs 13; A51-A55)			
Interaction Between Descriptions of Key Audit Matters and Other Elements Required to Be Included in the Auditor's Report (paragraphs 14)			
Form and Content of the "Key Audit Matters" Section in Other Circumstances (paragraphs 15; A56-A57)			

Topic/ Paragraph No. (KAM)	Commenter	Comment	Response to Comment
Communication With Those Charged With Governance (paragraphs 16; A58-A61)			
A58	KPMG (34)	Paragraph A58 – We appreciate the recognition by the Board that it may be difficult for auditors to have a robust dialogue with those charged with governance as the financial statements are being finalized for issuance. If the requirement on timing of communication is not changed to prior to the report release date, it should be made clear that communications of key audit matters with those charged with governance during the planning phase of the audit is preliminary and subject to change based on findings during the audit and additional communication will be required. We suggest that the Board consider modifying the discussion in paragraph A58 to provide additional guidance to auditors on how communications can be effectively made prior to the report release date. Extant Paragraph A59 – We believe that this application material would be useful to leave in the standard and just remove the parenthetical reference to listing entities.	See issue 1 in agenda item 4.
Documentation (paragraphs 17; A62)			