

A BENCHMARK OF KEY AUDIT MATTERS

BY COUNTRY & BY INDUSTRY SECTORS

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

December 2018





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EXECUTIVE SUMMARY



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"> • To understand Key Audit Matters’ objective • To understand how Key Audit Matters are determined • 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 • To be aware of the best practices, in relation to Key Audit Matters, and to challenge your auditor if necessary 	<ul style="list-style-type: none"> • To understand Key Audit Matters’ objective • To take into consideration the best practices when determining and disclosing Key Audit Matters • To compare Key Audit Matters within the client’s sector to help you determine an appropriate audit risk approach





DEFINITIONS AND METHODOLOGY



PURPOSE OF KEY AUDIT MATTERS

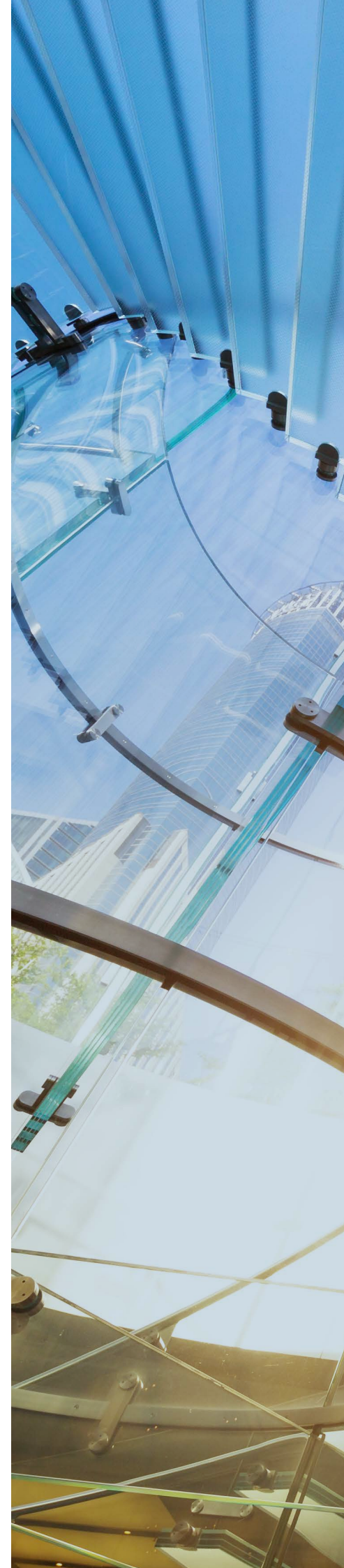
“The purpose of communicating key audit matters is to enhance the communicative value of the auditor’s audit report by providing greater transparency about the audit that was performed.” To provide “additional information to Intended users of the financial statements, to assist them in understanding those matters, that, in the auditor’s professional judgment, were of most significance in the audit.”

The auditors’ report has changed significantly since the application of ISA 701. Key audit matters became compulsory for public interest entities.

As per the ISA 701 definition, the objective was to create additional value for the intended users of the financial statements through a more transparent audit report. As a result, the audit report is expected to present, for each key audit matter, a fair title, a description which explains the rationale for the matter to be significant and considered as “key” to the audit, and a description of the auditor’s responses during the audit to mitigate this risk to an acceptable level. Furthermore, the Key Audit Matters are meant to assist with enhancing the audit report’s comparability for public entities, both locally and internationally.

In 2014, auditors from the UK and the Netherlands, encountered the challenge of early adoption of ISA 701 requirements within their audit reports, using their professional judgment and knowledge, as no comparative references existed. The new auditing standard, whilst encouraging clarity over the matters addressed in the audit, led to many questions among the audit community. How to identify the most significant matters related to the audit? How many of them should be disclosed? What format would be considered appropriate? Since the standard is effectively applicable (for periods ending after 15 December 2016), most of the auditors in countries under IAASB have now written Key Audit Matters into their audit reports of public interest entities. Have these countries been inspired by the early applicants or have they been confronted by the same challenges?

In this study, discover the outcomes and tendencies related to our sample countries’ first year application of ISA 701, follow the Key Audit Matters’ evolution in the United Kingdom (UK) and the Netherlands, find out about good practices, compare the number of Key Audit Matters from one sector to another, and acknowledge the similarities and differences between the United Kingdom, France, the Netherlands and other countries in relation to the application of Key Audit Matters.





DEFINITION OF KEY AUDIT MATTERS (ISA 701)

ISA 701 on Key Audit Matters applies to audits of listed entities and in other circumstances when the auditor decides to communicate Key Audit Matters in the auditor's report.

What is the definition of a Key Audit Matter?

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. Key Audit Matters are selected from matters communicated with those charged with governance." (ISA 701 §8)

What is the purpose of the adding of a Key Audit Matters section in the auditor's report?

"The purpose of communicating Key Audit Matters is to enhance the communicative value of the auditor's report by providing greater transparency about the audit that was performed. Communicating Key Audit Matters provides additional information to intended users of the financial statements to assist them in understanding those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. This communication may also assist intended users in understanding the entity and areas of significant management judgement in the audited financial statements." (ISA 701 §2)

How does the auditor determine the Key Audit Matters?

"The auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following:

- (a) Areas of higher assessed risk of material misstatement, or significant risks;
- (b) Significant auditor judgements relating to areas in the financial statements that involved significant management judgement, including accounting estimates that have been identified as having high estimation uncertainty.
- (c) The effect on the audit of significant events or transactions that occurred during the period." (ISA 701 §9)

"The auditor shall determine which of the matters determined in accordance with the above were of most significance in the audit of the financial statements of the current period and therefore are the Key Audit Matters." (ISA 701 §10)

What should be included in the auditors' report in respect of Key Audit Matters?

The audit report must include:

- Why the matter was considered as a Key Audit Matter;
- How the matter was addressed in the audit;
- Reference to the related disclosure(s).

The description of how the matter was addressed in the audit may include:

- Aspects of the auditor's response or approach;
- Brief overview of procedures performed;
- Indication of the outcome of the auditor's procedures;
- Key observations with respect to the matter.



TOPICS PER KEY AUDIT MATTER

Topics per Key Audit Matter - What is it?

In this study, the topics per Key Audit Matter are the categories under which we have grouped similar Key Audit Matters based on the financial statement area (FSA) related to the matter highlighted, including all information disclosed in the notes, or based on a similar matter related to any processes

which would affect the financial closing processes, including the IT system, controls and governance. Since the financial statement areas are closely interrelated, one Key Audit Matter covers generally more than one category which explains the subjects' count being higher than the Key Audit Matters' count.

The Key Audit Matters' grouping exercise performed by Mazars excludes those analysed by the ACCA body for which we did not have access to the raw data supporting the study results.



The 27 categories of topics

Assets		Liabilities	
Assets (Mostly Impairment) ¹		Provisions / Legal provisions	
Goodwill Impairment		Tax ³	
Long Term Contracts / Complex		Liabilities / Accruals	
Acquisitions / Investments		Litigation / Claims	
Financial Instruments		Pensions	
Inventories		Share Based Payments	
Asset Disposals			
Receivables			
Revenues		Charges	
Revenue recognition (not related to fraud)		Costs / Charges	
Incentives, Rebates and Discounts / Returns			
Other categories			
Actuarial assumptions			
Disclosure / Presentation / Classification			
Other Fraud			
Fraud in Revenue Recognition			
Management Override of Controls			
Controls & IT systems			
Restructuring / Finance processes / Transformation			
Exceptionals / One-off transactions			
Going Concern			
Other ⁴			

INFORMATION ON THE CATEGORIES

- Categories under the **Assets heading** mostly includes long-term assets such as fixed assets and intangible assets for which valuation presented a significant matter. Among France, the UK and the Netherlands, 25% up to 31% of this category was related to the goodwill impairment and 20% to business acquisition valuation and investment impairment
- The majority of the **complex long-term contracts** category is represented by contracts which generate revenue.
- The **tax** category has been classified as a liability but also includes deferred tax assets, as well as tax computations that affect the profit and loss (*Statement of Comprehensive Income*).
- The category **other** includes companies that have been acquired by another entity, and thus have experienced business interruption.



INDUSTRY / SECTORS

Industry / Sectors – Facts about France, the UK & the Netherlands

- 17% of the audit reports analysed were from the manufacturing industry including automotive, innovation, packaging and fashion companies.
- 15% of the audit report population was represented by the financial services sector which included mainly banks, insurance and fund management companies.
- 13% of all entities were characterised as other service companies such as airlines, mail services, storage, phone network, payment services and design.
- 12% of the population encapsulated the raw material and energy sector.
- Construction / Real estate, Information / Media / Education and Medical / Chemicals' industries each represented 9% of the population.
- The remaining 16% was composed of four sectors (being Leisure / Accommodation, Security / Military, Consumer Goods and Retail) and was mainly represented by consumer goods and retail sectors such as supermarkets.

The methodology used to group the companies per industry / sectors has been the same across France, the UK and the Netherlands in continuity with our first published study. The table below does not include the "Other countries".

The ACCA's publication included sub-sectors which we have redistributed to our existing sectors in the following page. Without access to the raw data, we could not identify the percentage of audit reports analysed and constituting each industry.



The 11 sectors & their sub-sectors

Sectors	Sub-Sectors
Construction / Real estate	Building materials / Construction Property
Consumer goods	Beverages Consumer Consumer goods Food
Financial services	Banking Finance Fund management Insurance Investment
Information / Media / Publishing / Consulting / Education	Consulting Education Information Media Publishing Support Services
Leisure / Accommodation	Hotels Leisure / Entertainment Restaurant services
Manufacturing	Engineering Fashion Generator hire Industrial products

Sectors	Sub-sectors
Manufacturing (cont.)	Manufacturing Packaging Tobacco Iron and steel
Medical / Pharmaceuticals / Healthcare / Chemicals	Chemicals Medical Pharmaceuticals Health care
Raw material / Energy / Utilities	Energy Mining Oil and gas Water
Retail	Retail clothing Retail homeware Retail hospitality Retailer Supermarket
Security / Military	Military Security
Services	IT Outsourced services Product testing Telecoms / Postal services Transport air Transport maritimes Software Semi-conductors

*For comparability reasons between the different countries, the allocation between sub-sectors and sectors might be different between the French study released in July 2018 and this study.



THE STUDY OBJECTIVES

In continuity with our study published in March 2016 “Mazars Benchmark on key audit matters” we analysed the Key Audit Matters related to the FTSE (UK) and AMX/AEX (Netherlands) companies for the year-end 2017/2018 using the same methodology.

The context has changed since the prior publication as there is now a wider range of countries including Key Audit Matters in their audit reports post implementation of ISA 701 (applicable for periods-ending after 15 December 2016).

Consequently, this second publication approaches the Key Audit Matters topic from a different angle, aiming to compare the results across different countries. We have chosen to compare the UK, the Netherlands, France as well as a combination of nine other countries (listed on page 19).

The Benchmark will highlight the following statistics:

- The most common Key Audit Matter topics
- The number of Key Audit Matters per audit report

- Other findings from the first-year application (France and ACCA’s study)

Whilst this study is providing a benchmark, we would like to emphasise the importance of tailoring the Key Audit Matters considering each client’s specific situation.

As a comparative country, we chose France for which we have conducted an individual study “*Les Nouveaux Rapports des Commissaires aux Comptes, Points Clés de l’Audit*”¹, published in July 2018, on Key Audit Matters from SBF120 audit reports.

In addition, to extend our benchmark over new country applicants, we have used data from the ACCA study: “*Key audit matters: unlocking the audit secrets of the audit*”², published in March 2018.

¹<https://www.mazars.fr/Accueil/News/Publications/Etudes/Rapports-des-commissaires-aux-comptes-2018>

²<https://www.accaglobal.com/gb/en/technical-activities/technicalresources-search/2018/march/key-audit-matters.html>



SOURCE OF DATA

	France	United Kingdom	Netherlands	Audit reports analysed by Mazars	Other countries
Audit report analysed	120	122	50	292	560
Count of Key Audit Matters	395	512	184	1091	1321
Count of subjects (topic)	439	1225	446	2110	N/A

France, the United Kingdom and the Netherlands

The scope for the audit reports selected to represent France, the UK and the Netherlands was the year-ended 2017 up to March 2018. These three countries are monitored by regulations bodies and thus, the audit quality is expected to be valuable.

France

The audit reports selected to represent France within this study were based on the SBF 120 market index since this index is based on the 120 most actively traded stocks listed in Paris. It includes all 60 stocks in the CAC 40 and CAC Next 20 indexes and 60 additional stocks listed on the Premier Marché and Second Marché under Euronext Paris.

The United Kingdom

The audit reports selected to represent the United Kingdom within this study were based on the Financial Times Stock Exchange 100 Index, (FTSE) and represents 100 companies listed on the London Stock Exchange with the highest market capitalisation. In continuity with our prior study, we analysed several companies that were not part of the FTSE 100 anymore for a comparative purpose.

The Netherlands

The audit reports selected to represent the Netherlands within this study were based on the AEX/AMX index, composed of the 50 largest Dutch companies that trade on the Euronext Amsterdam, formally known as the Amsterdam Stock Exchange.

Other countries

The Association of Chartered Certified Accountants, being the global body for professional accountants (ACCA), conducted a study on the global implementation of ISA 701. The ACCA's study included a review of 560 year-end 2017 audit reports across four continents (1,321 Key Audit Matters), the collaboration of local professional bodies and regulators and the feedback from stakeholders' round table.

The study featured audit reports from Brazil, Cyprus, Kenya, Nigeria, Oman, Romania, South Africa, UAE and Zimbabwe and included comparisons with the United Kingdom and the Netherlands which adopted the standard early in 2014. The outcome of the ACCA's report constitutes another benchmark reference representing a large population which we have called "Other countries" that will be used as a comparison value through the analysis structured in our study.



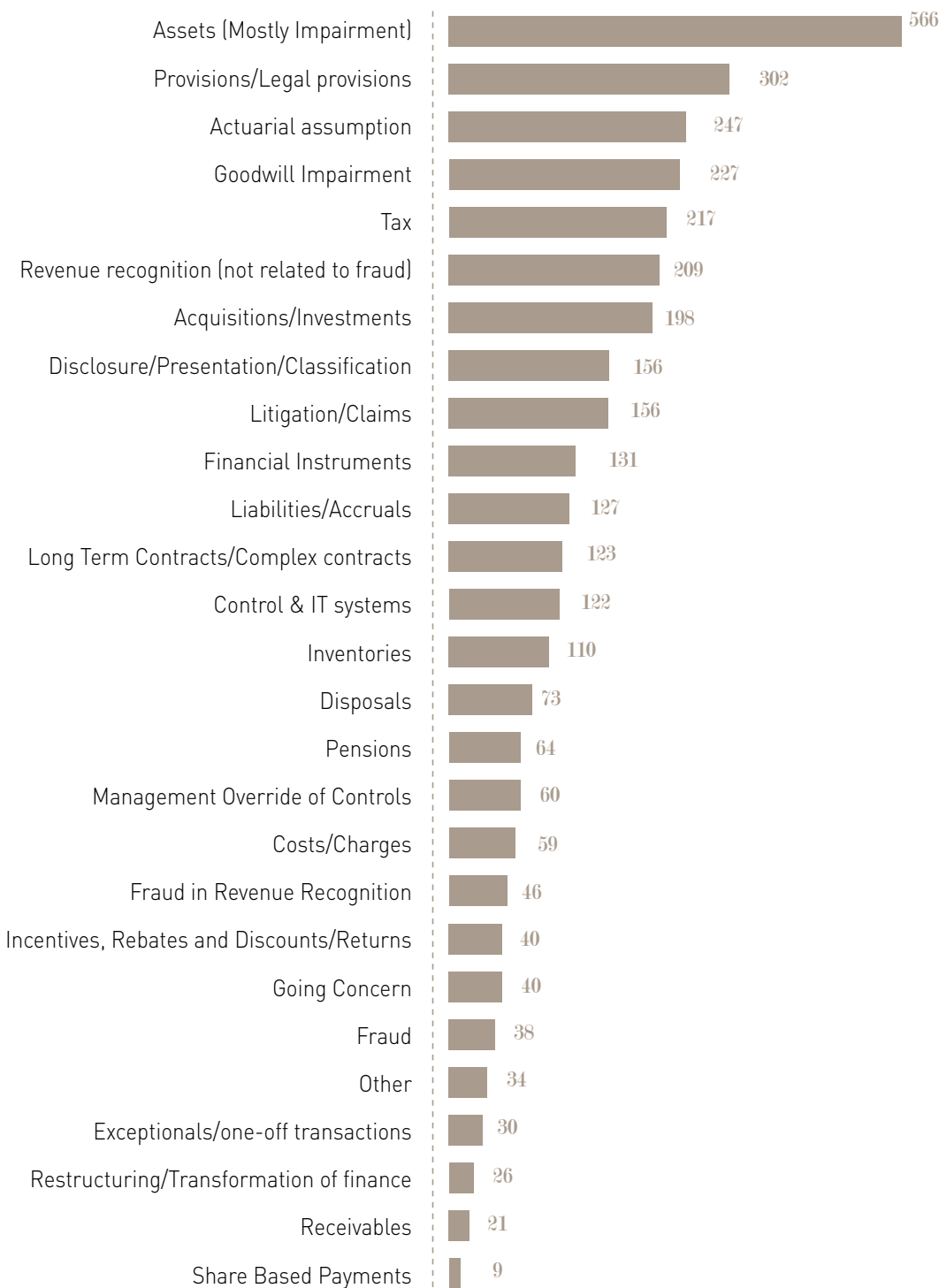


THE COMMON KEY AUDIT MATTER TOPICS

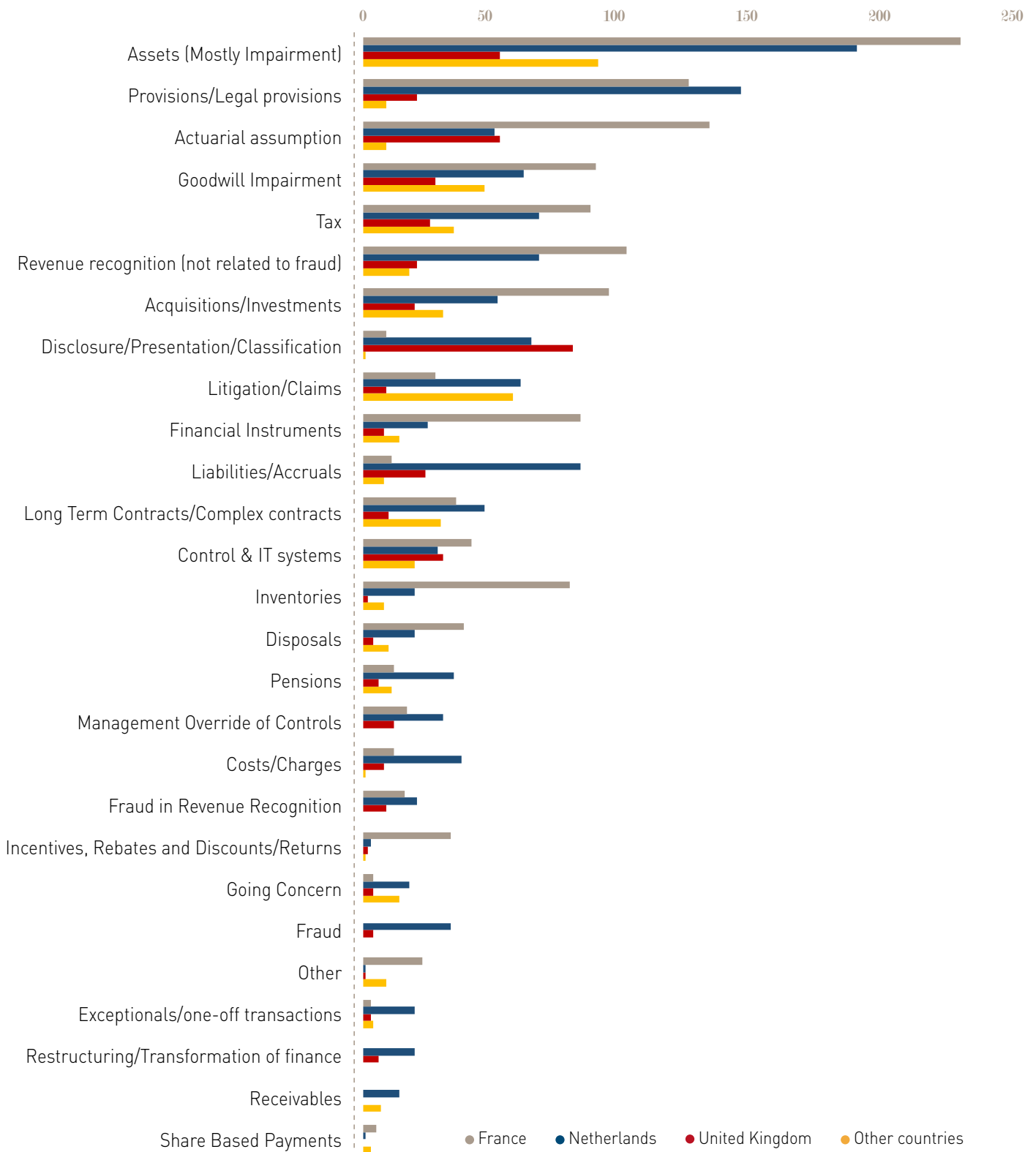


THE MOST COMMON KEY AUDIT MATTER TOPICS COMBINED

Common Key Audit Matter topics across the studies



Common Key Audit Matter topics per country



The chart's guidance

We have compared the common Key Audit Matter topics from our studied countries and ranked them from the highest to lowest count of Key Audit Matters for all 27 categories. The following table on page 24 illustrates the number of Key Audit Matters per topic, but also looks at the breakdown of these topics per country, to allow us to form a view on which topics were of particular importance in the various geographical areas.

Common Key Audit Matter topics per country

Key Audit Matter Topics	France	Netherlands	UK	Other countries	Combined	Rank*
Assets (Mostly Impairment)	91	53	191	231	566	1
Provisions/Legal provisions	9	21	146	126	302	2
Actuarial assumptions	9	53	51	134	247	3
Goodwill Impairment	47	28	62	90	227	4
Tax	35	26	68	88	217	5
Revenue recognition (not related to fraud)	18	21	68	102	209	6
Acquisitions/Investments	31	20	52	95	198	7
Litigation/Claims	58	9	61	28	156	8
Disclosure/Presentation/Classification	1	81	65	9	156	9
Financial Instruments	14	8	25	84	131	10
Liabilities/Accruals	8	24	84	11	127	11
Long Term Contracts /Complex contract	30	10	47	36	123	12
Controls & IT systems	20	31	29	42	122	13
Inventories	8	2	20	80	110	14
Disposals	10	4	20	39	73	15
Pensions	11	6	35	12	64	16
Management Override of Controls	0	12	31	17	60	17
Costs/Charges	1	8	38	12	59	18
Fraud in Revenue Recognition	0	9	21	16	46	19
Incentives, Rebates and Discounts>Returns	14	4	18	4	40	20
Going Concern	1	2	3	34	40	21
Fraud	0	4	34	0	38	22
Other	9	1	1	23	34	23
Exceptionals/one-off transactions	4	3	20	3	30	24
Restructuring/Transformation of finance processes	0	6	20	0	26	25
Receivables	7	0	14	0	21	26
Share Based Payments	3	0	1	5	9	27
Total	439	446	1225	1321	3431	N/A

* Combined rank

When analysing the Key Audit Matters, we have segregated fraud on revenue recognition from the generic category of "revenue recognition". However, when merging these two topics, revenue recognition is positioned in 3rd place in terms of the subject's recurrence across the sampled countries.



THE MAIN FINDINGS

In general, a strong correlation was noted between France, the UK and the Netherlands, with “Other Countries” seeing the most disparities.

Disparities analysis - Other countries

- On average, the UK and the Netherlands commonly presented a higher number of Key Audit Matters related to the disclosure topic which is shown in the chart above. We noted in the UK that the disclosure topic was mostly related to non-underlying, one-off transactions, provision and contingent liabilities. These Key Audit Matters were, with some exceptions, generally less common in France and in the “Other countries”. On the other hand, the Netherlands’ Key Audit Matters within the disclosure category mostly involved actuarial assumptions which was also less expressed in France’s Key Audit Matters.

As exposed in this study, the disclosure topic is often paired with many other subjects rather than being split out into a separate Key Audit Matter. It could therefore explain the average count of Key Audit Matters being lower for France and the “Other countries”. Another explanation could be due to differences in the execution of the studies, already published for France and the “Other countries”.

- The going concern category was roughly ranked 27th among France, the UK and the Netherlands meaning that this topic was not commonly included in the 2017 Key Audit Matters, in comparison to the “Other countries” ranked in 13th position. This result is in line with the ACCA study’s statement regarding the need for an improvement in ISA 701’s application. As reported, in many cases the auditor wrongly disclosed going concern both in the Key Audit Matter’s section and in the going concern section of the audit report.
- Whilst only working with the ACCA’s analysis conclusion, we did not investigate the justification supporting a higher number of Key Audit Matters related to the inventory’s subject outside the average rank. However, this is likely to be related to the dominance of certain industries within the ACCA’s study.

Disparities analysis - Netherlands

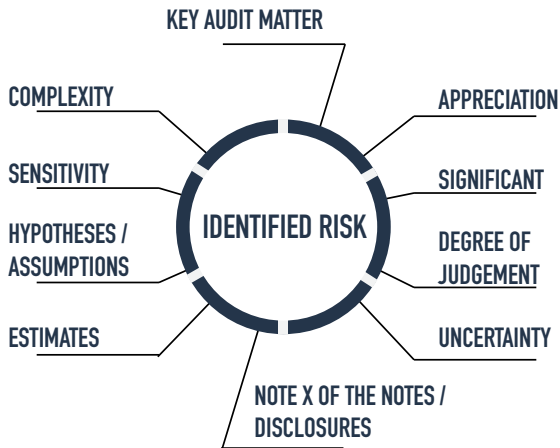
- The Netherlands also presents some peaks outside of the range especially related to controls, IT and management override of controls as well as the fraud risk over revenue recognition. These are all topics interconnected which makes sense for them to follow the same trends. No specific justification has been distinguished as these are present in many different sectors.

Further details about the common Key Audit Matters are presented in the following pages for each country.



MOST FREQUENTLY USED WORDS IN THE AUDIT REPORTS

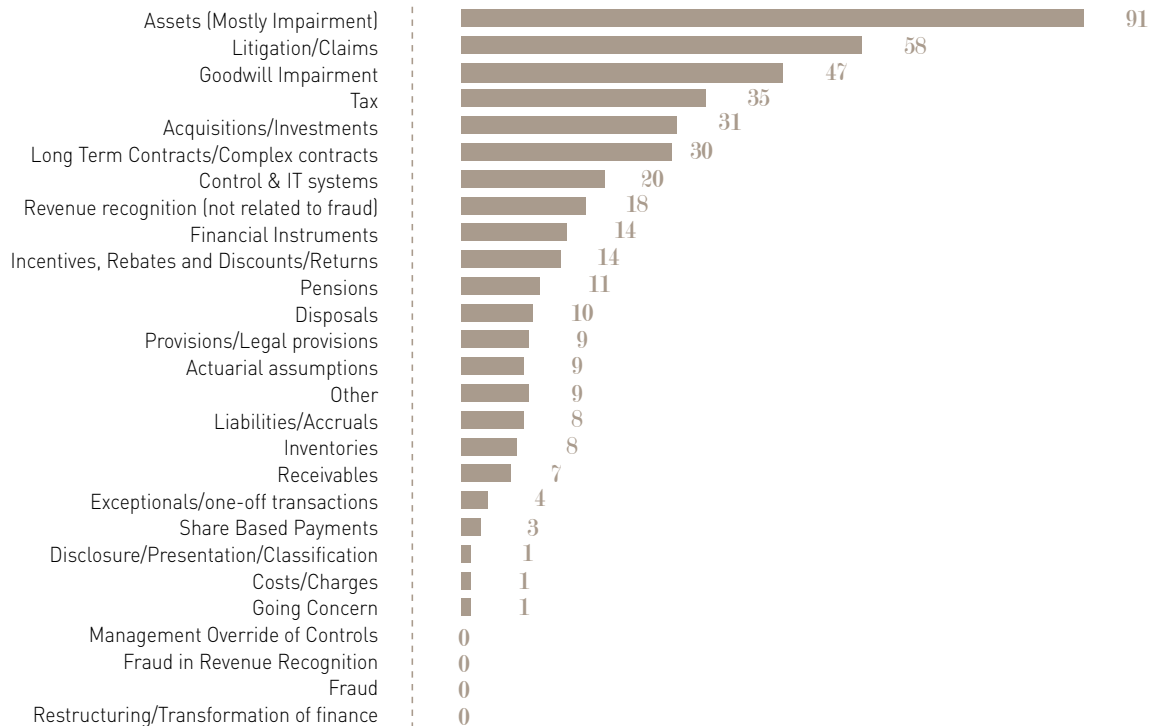
On the basis of the audit reports analysed, we have observed the following common recurrence of particular words.





COMMON KEY AUDIT MATTERS IN FRANCE

Common Key Audit Matter topics in France



Non-current asset impairment

For this first-year application, the most common topic in France has been non-current asset impairment (91 Key Audit Matters) for which 47 Key Audit Matters were directly related to goodwill valuation and impairment. Together, these 2 categories represented 31% of the Key Audit Matters. The response to goodwill valuation and impairment Key Audit Matter was similar across the audit reports, being:

- The cash flows process analysis and figures reconciliation to the business plan approved by the director.
- Terminal value analysis
- A comparison between the projected cash flows and the historic figures considering the current environment.
- Review of the assumptions and of the discount rate used in the valuation.

Provisions for claim and litigation

58 Key Audit Matters in the study were categorised under provisions for claim and litigation, representing 13% of the Key Audit Matters' sample. Frequently, the auditors mentioned in the matter's description the level of uncertainty of the liabilities' outcome and the level of management's judgement in establishing the provision. In other cases, the Key Audit Matter was about the possibility of the entity being under investigation. The following audit work has been popular in the population analysed:

- Analyse the risk mapping provided by management
- Discussions with the legal counsel and management to understand the weight of the existing litigations and ensure their completeness.
- Direct confirmation with the legal counsel
- Subsequent event analysis to determine the possible claim and litigation outcome.
- Financial disclosures on contingent liabilities and provisions for claims and litigation.



COMMON KEY AUDIT MATTER TOPIC IN FRANCE

Tax

35 Key Audit Matters entered the tax category, representing 8% of the Key Audit Matters population and was concentrated around deferred tax and the US tax reform. In establishing the probability to use deferred tax in the future, management uses many estimates and judgments which the auditors considered subject to Key Audit Matters. In many cases, tax expert involvement has been a common audit response to mitigate this risk.

Business combination

31 Key Audit Matters, representing 7% of the panel, revealed business combinations as a risky area and is usually described as significant to the audit because of the important figures affecting the balance sheet during the acquisition. The price allocation seemed to also be problematic since many judgements and assumptions are necessary in determining the allocation of the assets and liabilities in the balance sheet, including what proportion relates to goodwill. Procedures in response to this Key Audit Matters:

- Specific procedures on the opening balance sheet
- Procedure over the existence and fair value of the assets and completeness of the liabilities at the acquisition date
- Procedure over the accounting adjustment to align the acquired company's accounting method to that of the acquiring entity.
- Involvement of the auditor's expert to obtain support in justifying the reasonableness and rationale of the assumptions.

A business acquisition generated in many cases an additional interrelated Key Audit Matter in the audit report; treating the complex finance structure supporting the acquisition.

Complex long-term contract

We found 30 Key Audit Matters associated with long-term contracts relating to different challenges such as revenue recognition at the completion stage, the percentage of advancement method in determining the revenue and the complex clauses included in the contract. Additionally, 17% of the Key Audit Matters in this group referred to IFRS 15 transition. As part of our findings, the main audit work more specific to real estate was:

- Procedures over the internal controls (including the IT controls), particularly to ensure that revenue recognition and expenses processes have no deficiencies that would lead to potential misstatement in the financial statements.
- When applicable, a visit of the construction sites to understand and appreciate the process of approval of the advancement of the work performed and substantiate contracts with the actual approvals and physical constructions.

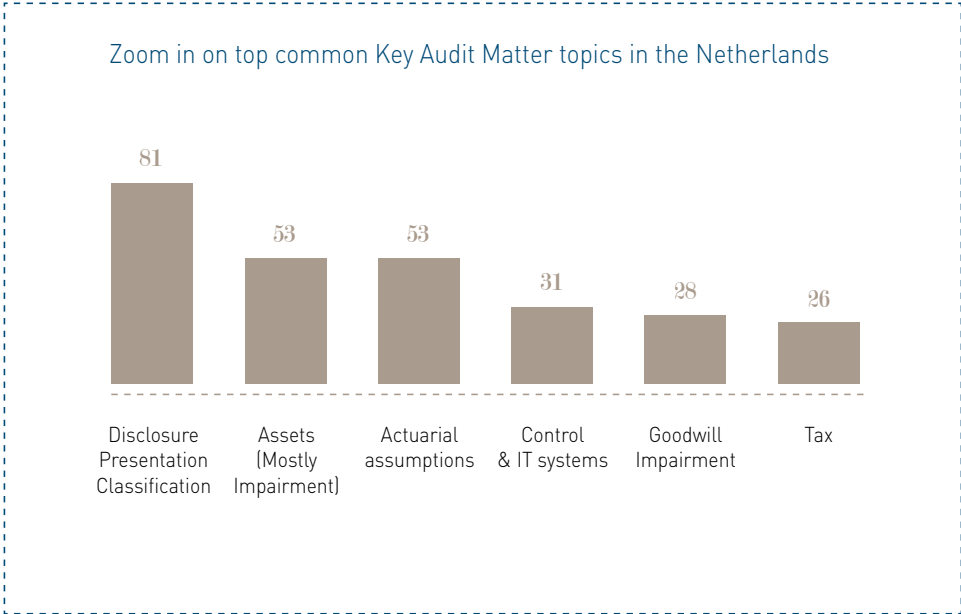
Employee benefits

11 Key Audit Matters, 3% of the population, addressed long-term employee benefits, usually related to pensions and defined benefits schemes mainly because of the technical calculation. Consistently, the auditors opted to involve their own actuarial team to support the calculation assumptions from management.

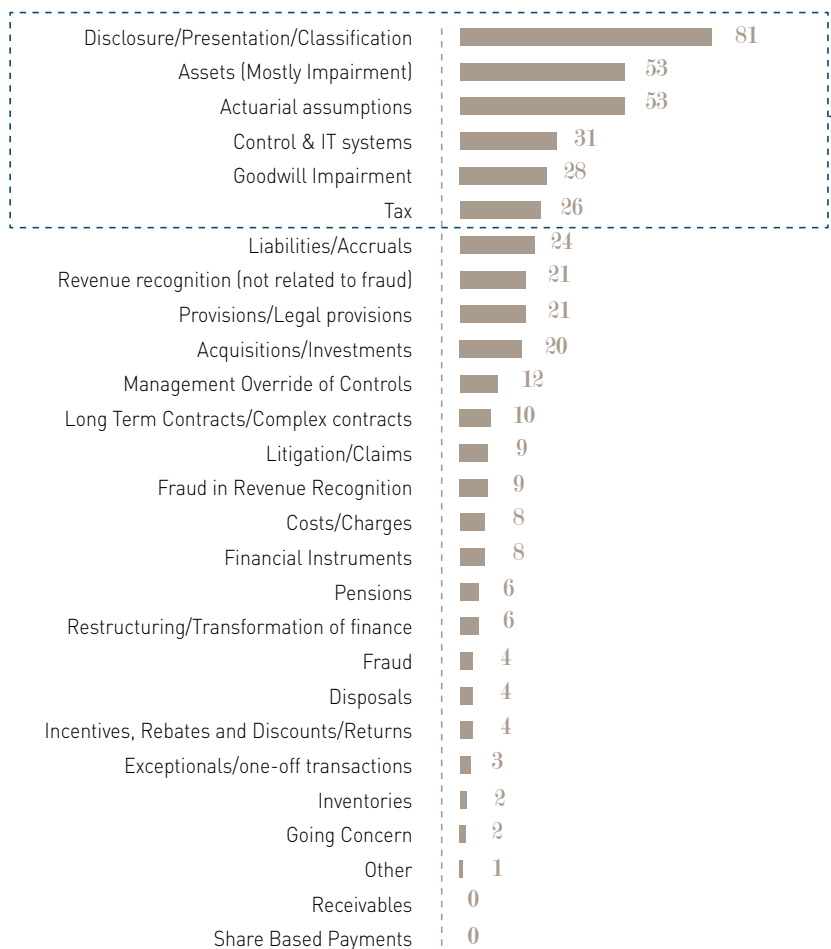


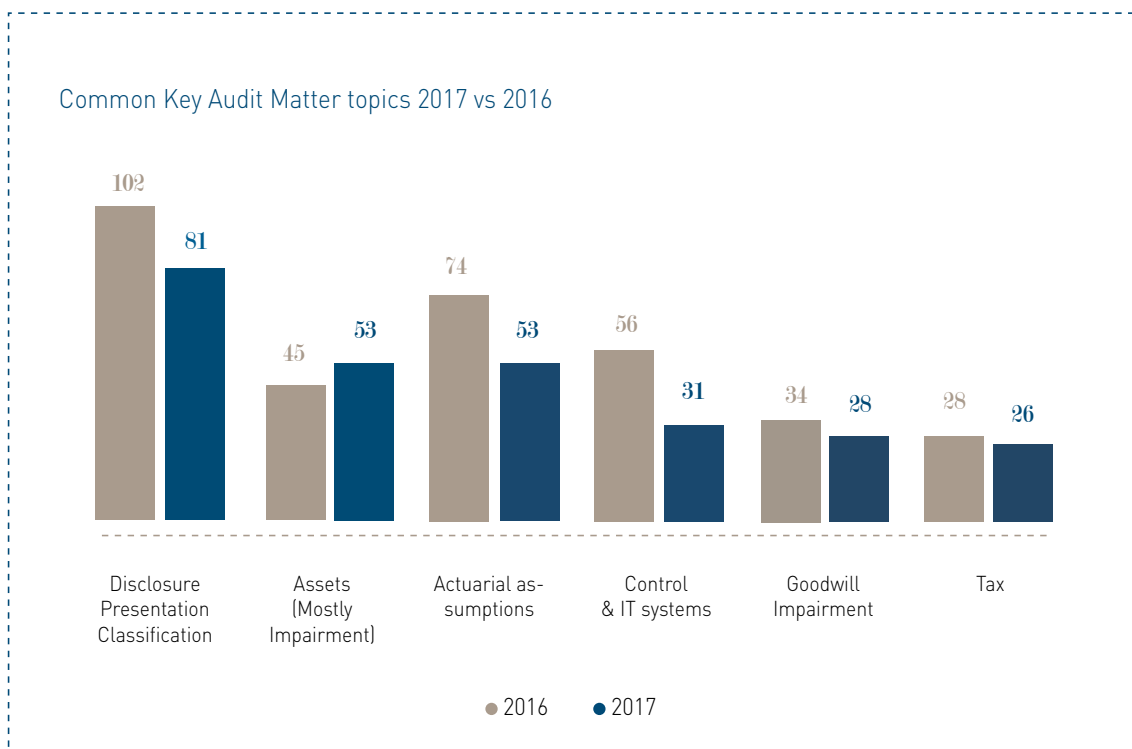


COMMON KEY AUDIT MATTER TOPIC IN THE NETHERLANDS



Common Key Audit Matter topics in the Netherlands





Disclosures / presentation / classification, 18%

Disclosure and presentation is the topic which has been the most frequently listed as a Key Audit Matters in the Netherlands representing 18% of all Key Audit Matters (18% in 2016). In conjunction with this topic, we noted that 33% (27% in 2016) of Key Audit Matters related to matters about long term assets (impairment) and actuarial assumptions. The disclosure has also been interconnected to matters such as tax, 17%, and acquisition / investment, 17%. In general, the Key Audit Matters' title did not include the words presentation or disclosure. The topic was addressed within the matter description. In the UK, the disclosure topic also represented a significant proportion of the study.

Assets (mostly impairment) and Goodwill, 12%

33% (51% in 2016) of the Key Audit Matters under this category interacted with actuarial assumptions. As per the analysis in the UK and France, the context for these assumptions was generally related to the valuation of investment properties, accounting for capitalised cost, impairment and

valuation of the goodwill and other intangible assets. 20% (40% in 2016) of the Key Audit Matters classified under the assets topic were associated with goodwill impairment. 20% (6% in 2016) of the Key Audit Matters were related to asset acquisitions or investment property. This important variation between 2017 and 2016 is in line with the 40% increase of the total count of Key Audit Matters identified in the acquisition / investment category. 52% (62% in 2016) of the observed Key Audit Matters in this category, in line with the above analysis, were also allocated to disclosure / presentation which is largely higher than in the UK where only 12% of the category covered this subject.

Actuarial assumptions, 12%

When scrutinising the composition of the 53 Key Audit Matters including an actuarial assumptions' matter, 31% of them highlighted in their title goodwill valuation and impairment, 15% mentioned deferred tax valuation, 13% investment property and 9% post retirement employee benefits.

Tax, 6%

62% (46% in 2016) of these Key Audit Matters, are linked to a liability with the remaining 38% (54% in 2016) discussing the deferred tax asset valuation and existence. We noted several new Key Audit Matters in this category around international tax such as the US tax reform, and tax litigations in overseas countries, thus increasing the tax liability discussions in the Key Audit Matters.

Controls and IT systems, 7%

Out of the 31 Key Audit Matters including a risk over the controls and the IT system, 32% included the actual matter highlighted in the headline, using words such as: reliability of IT systems, internal controls over financial reporting, electronic data processing and risk of inappropriate access to information technology and systems. The remaining Key Audit Matters including a matter around IT and controls were paired with many different topics but mainly with revenue recognition.

Other categories

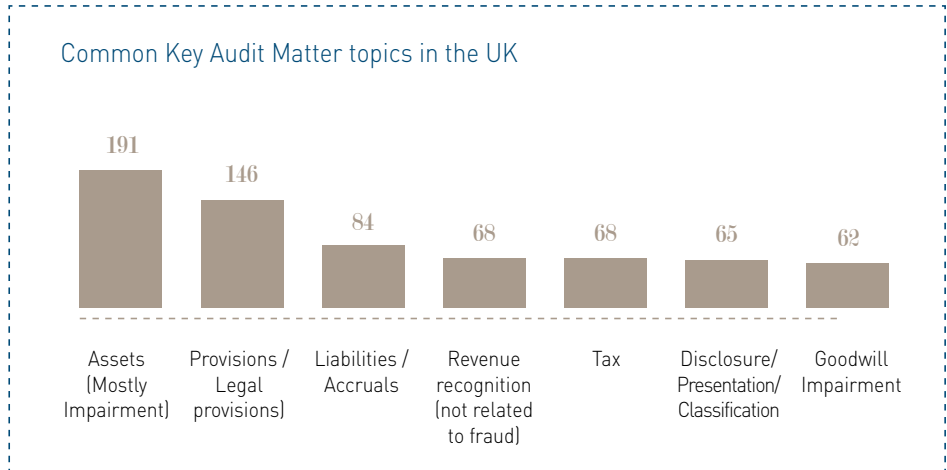
In comparison to France and the UK, provisions and revenue recognition are in less Key Audit Matters in the Netherlands. Both these topics represented 5% each of the 2017 Key Audit Matters.

The titles for revenues' Key Audit Matters were very generic, often being described as simply "Revenue recognition" without any specifics. 38% of the Key Audit Matters disclosing a risk over revenue recognition addressed long-term / complex contracts accounting problematics and 5% fraud over revenue recognition.

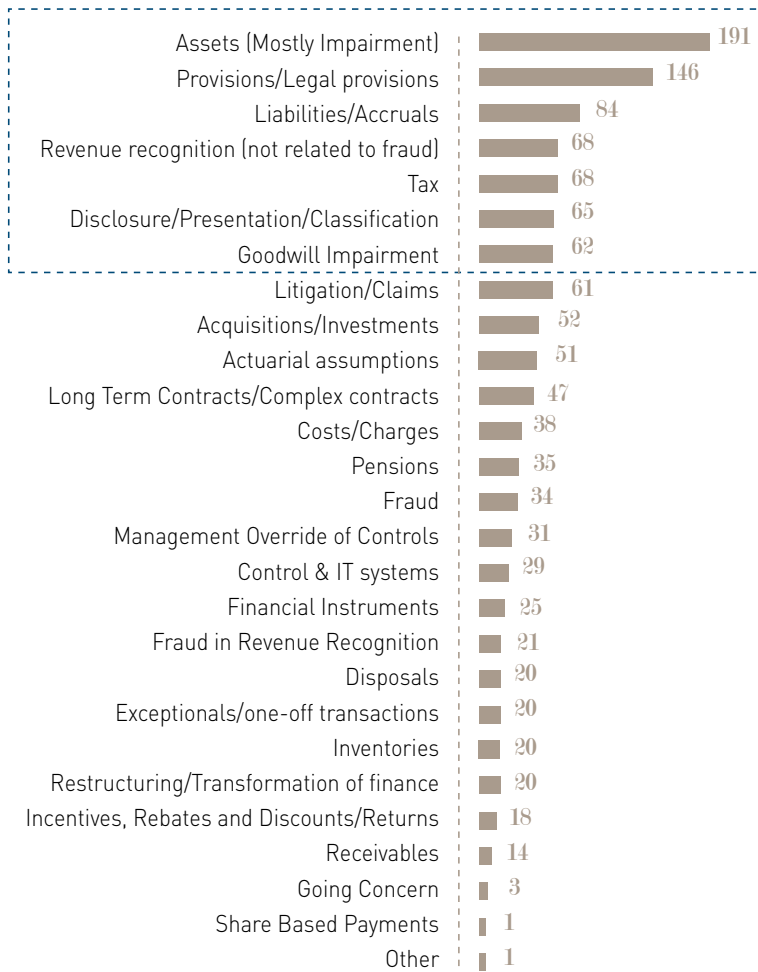




COMMON KEY AUDIT MATTER TOPICS IN THE UK



Common Key Audit Matter topics in the UK

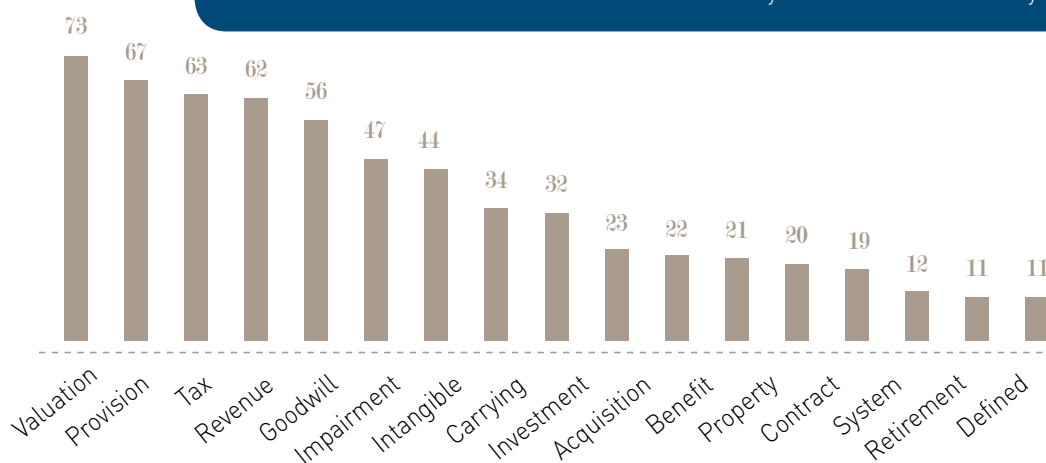


As highlighted in the chart on page 33, frequent words used to describe a Key Audit Matter are closely interrelated with the common topics.

❁ FOCUS ON THE MAIN KEY AUDIT MATTER TOPICS

Common words across the Key Audit Matters in the UK

Within our study, we noted the frequency of several words used within a Key Audit Matters' title. At the top of the chart, we noted Valuation, Provision, Tax, Revenue, Goodwill, Impairment and Intangibles which are in line with the common Key Audit Matters analysis.



Paired topics

As described above, a Key Audit Matter is usually related to more than one subject which makes sense following the accounting principle of a debit/credit. Additionally, some topics are closely interrelated. We have analysed below the common topics and their interconnections.

Assets (mostly impairment), 16% and Goodwill, 5%

25% (26% in 2016) of the Key Audit Matters classified under the assets topic were associated with goodwill impairment. Within these 48 Key Audit Matters, the noted trend was to use generic Key Audit Matter titles such as carrying value of goodwill and intangibles and provide details in the matter's description. The goodwill topic, covered 55 Key Audit Matters in total (65 in 2016) and wasn't significantly paired with any other topic. 21% (20% in 2016) of the Key Audit Matters were linked to asset acquisitions or investment property where the accounting method and valuation represented a significant portion of the Key Audit Matters. 12% (12% in 2016) of the observed Key Audit Matters in this category were also allocated

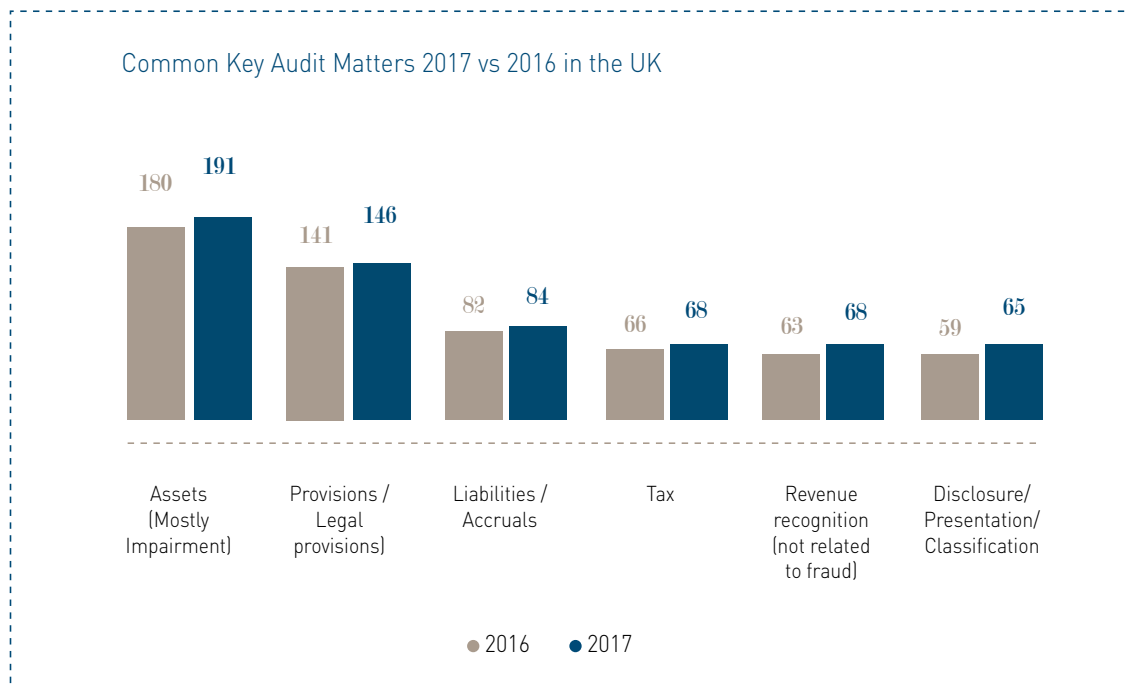
to disclosure / presentation thus mainly interconnected to the business' acquisition accounting.

Provisions, 12%

39% (38% in 2016) of these Key Audit Matters commonly disclosed a risk associated with the provisions and contingent liabilities highlighting the uncertainty over the claims and litigation valuation (30 Key Audit Matters) and tax provision (18 Key Audit Matters). When reviewing the Key Audit Matters' title corresponding to claims and litigation, we recorded 11 Key Audit Matters drawing attention to the specific problem directly in the headline. However, 63% of the firms predominantly opted for a generic title.

Liabilities / Accruals, 7%

54% (54% in 2016) of these Key Audit Matters reported a risk over actuarial assumptions from which 41% (41% in 2016) were mutually related to the pension valuation. The remaining 13% mostly called attention to the valuation of an insurance liability.



Tax, 6%

86% (71% in 2016) of these Key Audit Matters, as pointed out in the provisions analysis, are linked to a liability with a remaining 14% (20% in 2016) discussing the deferred tax asset valuation and existence.

Revenue recognition, 6%

58% (65% in 2016) of the Key Audit Matters disclosed a risk over revenue recognition addressing the long-term contracts accounting complexities. 20% mentioned the fraud risk over revenue recognition and management override of controls, however, overall this represents only 3%. In 2016, the proportion was very similar with 19% of the Key Audit Matters covering the fraud risk over revenue recognition representing 2% overall.

Disclosures / presentation / classification, 5%

Disclosures and presentation is a topic which has been paired with many Key Audit Matter categories; especially asset impairment, provisions, acquisitions, disposals and one-off transactions which presented more connections than with the other categories. Additionally, 26% of the disclosures included the cost / charges topic, mainly associated with the presentation and classification of non-underlying items.

COMMON KEY AUDIT MATTER TOPICS IN THE “OTHER COUNTRIES”

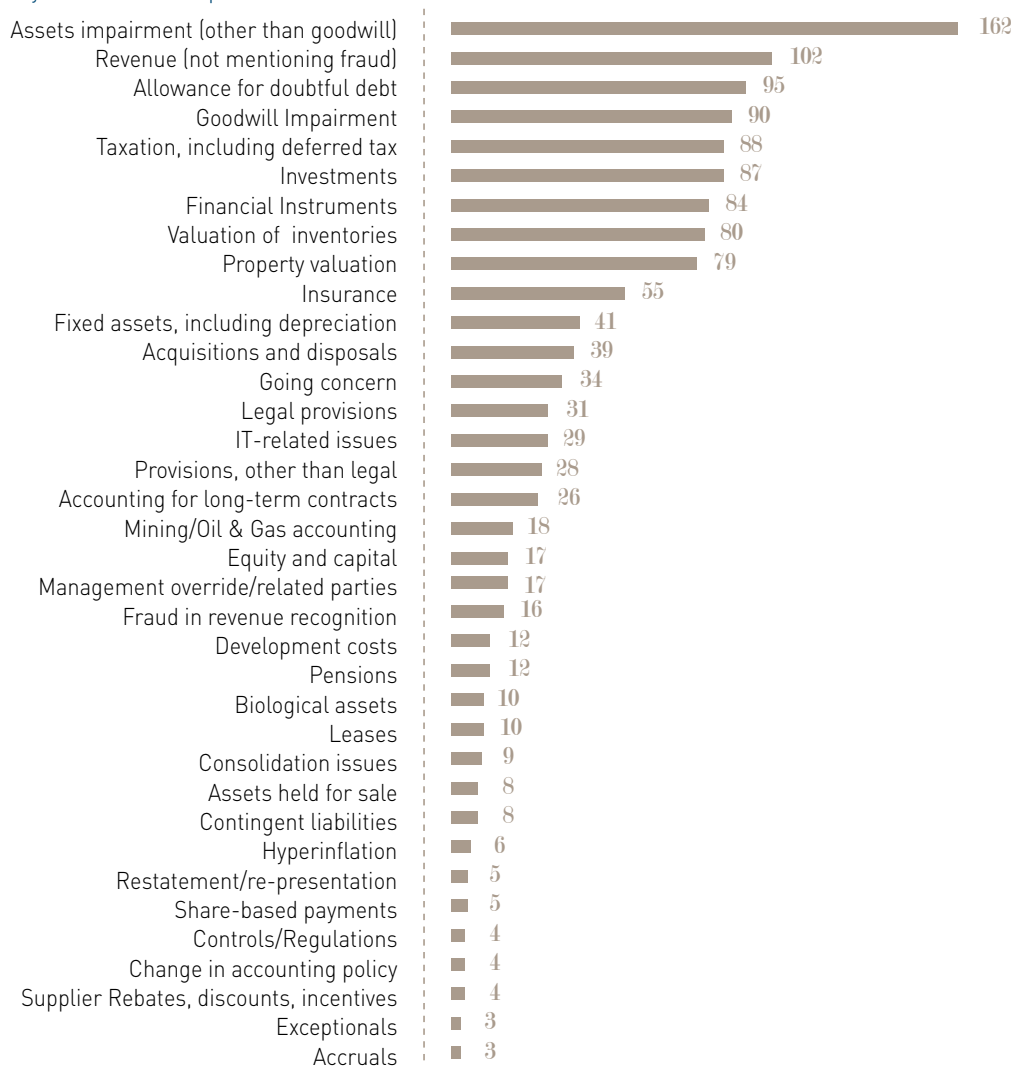
Common topics*

It was not surprising to observe the most common Key Audit Matters across the ACCA’s study to be **asset impairment** which is in line with the ISA requirements stating that “the auditor shall take into account areas of significant judgment and areas where obtaining sufficient appropriate audit evidence has been more difficult”. The **asset impairment** topic has been listed in 162 Key Audit Matters across the study followed by **revenue recognition** highlighted in 102 Key Audit Matters. In third place, a bit unexpected, was the **allowance for doubtful debts**, present in 95 Key Audit Matters. The ACCA mentioned the reason for this topic to be in third position was mainly related to the client not yet having received confirmation at the report signing date. Hence, in these cases, the auditor did not obtain sufficient appropriate audit evidence and had to

modify the planned approach to the audit. A significant modification to the audit approach is, according to ISA 701, a factor that can determine the need for a Key Audit Matter.

The remaining common topics identified were **goodwill impairment** (90 Key Audit Matters), **taxation** including **deferred tax** (88 Key Audit Matters), **investments** (87 Key Audit Matters), **Financial instruments** (84 Key Audit Matters), **valuation of inventories** (80 Key Audit Matters) and **property valuation** (79 Key Audit Matters) where again, this was not unpredictable considering the nature of these subjects. All these topics cover areas such as valuation, estimates, judgmental and complex areas in line with ISA 701’s expectation in determining the Key Audit Matters.

Common Key Audit Matter topics in the “Other countries”



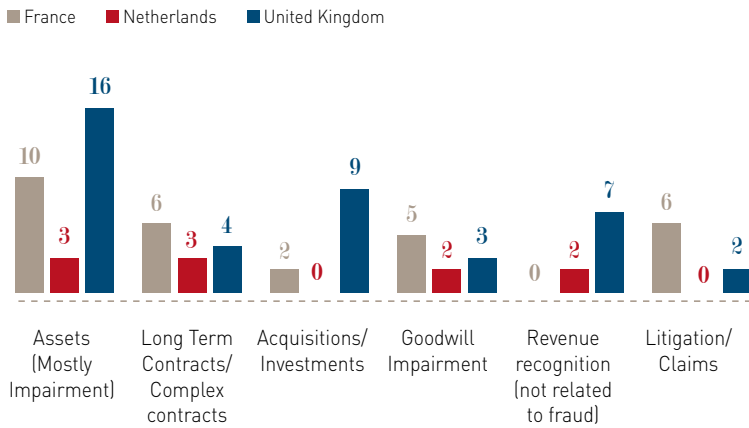
* Information from: ACCA, Key audit matters: Unlocking the secrets of the audit <https://www.accaglobal.com/in/en/professional-insights/global-profession/key-audit-matters.html> accessed 19 December 2018



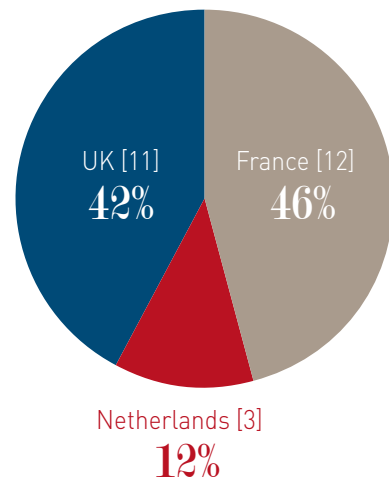
COMMON KEY AUDIT MATTER TOPICS PER SECTOR

CONSTRUCTION / REAL ESTATE

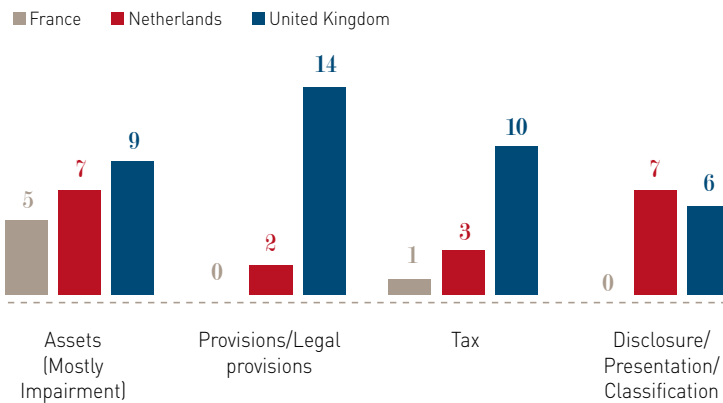
Construction / Real Estate Key Audit Matter Topics



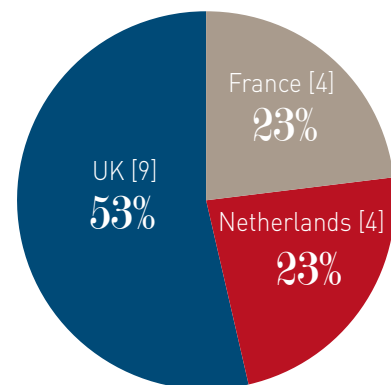
Number of audit reports analysed-construction/real estate



Consumer Goods Key Audit Matter Topics

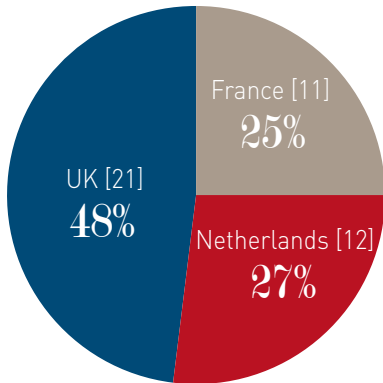


Number of audit reports analysed-consumer goods

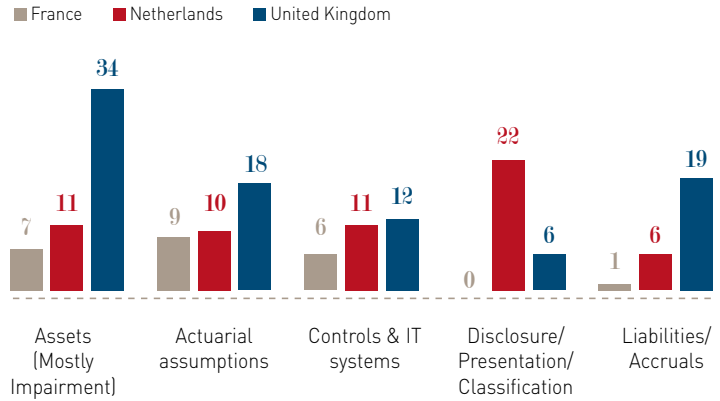


FINANCIAL SERVICES

Number of audit reports analysed-Financial services

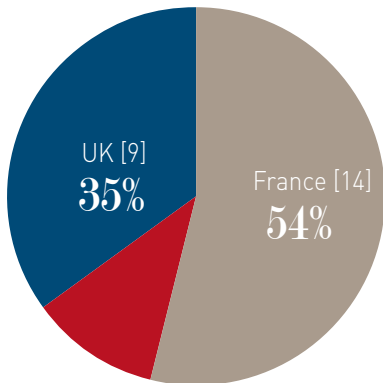


Financial services Key Audit Matter Topics

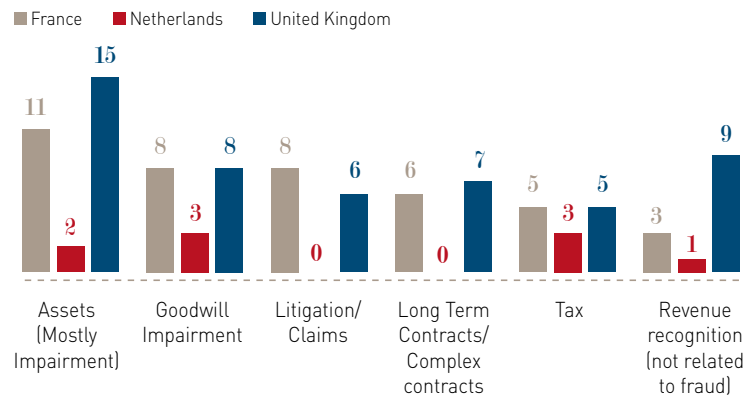


INFORMATION / MEDIA / PUBLISHING / CONSULTING / EDUCATION

Number of audit reports analysed-Information / Media / Publishing Consulting / Education



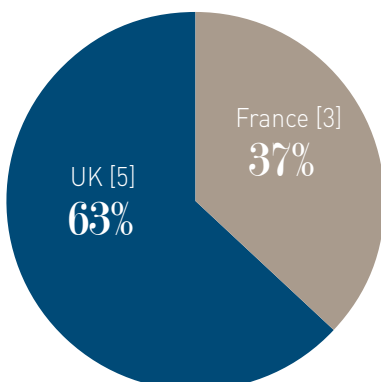
Information / Media / Publishing / Consulting / Education Key Audit Matter Topics



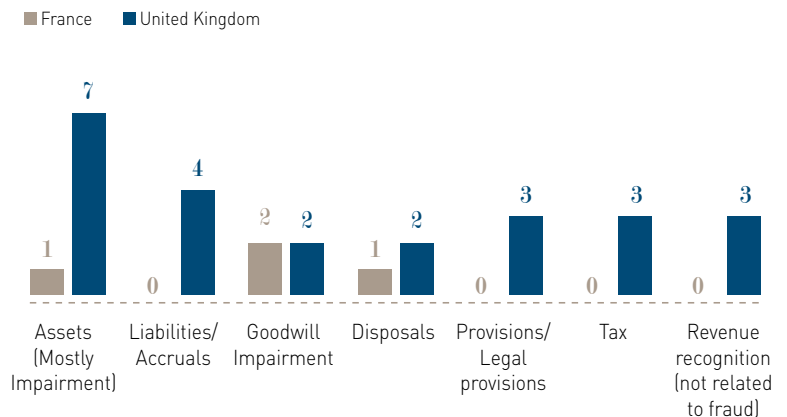
Netherlands [3]
11%

LEISURE / ACOMMODATION

Number of audit reports analysed-Leisure/Acommodation



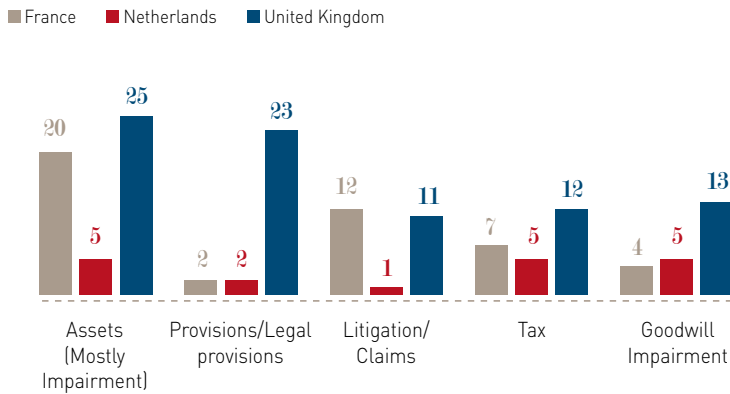
Leisure/Acommodation Key Audit Matter Topics



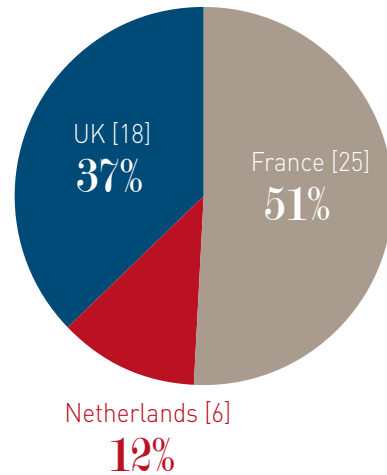
Netherlands [0]
0%

MANUFACTURING

Manufacturing Key Audit Matter Topics

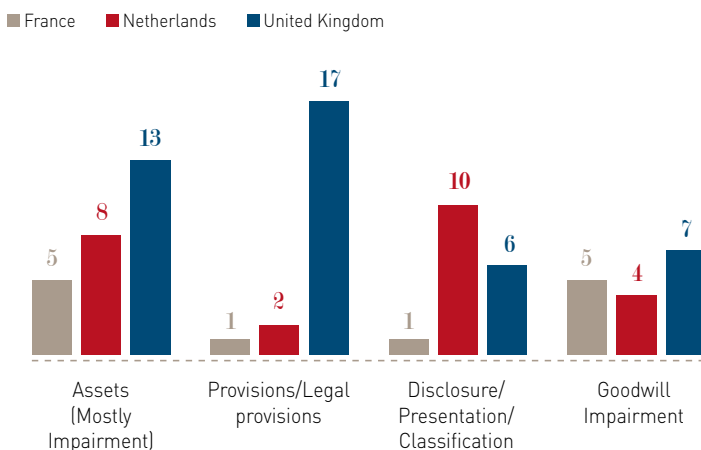


Number of audit reports analysed-Manufacturing

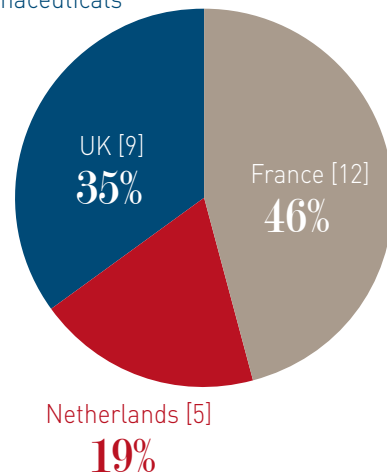


MEDICAL / CHEMICALS / PHARMACEUTICALS / HEALTHCARE

Medical / Chemicals / Pharmaceuticals / Healthcare Key Audit Matter Topics

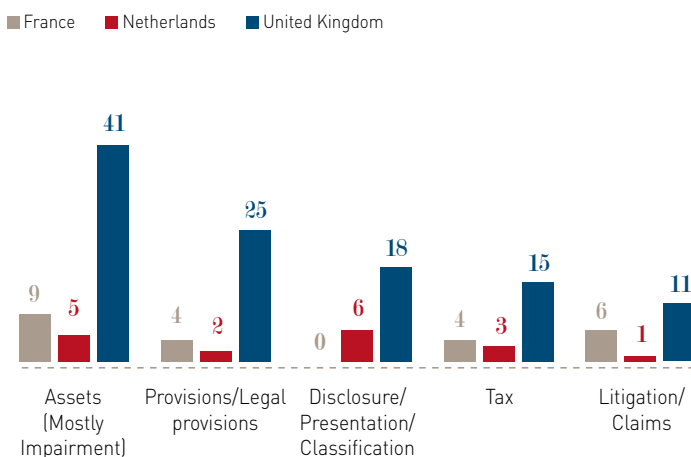


Number of audit reports analysed-Medical / Chemicals / Pharmaceuticals

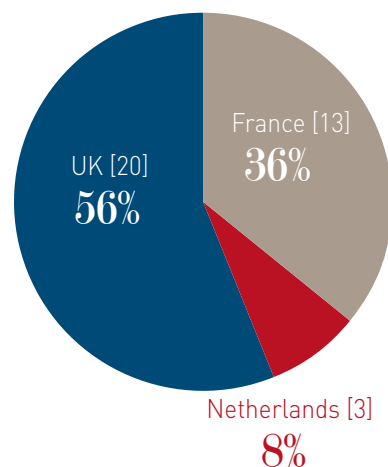


RAW MATERIAL / ENERGY / UTILITY

Raw material / Energy / Utility Key Audit Matter Topics

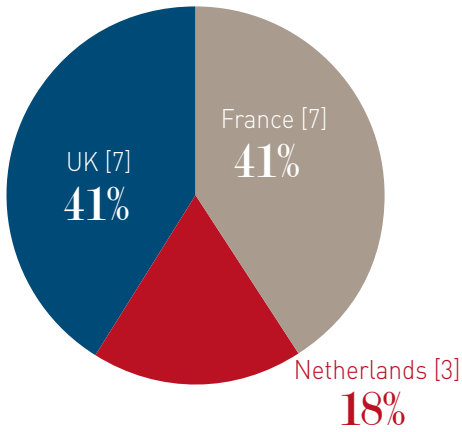


Number of audit reports analysed-Raw material /Energy / Utility

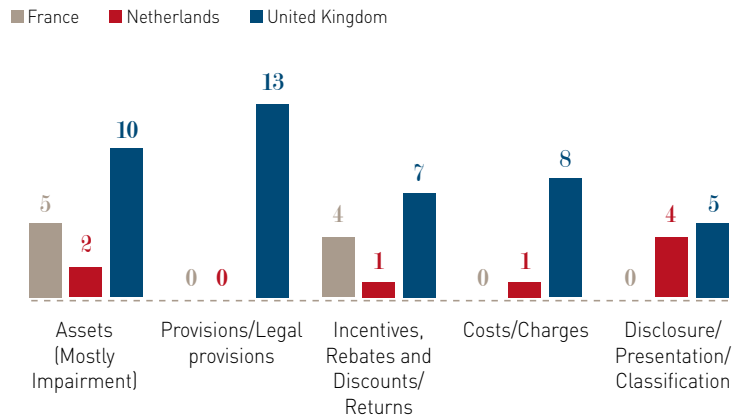


RETAIL

Number of audit reports analysed-Retail

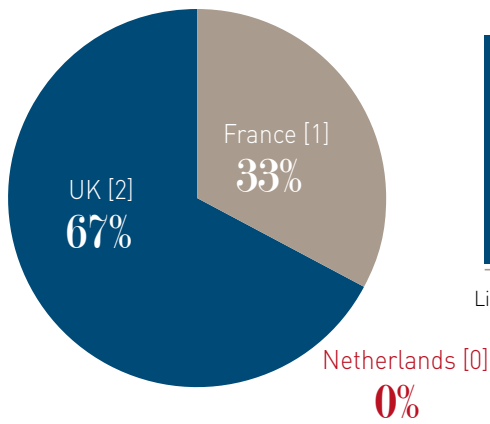


Retail Key Audit Matter Topics

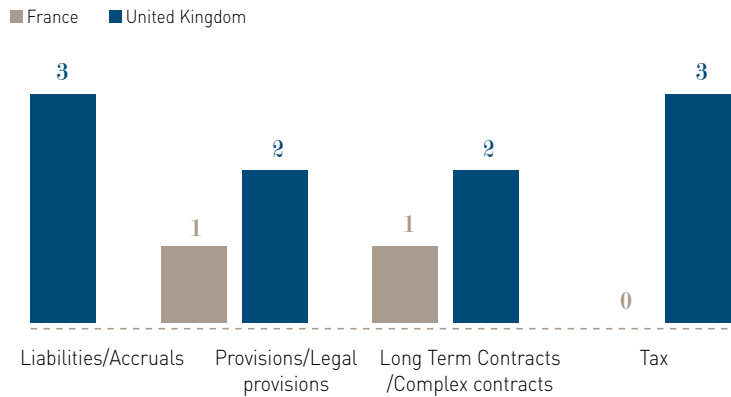


SECURITY / MILITARY

Number of audit reports analysed-Security / Military

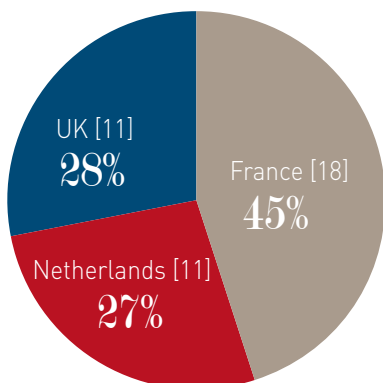


Security / Military Key Audit Matter Topics

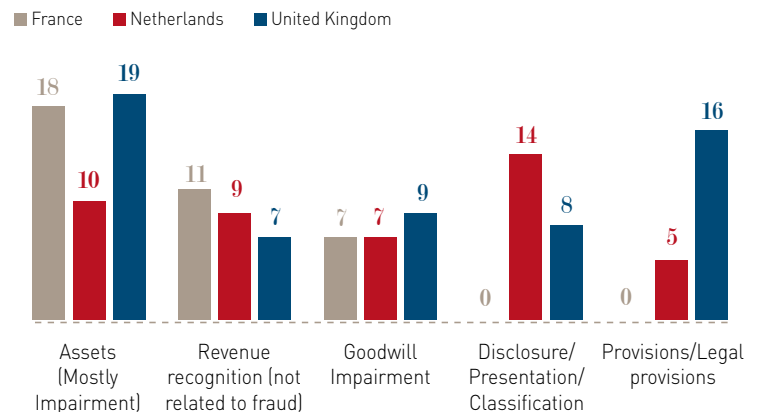


SERVICES (OTHER)

Number of audit reports analysed-Services (other)



Services (other) Key Audit Matter Topics







THE AVERAGE COUNT OF KEY AUDIT MATTERS PER AUDIT REPORT

THE AVERAGE COUNT OF KEY AUDIT MATTERS

3.5 is the average count of Key Audit Matters per audit report in all sectors and countries combined. A maximum of 9 Key Audit Matters have been recorded per audit report and a minimum of 1.

Count of Key Audit Matters per audit report	Maximum	Minimum	Average
France	8	1	3.3
UK	9	1	4.2
Netherlands	8	1	3.7
Other Counties	8	0	2.4

Count of Key Audit Matters per country

When disaggregating this number, we noted an average of 3.3 Key Audit Matters for France, 3.7 for the Netherlands, 4.2 for the UK and 2.4 for the other countries.

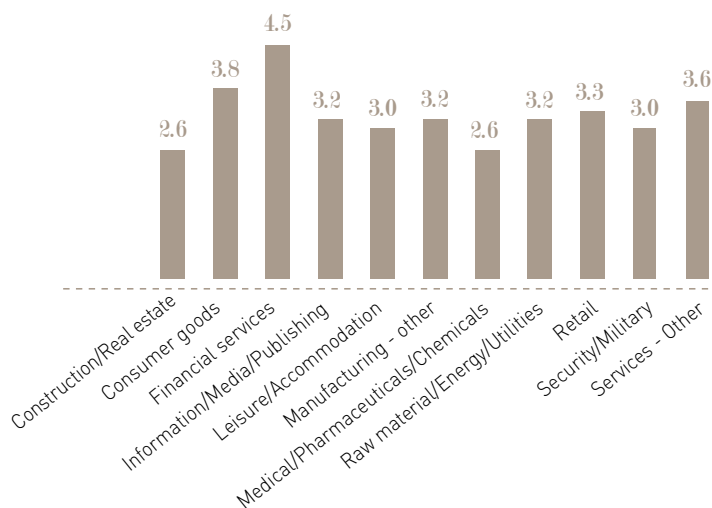


Count of Key Audit Matters in France

The auditors have identified between 1 and 8 Key Audit Matters per audit report during the first-year application of ISA 701. There was an average of 3.3 Key Audit Matters across all sectors which is one Key Audit Matter above the “Other countries” and slightly under the UK average of 4.1 Key Audit Matters.

When disaggregating the data per sector, we noted that the sector with the highest average number of Key Audit Matters per audit report was the financial services sector with 4 to 5 Key Audit Matters, with a maximum of 8 Key Audit Matters for one company. All other sectors presented a rounded average of 3 Key Audit Matters except for the consumer goods sector and other services sector for which the rounded average was 4 Key Audit Matters.

Average count of Key Audit Matters per audit report in France per sector

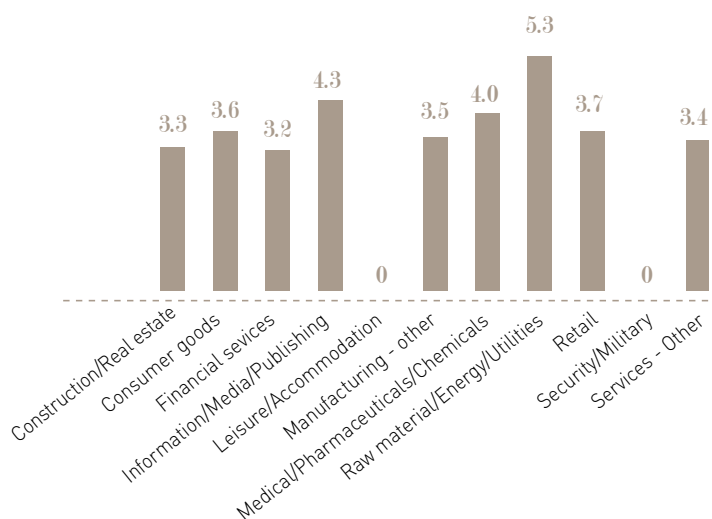


Count of Key Audit Matters in the Netherlands

3.7 was the average number of Key Audit Matters in the Netherlands for the year-end 2017 which is very similar to the average over the 2016 year-end audit reports. We noted a range from 8 Key Audit Matters at the highest point to 1 at the lowest. The raw material and energy sector has been skewed by one company out of three that presented 8 Key Audit Matters which has pushed the average up. Generally, all the average counts of Key Audit Matters were consistent from one sector to another.

We have compared each audit report to the prior year version and found that 36% of them had the same amount of Key Audit Matters, 21% presented additional Key Audit Matters and 43% reduced the number of Key Audit Matters; an average decrease of 1.3 Key Audit Matters. The variation of the count of Key Audit Matters per audit report follows a very different trend in comparison to the UK where, in general, we noted a 64% stability.

Average count of Key Audit Matters per audit report in the Netherlands per industry / sector

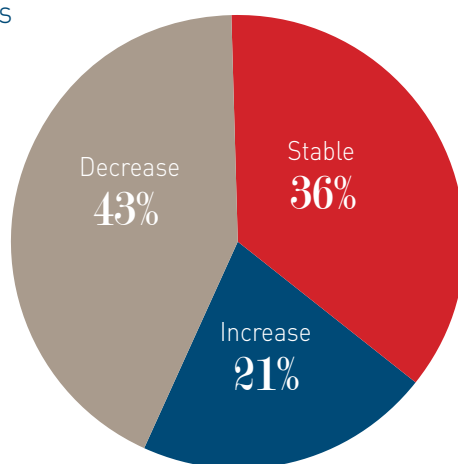




EVOLUTION IN THE NETHERLANDS

A comparison between 2017-2016

Evolution of Key Audit Matters



Decrease

In general, the decrease in the number of Key Audit Matters was associated with non-recurrent topics such as business combinations, applicable in 18% of the cases. Other frequent subjects identified were tax, initial engagements and IT controls. Two audit reports were completely outside of these perimeters changing their Key Audit Matters entirely compared to 2016 however, no specific justifications were apparent.

Focus on the sectors

We noted a 100% decrease in the number of Key Audit Matters in the construction / real estate sector where 50% of the deleted topics were related to a business combination that occurred in 2016 thus not recurrent in 2017. 45% of the services (other) industry also reduced the number of Key Audit Matters especially within two sub-sectors (telecommunication and semiconductors). 75% of the sub-sector telecommunication and postal services presented audit reports with a decrease in the amount of Key Audit Matters. In majority, the decrease observed was by two Key Audit Matters including in 67% of the cases, a non-recurrent transaction. The remaining Key Audit Matters' decrease within the services (other) sector was related to general topics such as tax, and accounting estimates, inventory excess and provision and sensitivities in the goodwill valuation. The sub-

sector industrial products (within the manufacturing sector) also saw a reduction in the number of Key Audit Matters in 67% of its audit reports. The reduction again was attributable to business combinations, however was also explained, in one case, by a change in the audit firm in 2016, hence not applicable in 2017.

Increase and Stability

Increases in the number of Key Audit Matters per audit report have been noted in many sectors, nevertheless, no specific trend has been identified. In general, the Key Audit Matters' increases were associated with non-recurrent topics such as business combinations, subsequent events disclosure, discontinued operations and businesses recorded as held for sale. Within the financial services industry, the banking and fund management sub-sector remained 100% identical to 2016 Key Audit Matters.

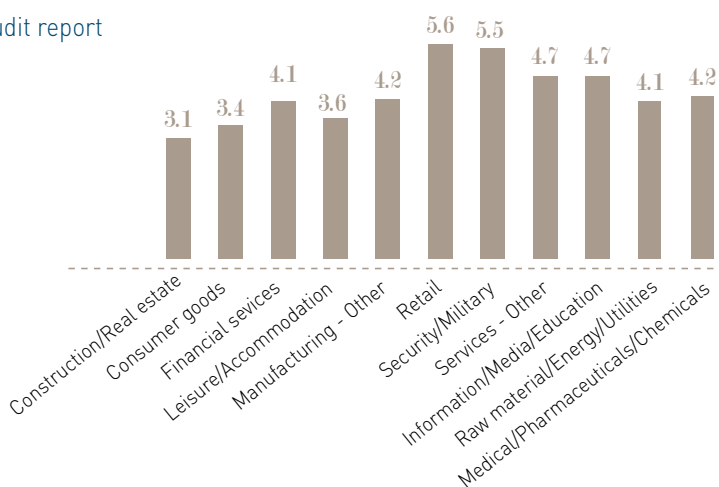
Substantially, the count of Key Audit Matters within their respective sectors, other than those highlighted in the decrease analysis, presented a mix of increases, decreases and stability.



THE UNITED KINGDOM

4.1 is the average number of Key Audit Matters in the UK for 2017 year ends which is very similar to the average number in our prior study for 2016 year-end audit reports. We noted a range from 9 Key Audit Matters at the highest point to 1 at the lowest. Even though the UK is recognised for presenting a greater number of Key Audit Matters compared to the other countries, only two companies presented nine Key Audit Matters in their audit report, thus not supporting the justification for pushing the average number of Key Audit Matters over the global average. The sub-sectors, manufacturing and telecommunications followed the same curves as their sampled countries' peers, presenting a higher count of Key Audit Matters, as was already previously disclosed in section 3.

Average count of Key Audit Matters per audit report in the UK (2017) per sector

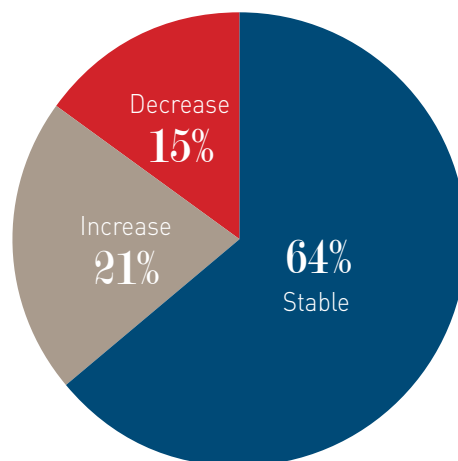


EVOLUTION IN THE UNITED KINGDOM

A comparison between 2017-2016

Count of Key Audit Matters Evolution

We have compared each audit report to their prior year version and found that 64% of them had the same amount of Key Audit Matters, 21% presented additional Key Audit Matters and 15% reduced their number of Key Audit Matters. For the vast majority, the fluctuation varied only by one Key Audit Matter. We noted a maximum difference of two Key Audit Matters for eight audit reports from which 50% had a new audit firm. The main reason for the increase in the remaining four companies was a one-off transaction (non-recurrent).



Stability

The 2017 audit reports scrutinised in the retail industry in the UK presented an identical picture to the 2016 year-end Key Audit Matters in terms of topics and average number. The medical / chemicals / pharmaceutical sector was also very stable in terms of the number of Key Audit Matters per audit report and topics compared to 2016 year-ends except for one entity which acquired a company. Generally, the construction/real estate, consumer goods, information/media industries have also been comparable to the prior year in terms of number of Key Audit Matters and topics.

Inconsistency

The financial services sector has been very inconsistent with many variations except for the insurance sub-sector for which we noted that all audit reports presented the same Key Audit Matters apart from two entities which both included a Key Audit Matter related to uncertainty over the recoverability of the parent company's investment in a subsidiary.

Decrease

We noted a 35% decrease of Key Audit Matters in the raw materials / energy sector. We especially noted the following topics' disappearance: the impairment of mining assets and accounting estimates in underground mining, the defined benefit pension plan (for two entities) and going concern (for three entities).

Increase

An increase was notable in the manufacturing industry where 50% of the audit reports contained additional Key Audit Matters. These were mostly related to one-off transactions such as business acquisitions or from a change in the audit firm or signing partner. Overall, for many companies across the sectors, the uncertainty over the recoverability of a parent company's investment in a subsidiary was a topic that we commonly distinguished being the rationale for increasing the number of Key Audit Matters.

In conclusion, as per the above analysis, we can conclude that the average number of Key Audit Matters in the United Kingdom, being 4.1 per audit report, is slightly above its peers.

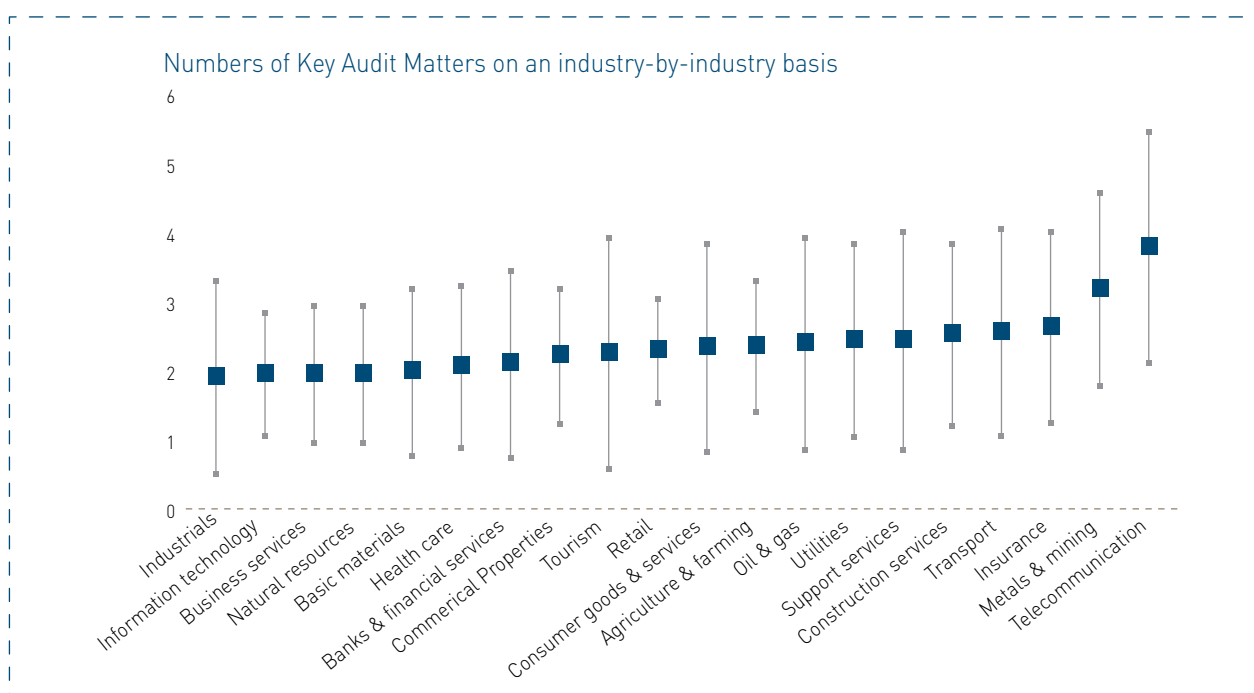
Even though there is no clear justification explaining the discrepancies, a possible explanation could include the specific regulations within the UK. For example, defined benefit pension schemes are regulated in the UK, thus, the accounting complexity involved would justify a greater number of Key Audit Matters. Of the total Key Audit Matters related to pensions across all countries, 67% is attributable to the UK.

Another possibility, nevertheless not pursued in this study, could be the explained by the UK auditors presenting similar subjects in different Key Audit Matters instead of grouping them all under one generic title.



The “Other countries”

As part of its research, the ACCA has found audit reports with up to 8 Key Audit Matters and others with no Key Audit Matters. Within its study, a chart has been included with the average number of Key Audit Matters reported per country among the audit reports reviewed. The combined average among the countries reviewed (excluding the UK) 2.4 Key Audit Matters with a maximum of 3.1 reported in Zimbabwe and a minimum of 1.9 reported in Nigeria. When looking at the Key Audit Matters from an industry / sector angle, we could observe in the ACCA's study the clear majority being in the range of 2 to 3 Key Audit Matters per audit report with the exception of the sub-sector raw material and mining with 3 Key Audit Matters and the telecommunication sub-sector almost reaching 4 Key Audit Matters. This is in line with the sampled countries analysed in this study. It was noted within the telecommunication sub-sector that the topics addressed were commonly **revenue recognition**, **tax** and **goodwill impairment** which contributed to the higher quantity of Key Audit Matters. On the other hand, the **industrial** sub-sector with an average of 1.9 Key Audit Matters per audit report represented the lowest point of the range.



¹ 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

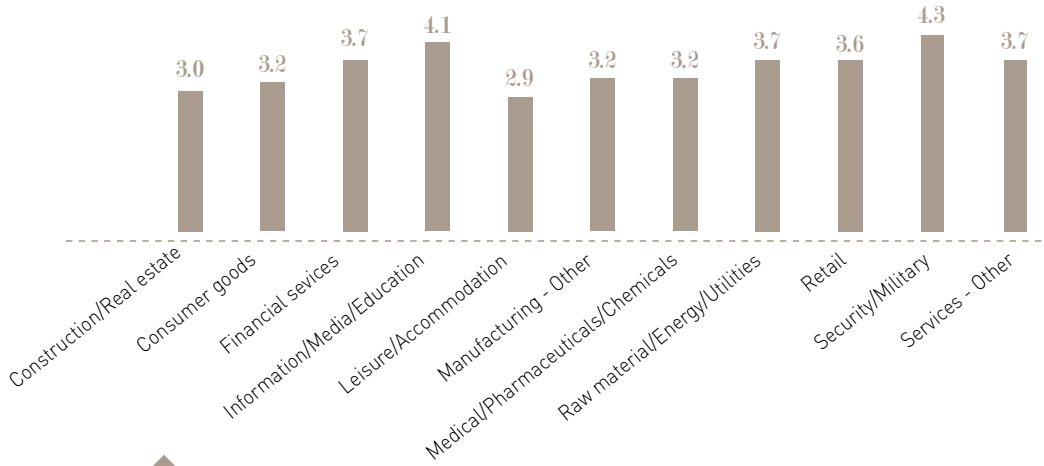


In conclusion, the “Other countries” have generally presented a lower number of Key Audit Matters. A potential explanation could be a different approach in the Key Audit Matters topic identifications by the ACCA versus our methodology. A second possibility could also be related to the fact that the “Other countries” did not record many individual Key Audit Matters disclosure topics compared to the UK, France and the Netherlands as analysed in section 3. Due to presentation and disclosure being highly linked to other topics, the lower number of Key Audit Matters could be a result of this being integrated into other Key Audit Matters rather than being split out into a specific individual Key Audit Matter.



COUNT OF KEY AUDIT MATTERS PER INDUSTRY / SECTOR

Average count of Key Audit Matters per audit report per industry / sector

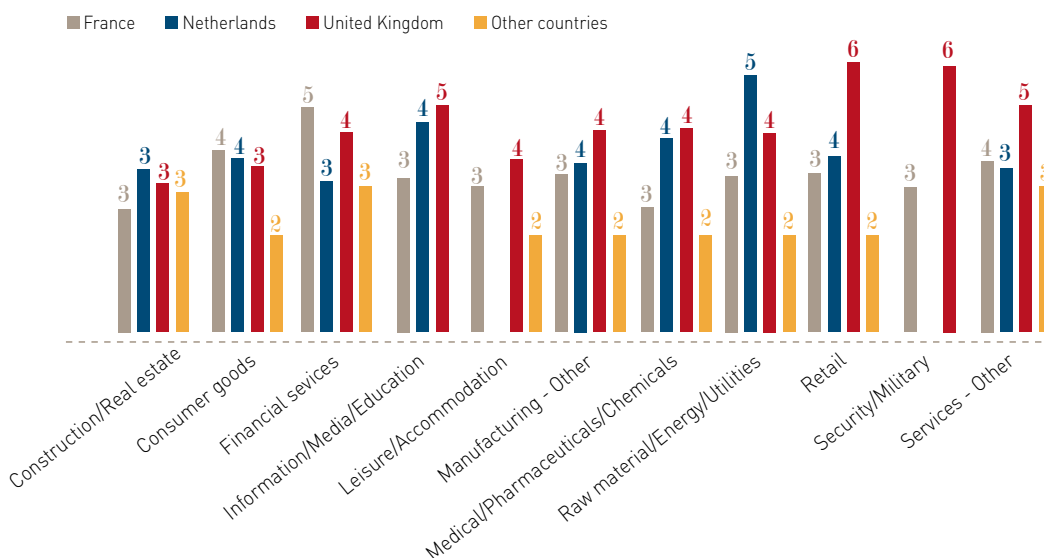


The combined average number of Key Audit Matters per audit report per sector projects an image of a certain consistency around 3.5 Key Audit Matters per sector. No major discrepancies are identified as per the chart. Nevertheless, some sub-sectors within the sectors presents commonly more Key Audit Matters such as the Banking, Insurance, Publishing, Oil and Gas and Telecommunication industries.



COUNT OF KEY AUDIT MATTERS PER INDUSTRY / SECTOR PER COUNTRY

Average count of Key Audit Matters per audit report per industry / sector per country



In line with the global count of Key Audit Matters per country, the UK tendency to cumulate more Key Audit Matters than the other countries are reflected across the majority of industry/ sectors apart from:

- Financial services sector where France cumulated 4.5 (rounded to 5) Key Audit Matters compare to 4 Key Audit Matters in the UK;
- Raw material/energy sector where the Netherlands have 5 Key Audit Matters in average compare to 4 in the UK; and
- Consumer goods sector generated 4 Key Audit Matters for both France and the Netherlands compared to 3 Key Audit Matters in the UK.

The **Construction / Real estate** sector, with 3 Key Audit Matters, was the only constant sector within the countries analysed. Most of the topics have been comparable in this sector supporting the similar average number of Key Audit Matters per country.

On its own, the **Other countries** segment has been, in general, represented by 2 Key Audit Matters for all sectors apart from **construction/real estate, financial services and other services**. When disaggregating this number per region, the African countries, apart from Nigeria, tended to have 3 Key Audit Matters while the Middle East (apart from UAE), Brazil and Romania tended to have 2 Key Audit Matters. Nigeria on its own had an average of 1.9 Key Audit Matters and UAE 2.8.

Generally, the only notable discrepancies are in the Retail and Security / Military industries where the UK is up by 2 and 3 Key Audit Matters respectively.

Retail

When looking into the details, the UK has an average of 6 Key Audit Matters which is skewed by several supermarkets within in the FTSE. The Supermarket companies tend to present 5 to 8 Key Audit Matters which have increased the retail average up for the UK. The supermarkets sub-sector has been very stable compared to prior year as the same number of Key Audit Matters have been presented for every company. Clothing companies presented 4 Key Audit Matters which is closer to the amount of Key Audit Matters in France, the Netherlands and in the "Other countries". Nevertheless, supermarket companies in France have presented 3.5 Key Audit Matters in average for which, the topics have been different to the UK.

Security/military

This sector, is composed of two audit reports from the UK which included 5 and 6 Key Audit Matters each and by one audit report from France highlighting 3 Key Audit Matters. This small population isn't operating in the same exact sub-sector and therefore, we have not pursued an investigation into the differences.







OTHER FINDINGS FROM THE FIRST YEAR APPLICATION

MAZARS' FRENCH STUDY

How did the French auditors choose their Key Audit Matters

The Mazars' French study published in July 2018 highlighted the main reasons supporting the Key Audit Matter selection.

85% of the Key Audit Matters were highly related to management's judgement or estimate in determining an accounting method or in valuing an account balance disclosed in the financial statements.

9% of the Key Audit Matters were related to one-off transactions for which the accounting method was considered complex such as business combinations.

These Key Audit Matters are not expected to recur in the following year.

6% of the Key Audit Matters mentioned the IT system complexity or the enormous database where the auditor would have encountered difficulties.

Additionally, French auditors have taken into account the materiality of the financial statement area or its potential impact on the consolidated financial statements of the group as main reason, since **64%** of the Key Audit Matters listed mentioned it.

The extent of the work performed – Response to the matters

As required in ISA 701, the auditor shall explain why they considered the matter to be one of most significant in the audit and, to the extent they consider it necessary as part of this explanation, its effect on the audit. Within the Mazars' French study published in July 2018, we have analysed the tendencies across the audit report in stating the audit response to the matters identified.

60% of the responses to the matters stated that the documentation obtained was appropriate and sufficient supporting the financial statements and disclosures.

47% of the responses to the matters recalled an expert or specialist intervention especially for challenging

management's assumptions where the specific knowledge and competencies required were beyond the audit team's expertise. IT specialist involvement was also noted in many cases to understand and test the complex IT environment feeding the accounting system.

23% of the responses to the matters mentioned procedures over the key controls, whether by understanding the design and implementation or by also testing those controls.

6% of the responses to the matters were related to IT / application / automated controls testing performed on top of other substantive procedures.

Key Audit Matters : unlocking the secrets of the audit

The Key Audit Matters' benefits

➤ **Contributes to better governance**

Key Audit Matters encourage better conversations between the auditor and those charged with governance

➤ **Contributes to higher audit quality**

Key Audit Matters help the auditor to focus on the areas of the audit requiring the most careful judgement

➤ **Contributes to higher quality financial reporting**

Key Audit Matters give preparers incentives to revisit financial reporting and disclosures in areas related to those

Improvements

As stated in the ACCA's study, "it appears that auditors may not comprehensively understand the interactions between ISA 570, ISA 701 and ISA 706". The report presents the example of a material uncertainty related to Going concern which has mistakenly been treated as both a Key Audit Matter and material uncertainty in the auditor's report.

The same confusion has arisen in the "emphasis of matter" paragraph where some auditors included the matter as a Key Audit Matter as well.

Good practices

As stated in the ACCA's study: "Using two columns or a table to distinguish each Key Audit Matter and its description from the procedures undertaken by the auditor.

Disclosing the monetary amounts of the balances in the financial statements to which the Key Audit Matter refers.

Providing a list of Key Audit Matters at the beginning of the report so that they can be appraised together and more easily compared between companies."

The fraud risk on revenue recognition

As noted in the ACCA's study, the FRC's review in the UK, following the first-year implementation, was critical towards the fraud risk over revenue recognition presented as a Key Audit Matter. It was not considered helpful to communicate a generic Key Audit Matter such as fraud risk over revenue recognition as this was not the idea behind the standard. The frequency of this topic presented as a Key Audit Matter has decreased significantly in the UK in subsequent years. The ACCA's research has highlighted that only a small number of audit reports in countries that are now implementing ISA 701 referred to fraud over revenue recognition as a Key Audit Matter (16 cases), and thus it appears that they have learnt the lessons from the UK.



6.

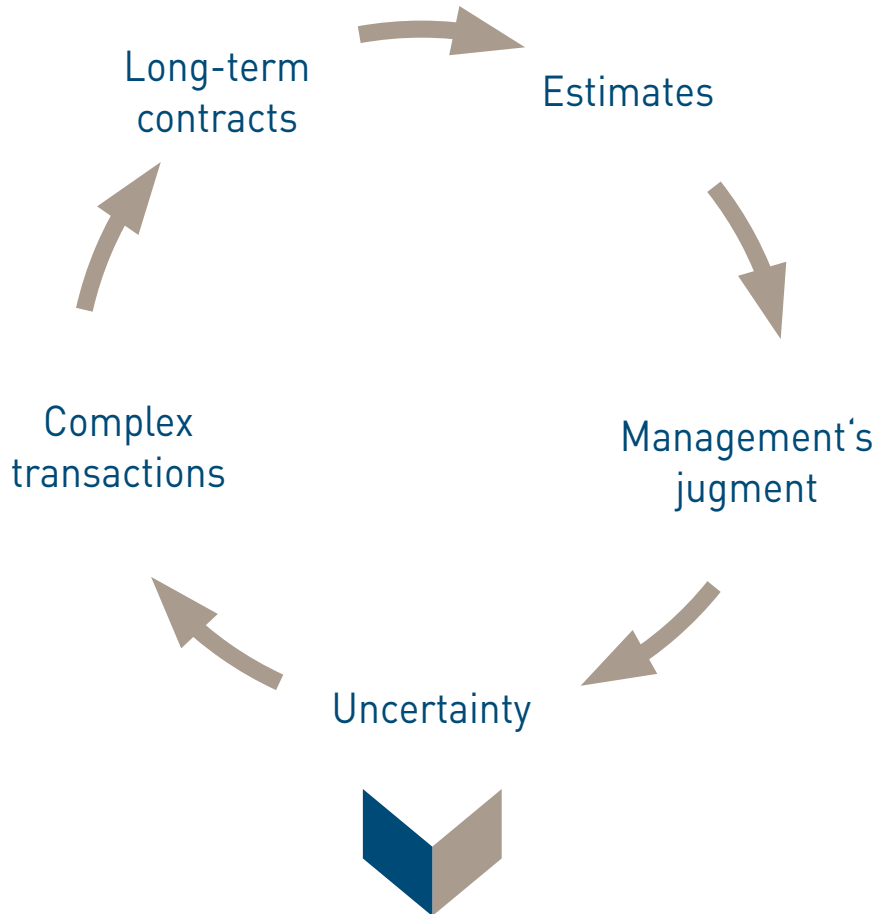


CONCLUSION



MAIN FINDINGS AND CONCLUSIONS

ALL CHARTS AND DATA PRESENTED ABOVE INDICATES THE SAME CONCLUSIONS, AND THUS, SIMILAR RATIONALE FOR SELECTING THE KEY AUDIT MATTERS.



NO SIGNIFICANT CHANGES BETWEEN THE 2017 YEAR-END AND 2016 YEAR-ENDS IN KEY AUDIT MATTERS

Based on the analysis of the results from the study above, 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 adding in "Other countries" in the study as well, it is clear that throughout those countries, similar tendencies with regards to the application of Key Audit Matters have also been noted and the objectives of the standards, in general, have been met.

Furthermore, it was observed that variation on Key Audit Matters between those in 2016 and 2017 were often explained by one-off transactions. Additionally, we identified in 2017 a recurrent new Key Audit Matter across the sampled audit report being the uncertainty over the recoverability of an investment in a subsidiary. Otherwise, the topics tend to show stability year on year. Even though we outline above that Key Audit Matters have been fairly consistent and comparable on those



geographical areas we've studied, it is clear that it is of utmost importance that Key Audit Matters are appropriately tailored to each audit report to ensure that the objective of ISA 701, to assist with greater transparency and more detailed reports that add value to the end user of the financial statements, are met. That being said, it will be interesting to note whether IFRS 9 and IFRS 15 first year application will have an impact on the count of Key Audit Matters and topics for the 2018 year-ends.

The new auditor's report standard under ISA (International Standard on Auditing) has recently

become applicable. The goal is to improve the **added value** from the audit report with the new auditor's report, which includes Key Audit Matters. The users of the financial statements anticipates improved **readability** of the report and more **transparency** on the work performed by the auditor.

The explanation of the foundations of the opinion expressed becomes, in the new audit report, a description of the risks of material misstatement which have been judged by auditors to be the most important for the audit, and are referred to as **Key Audit Matters**.

These key audit matters are therefore the **central elements** of this new report providing in the description, not only the reasons for which the risk of material misstatement constitute a Key Audit Matter, but also how the auditor has addressed these risks.

Auditors have deployed a real **pedagogy** with issuers and audit committee members especially by presenting the elements which they judged to have been the most important for the audit of the financial statements and the reasons which motivated this choice.

Finally, the issuers and members of the Audit Committee also highlighted the **transparency** of new audit reports: the key points of the audit enable the readers and users of the financial statements to better understand the work performed by the auditors.

Shared with management and the audit committee, the key audit matters participate in a **regular dialogue** and aids the governance of society.

The new audit report enables **better comparability** of audit reports between countries hence this benchmark survey aimed to be useful for different stakeholders.

Disclaimer:

Although the greatest possible care has been taken with this publication, there is always the possibility that certain information may become out of date or no longer be correct after publication. Neither publisher nor compilers can therefore be held liable for the consequences of activities undertaken on the basis of the publication. This study is based on our interpretation of publicly available data and information.





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MIRACLE s.r.o. : *Design & Layout*

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We would like to thank the ACCA (the Association of Chartered Certified Accountants) for the report *Key audit matters: Unlocking the secrets of the audit*, which we used as a reference for our current study.

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