

# EXECUTIVE SUMMARY A BENCHMARK OF KEY AUDIT MATTERS

BY COUNTRY & BY INDUSTRY SECTORS

KEY FINDINGS OF OUR  
COMPARATIVE STUDY  
HIGHLIGHTING THE OUTCOME  
OF ISA 701'S APPLICATION AND  
ITS INFLUENCES OVER THE  
AUDITOR'S REPORT

December 2018





# AN UPDATED BENCHMARK OF KEY AUDIT MATTERS

The auditor's report is the final output of the audit process, where the auditor gives an opinion over a company's financial statements in assessing if the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework and give a true and fair view of the entity's state of affairs as at the end of the financial year.

Many users of the financial statements and stakeholders have called for a more informative and relevant auditor's report to understand how the auditor obtained the reasonable assurance about the financial statements as a whole, being free from material misstatement whether due to fraud or errors. Over the past few years, there has been increasing criticism over often boilerplate wording and a request for audit reports to be more transparent and tailored to individual clients. These queries have been taken into account by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) and a revised set of auditing

standards on auditors' reports were issued in 2015. One of the main changes accompanying this new set of auditing standards was the new ISA 701 "Communicating Key Audit Matters in the independent auditor's report" effective for companies with financial years ending on or after 15 December 2016. Even though ISA 701 was made mandatory internationally (for countries under IAASB) going forward, some countries such as the United Kingdom (UK) and the Netherlands early adopted this standard for 2014 year-end audit reports.

In our March 2016 study "Mazars Benchmark on Key Audit Matters" we analysed the Key Audit Matters of the companies listed on the FTSE (UK) and AMX/AEX (Netherlands) markets for 2014/15 year-ends. Our new study continues this analysis using the same methodology, highlighting the average count of Key Audit Matters per audit report, the common Key Audit Matter topics, the changes in Key Audit Matters compared to prior years and the outcome of ISA 701 for new participating countries, for the most recent round of audit reports.



The context has changed since the prior publication as there is now a wider range of countries applying the Key Audit Matters' standard to their audit reports post implementation of ISA 701. Consequently, this second publication approaches the Key Audit Matter topics from a different angle, aiming to compare the results across different countries and sectors. We have analysed and compared France, the Netherlands and the UK and included observations per industry/sector. We additionally included the results of the study prepared by the ACCA "Key audit matters: unlocking the audit secrets of the audit"\* , published in March 2018, which incorporates more countries outside the EU with audit reports from Brazil, Cyprus, Kenya, Nigeria, Oman, Romania, South Africa, UAE and Zimbabwe.

Mazars is an international, integrated and independent organisation, specialising in audit, accountancy, tax, legal and advisory services. When acting as auditors, our role is mainly to protect the public interest, in performing an audit with excellence, leading to the issuance of an independent auditors' report with an opinion on a company's financial statements. As both the public interest and the services delivered to our clients are fundamentally part of our core values, we strongly believe that it is our duty to explain the concepts behind audit reports. We trust that sharing the results of our studies demonstrate our transparency, and our commitment towards the public interest, enhancing knowledge and a better understanding of Key Audit Matters among stakeholders and the audit community.

\*ACCA [the Association of Chartered Certified Accountants] is the global body for professional accountants. Information from: ACCA, Key audit matters: Unlocking the secrets of the audit <https://www.accaglobal.com/in/en/professional-insights/global-profession/key-audit-matters.html> accessed 19 December 2018





## KEY FINDINGS

In general, the charts and data presented in this study lead to the same conclusions and thus, similar rationale for selecting the Key Audit Matters across the sampled countries. When it comes to Key Audit Matters, “valuation” summarises the most common basis for establishing a risk as significant to the audit. In fact, the study highlighted recurrent motives supporting the choice of Key Audit Matters, with a strong correlation to the valuation assertion. Hence, we have noted the following common rationale for selecting the Key Audit Matters: financial estimates, assumptions under management’s judgement, uncertainty, complex transactions and long-term contracts. Therefore, the following five topics are the most popular across all sectors and countries, representing 45% of the entire Key Audit Matters’ population:

- Assets (mostly impairment)
- Provisions
- Disclosures / presentation / classification
- Goodwill impairment, and
- Tax

Among our early applicant sampled countries, the UK and the Netherlands, we noted that the Key Audit Matters’ subjects were generally consistent compared to the prior year. The deletion or addition of a Key Audit Matter was often caused by a one-off transaction, which by its definition, is non-recurrent. Consequently, the average number of Key Audit

Matters per audit report remains indistinguishable compared to 2016 year-ends. However, interestingly, we noted that the uncertainty over the recoverability of a parent company’s investment in a subsidiary has been added as a new Key Audit Matter in several cases.

The average count of Key Audit Matters per audit report in all sectors and countries combined was 3.5 with a maximum of 9 and a minimum of 1. When filtering the Key Audit Matters per sector, no major discrepancies in terms of count per audit report were noted. Nevertheless, some sub-sectors within the sectors, being banking industry, insurance, publishing, oil and gas and telecommunication, presented commonly more Key Audit Matters.

One of the ISA 701 requirements is to include in the audit report how the matter was addressed, giving a brief overview of the procedures performed and the outcome. We have analysed the audit response to the risks identified within France, our first year ISA 701 applicant sampled country. 47% of the responses included an expert or specialists’ intervention especially for challenging management’s assumptions where the specific knowledge and competencies required were beyond the audit team’s expertise. The specialist involvement was also notified in many cases to understand and test the complex IT environment feeding the accounting system. Additionally, 23% of the



responses to the matters mentioned procedures over the key controls from understanding the design and implementation and then testing the effectiveness of those controls.

Based on our observations, it is reasonable to conclude that ISA 701, related to Key Audit Matters, has been applied with consistency across France, the Netherlands and the United Kingdom. When also

reviewing “Other countries” in the study, it is clear that similar tendencies with regards to the application of the Key Audit Matters were noted and the objectives of the standard, in general, have been met.

## What can you expect from this study?

As a shareholder, investor or those charged with governance	As part of the audit community
<ul style="list-style-type: none"> <li>• To understand Key Audit Matters’ objective</li> <li>• To understand how Key Audit Matters are determined</li> <li>• To compare your company’s Key Audit Matters to its sector and take the necessary actions, when applicable, to remain competitive and reduce your entity’s risks</li> <li>• To be aware of the best practices, in relation to Key Audit Matters, and to challenge your auditor if necessary</li> </ul>	<ul style="list-style-type: none"> <li>• To understand Key Audit Matters’ objective</li> <li>• To take into consideration the best practices when determining and disclosing Key Audit Matters</li> <li>• To compare Key Audit Matters within the client’s sector to help you determine an appropriate audit risk approach</li> </ul>

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