

CANADIAN AUDITING STANDARDS

CAS 701

communicating key audit matters in the independent auditor's report

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of approving CAS 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements.

11. The auditor shall describe each key audit matter, using an appropriate subheading, in a separate section of the auditor's report under the heading "Key Audit Matters," unless the circumstances in paragraphs 14 or 15 apply. The introductory language in this section of the auditor's report shall state that:
 - (a) Key audit matters are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements [of the current period]; and
 - (b) These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and the auditor does not provide a separate opinion on these matters. (Ref: Para. A31-A33)
 - A21. However, this may not be the case for all significant risks. For example, CAS 240 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. 25 In addition, CAS 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. 26 Depending on their nature, 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 10.
 - A55. It may also be necessary for the auditor to consider the implications of communicating about a matter determined to be a key audit matter in light of relevant ethical requirements. In addition, the auditor may be required by law or regulation to communicate with applicable regulatory, enforcement or supervisory authorities in relation to the matter, regardless of whether the matter is communicated in the auditor's report. Such communication may also be useful to inform the auditor's consideration of the adverse consequences that may arise from communicating about the matter.
- ##### SUPPLEMENT
- This supplement sets out the previous wording of paragraphs that have been amended as a consequence of approving CAS 570, Going Concern.
4. Communicating key audit matters in the auditor's report is in the context of the auditor having formed an opinion on the financial statements as a whole. Communicating key audit matters in the auditor's report is not:
 - (a) A substitute for disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation;
 - (b) A substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with CAS 705; 1
 - (c) A substitute for reporting in accordance with CAS 570 2 when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern; or
 - (d) A separate opinion on individual matters. (Ref: Para. A5-A8)
 15. A matter giving rise to a modified opinion in accordance with CAS 705, or a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with CAS 570, are by their nature key audit matters. However, in such circumstances, these matters shall not be described in the Key Audit Matters section of the auditor's report and the requirements in paragraphs 13-14 do not apply. Rather, the auditor shall:
 - (a) Report on these matter(s) in accordance with the applicable CAS(s); and
 - (b) Include a reference to the Basis for Qualified (Adverse) Opinion or the Material Uncertainty Related to Going Concern section(s) in the Key Audit Matters section. (Ref: Para. A6-A7)
 - A41. In addition to referring to related disclosure(s), the auditor may draw attention to key aspects of them. The extent of disclosure by management about specific aspects or factors in relation to how a particular matter is affecting the financial statements of the current period may help the auditor in pinpointing particular aspects of how the matter was addressed in the audit such that intended users can understand why the matter is a key audit matter. For example:

- When an entity includes robust disclosure about accounting estimates, the auditor may draw attention to the disclosure of key assumptions, the disclosure of the range of possible outcomes, and other qualitative and quantitative disclosures relating to key sources of estimation uncertainty or critical accounting estimates, as part of addressing why the matter was one of most significance in the audit and how the matter was addressed in the audit.
- When the auditor concludes in accordance with CAS 570 that no material uncertainty exists relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the auditor may nevertheless determine that one or more matters relating to this conclusion arising from the auditor's work effort under CAS 570 are key audit matters. In such circumstances, the auditor's description of such key audit matters in the auditor's report could include aspects of the identified events or conditions disclosed in the financial statements, such as substantial operating losses, available borrowing facilities and possible debt refinancing, or non-compliance with loan agreements, and related mitigating factors.³²

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of approving narrow-scope amendments to CAS 700, Forming an Opinion and Reporting on Financial Statements, and CAS 260, Communication with Those Charged with Governance.

- A60. CAS 260 requires the auditor to communicate with those charged with governance on a timely basis.³⁵ The appropriate timing for communications about key audit matters will vary with the circumstances of the engagement. However, the auditor may communicate preliminary views about key audit matters when discussing the planned scope and timing of the audit, and may further discuss such matters when communicating about audit findings. Doing so may help to alleviate the practical challenges of attempting to have a robust two-way dialogue about key audit matters at the time the financial statements are being finalized for issuance.

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of approving CAS 600, Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors).

- A15. Various CASs require specific communications with those charged with governance and others that may relate to areas of significant auditor attention. For example:
- CAS 260 requires the auditor to communicate significant difficulties, if any, encountered during the audit with those charged with governance.¹⁹ The CASs acknowledge potential difficulties in relation to, for example:
 - o Related party transactions,²⁰ in particular limitations on the auditor's ability to obtain audit evidence that all other aspects of a related party transaction (other than price) are equivalent to those of a similar arm's length transaction.
 - o Limitations on the group audit, for example, where the group engagement team's access to information may have been restricted.²¹
 - CAS 220 establishes requirements for the engagement partner in relation to undertaking appropriate consultation on difficult or contentious matters, matters on which the firm's policies or procedures require consultation,²² and other matters that in the engagement partner's professional judgment, require consultation. For example, the auditor may have consulted with others within the firm or outside the firm on a significant technical matter, which may be an indicator that it is a key audit matter. The engagement partner is also required to discuss, among other things, significant matters and significant judgments arising during the audit engagement with the engagement quality reviewer.²³

Footnotes

25. CAS 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraphs 27-28

26. CAS 240, paragraph 32

1. CAS 705, Modifications to the Opinion in the Independent Auditor's Report

2. CAS 570, *Going Concern*, paragraphs 22-23

32. See paragraph A3 of CAS 570.

35. CAS 260, paragraph 21

19. CAS 260, paragraphs 16(b) and A21

20. CAS 550, *Related Parties*, paragraph A42

21. CAS 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph [49\(d\)](#)
 22. CAS 220, *Quality Management for an Audit of Financial Statements*, paragraph [35](#)
 23. CAS 220, paragraph [36](#)
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