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Title:

Insights into Key Audit Matters 31 December 2022 to 30 September 2023 reporting in Australia

Date:

2024

Citation:

Pinnuck, M., Wallis, M., Ghandar, A. & Pateman, Z. (2024). Insights into Key Audit Matters 31 December 2022 to 30 September 2023 reporting in Australia. CAANZ Chartered Accountants Australia and New Zealand.

Persistent Link:

<https://hdl.handle.net/11343/344979>

Insights into Key Audit Matters

31 December 2022 to 30 September 2023 reporting in Australia

The report is prepared jointly by Chartered Accountants Australia and New Zealand, the University of Melbourne, and the University of Queensland.

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Upon request, we can provide the names of entities for any KAM subject matter of interest (e.g., a list of entities that had a certain subject matter KAM).

We would also welcome any feedback regarding analysis that would be useful and could be included in future reports.

Please contact reportingassurance@charteredaccountantsanz.com

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Introduction

This report examines the frequency and nature of the reporting of key audit matters (KAMs) by Australian ASX listed entities that issued financial statements in 2023 (balance dates between 31 December 2022 and 30 September 2023). This is the third year we have examined the reporting of key audit matters (KAMs), and this report builds on our two previous publications in [2022](#)¹ and [2021](#)².

Research methodology

We sampled the full population of ASX listed entities with reporting periods ending from 31 December 2022 to 30 September 2023. Financial reports could not be obtained for some entities for reasons such as late filing, suspension, and delisting. The final sample is 1,831 entities.

We classified the KAMs into subject matters based on the following three broad decision rules:

- First, if the subject matter was not an impairment and related to a specific primary financial statement account (e.g., revenue, receivables, inventory, provisions) then that account was the category.
- Second, we had categories for any subject matter that related to impairments, exploration and evaluation, and business combinations. The impairment category includes impairments regarding all assets except those associated with an exploration and evaluation asset. The exploration and evaluation asset category includes all subject matters associated with this asset including impairments.³
- Finally, we had a range of subject matters that were relevant to the audit that may not directly affect a specific financial statement account (e.g., information technology, due to implementation of enterprise resource systems).

¹ [Insights into Key Audit Matters 2022](#)

² [Insights into Key Audit Matters 2021](#)

³ In constructing this year's dataset we improved the precision of the methodology for the classification of KAMs as either impairment or exploration. This has resulted in some variations between the 2022 comparatives in this report and last years reported 2022 data.

How many KAMs are reported?

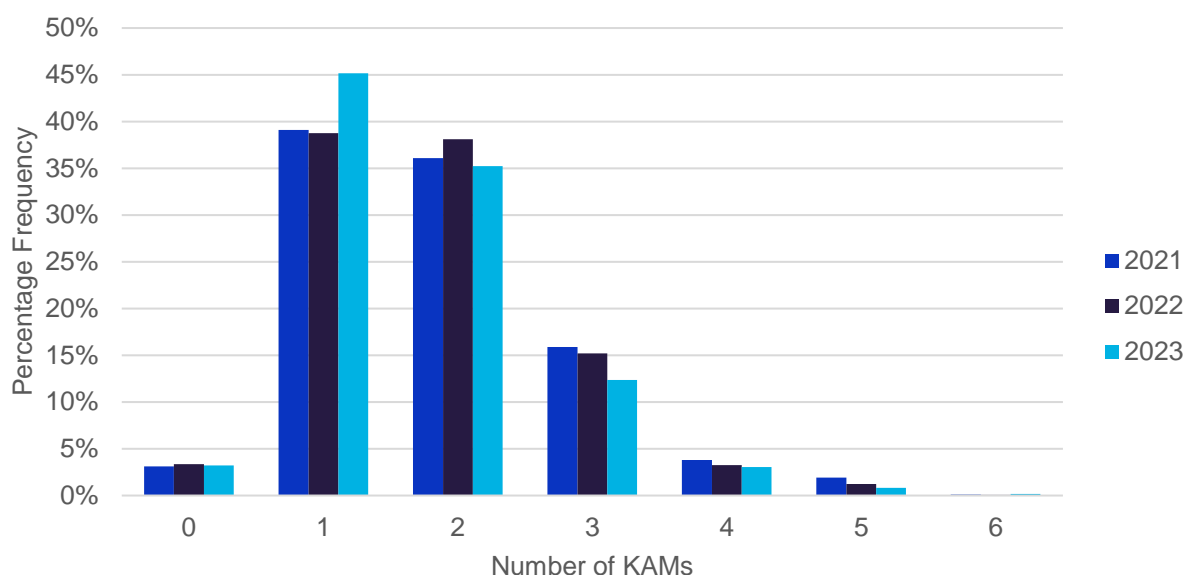
Key findings:

- Overall, a mean of 1.7 (2022: 1.8) KAMs are reported per audit report.
- The number of KAMs in an audit report in 2023 range from a low of 0 through to a maximum of 6. This is the same as 2022.
- In 2023 the distribution of the number of KAMs is tightly clustered around the mean with 45% of audit reports having 1 KAM and 35% of audit reports having 2 KAMs. There are very few audit reports with 0 KAMs (3%) or 4 or more KAMs (4%) (see Table 1 and Figure 1).
- Overall, there is very little change in this distribution from 2022. The small decrease in the mean number of KAMs from 1.8 to 1.7 is due to a lower number of KAMs related to business combinations. The frequency of KAMs due to business combinations varies across years depending on the level of M&A activity.

Table 1: Number of KAMs per audit report

2023		Percentage frequency		
Number of KAMs	Number of entities	2023	2022	2021
0	59	3.2%	3.4%	3.1%
1	827	45.2%	38.8%	39.1%
2	645	35.2%	38.1%	36.1%
3	226	12.3%	15.2%	15.9%
4	56	3.1%	3.2%	3.8%
5	15	0.8%	1.2%	1.9%
6	3	0.2%	0.1%	0.1%
		100%	100%	100%

Figure 1: Percentage frequency of number of KAMs per audit report



Which entities report the least and most KAMs?

Key findings:

- The number of KAMs per audit report varies significantly as a positive function of the size of the entity.⁴ The average number of KAMs for large entities is 2.07 compared to 1.36 for small entities (see Figure 2).
- The number of KAMs per audit report varies across industry sectors.⁵ The industry with lowest number of KAMs is Metals & Mining (average = 1.5 KAMs) and the highest are Utilities and Financials (average = 2.26 and 2.16 KAMs respectively) (see Figure 3).

⁴ We divide listed companies into five size portfolios from smallest to largest based on rank-order of reported total assets. The total asset breakpoints between size portfolios from smallest to largest portfolio are \$4.54m, \$13.28m, \$37.51m and \$190.66m. Therefore, as an example the smallest (largest) portfolio are all those companies with total assets less (greater) than \$4.54m (\$190.66m).

⁵ We classify industries using the two-digit MSCI/S&P Global Industrial Classification Standard (GICS) codes. Metals and Mining (GICS Industry 151040) is separated from GICS Sector 15 due to the large number of mining companies in the Australian market.

Figure 2: Mean number of KAMs by entity size

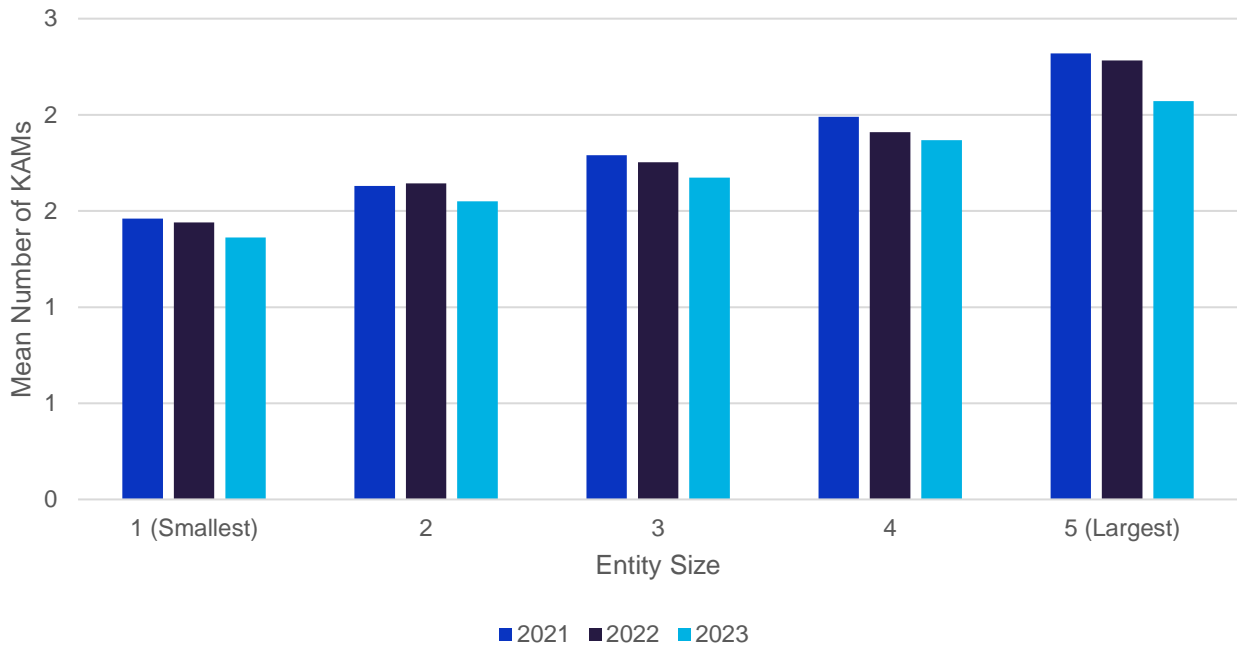
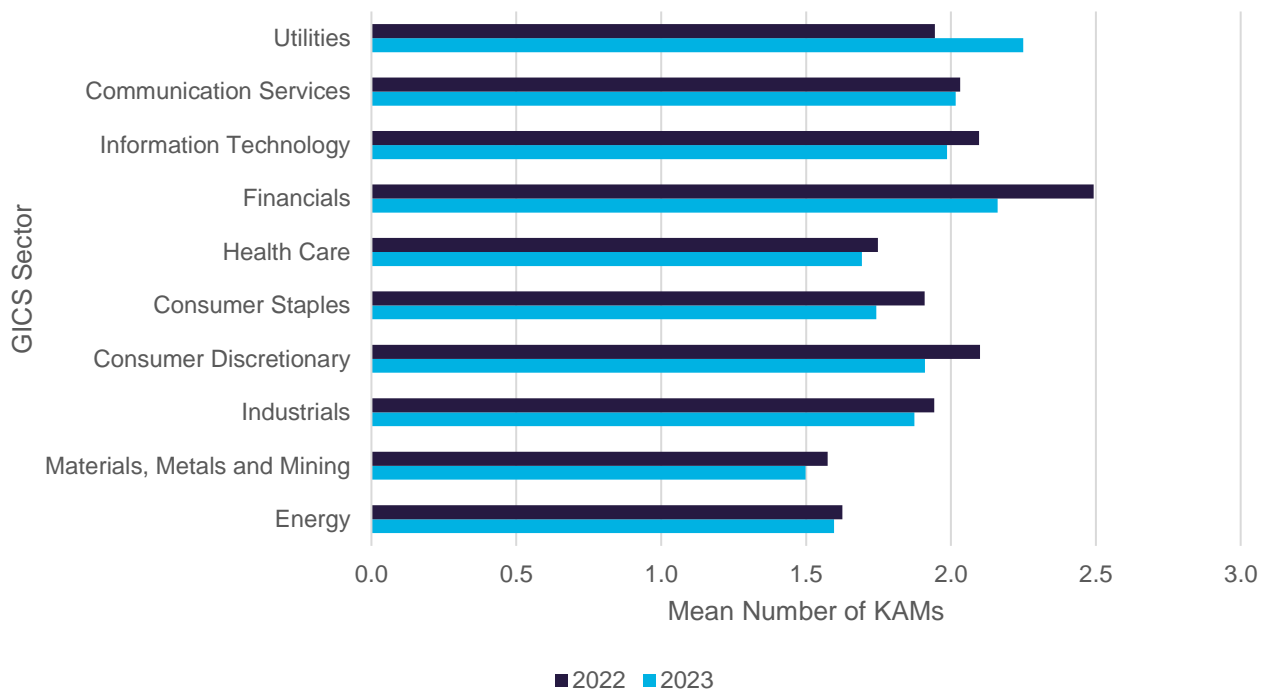


Figure 3: Mean number of KAMs by GICS sector



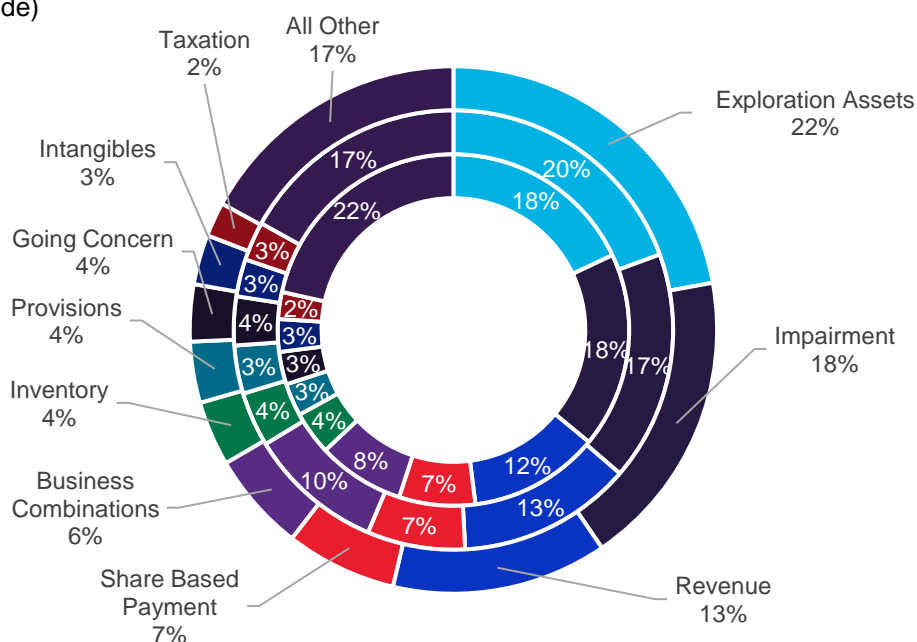
What subject matters do KAMs cover?

Key findings:

- Overall, we have classified 43 distinct KAM subject matters implying there is a broad range of different areas that are been identified as being of most significance in audits of financial reports.⁶ See the full list of subject matters in the table in the Appendix.
- These subject matters can be classified into a set of 10 categories that are most frequent and account for 83% of all KAMs and another set of 33 categories that are infrequent and account for the remaining 17% of KAMs.
- The most frequent KAM subject matter was exploration assets representing 22.1% of all KAMs.⁷ The next most frequent in order were: impairment (18.3%); revenue (13.2%); share based payments (6.8%); business combinations (6.1%); inventory (4%); provisions (3.7%); going concern (3.5%); intangibles (3.1%) and taxation (2.1%) (see Figure 4).
- There is a large and diverse number of less frequent subject matters. Examples include information technology (which usually involved implementation of a new IT system), the equity method of accounting for associates, and related party transactions.
- The most frequent KAM subject matters in 2023 are broadly consistent with 2022 (see Table 2). The most notable change is a decrease in the frequency of business combinations as a KAM subject matter from 10% (2022) to 6.1% (2023).

Figure 4: KAM by subject matter

This graph compares KAM by subject matter over the last 3 years (2023 – outside, 2022 – middle and 2021 – inside)



⁶ The methodology for classification of the KAM subject matter is discussed in the research methodology section of this report.

⁷ The “impairment” category includes impairments regarding all assets except those associated with an exploration and evaluation asset. The exploration and evaluation asset category includes all subject matters associated with this asset including impairments.

Table 2: Percentage frequency of KAM by subject matter

Subject Matter	2023	2022	2021
Exploration Assets	22.1%	19.5%	18.0%
Impairment	18.3%	17.0%	18.2%
Revenue	13.2%	12.9%	11.9%
Share Based Payment	6.8%	7.2%	6.6%
Business Combinations	6.1%	10.0%	8.1%
Inventory	4.0%	4.0%	4.1%
Provisions	3.7%	3.6%	3.1%
Going Concern	3.5%	3.6%	2.6%
Intangibles	3.1%	2.8%	3.2%
Taxation	2.1%	2.9%	2.5%
All Other	17.0%	17.0%	21.7%

What is the change in number and subject matter of KAMs?

The above analysis finds that across the population both the average number of KAMs (1.7) and the subject matter is approximately the same in 2023 as 2022. This however does not imply that the number and subject matter of KAMs within individual audit reports has not changed.

To examine the changes in KAMs we directly compare the KAMs of each entity in 2023 to those reported in 2022 and measure the extent of change.

Key findings:

- Overall, 59% of audit reports have the same number of KAMs as last year.
- For the 41% of audit reports that had a different number of KAMs this is mostly due to an increase (decrease) of a single KAM 13% (20%).
- The primary subject matter explaining both the increase and decrease is business combinations.

Table 3: Change in number of KAMs per audit report

Direction	Number change	Percentage frequency
Decrease	-4	0.1%
Decrease	-3	0.5%
Decrease	-2	3.1%
Decrease	-1	20.4%
No Change	0	59.0%
Increase	1	13.4%
Increase	2	2.6%
Increase	3	0.7%
Increase	4	0.1%
		100%

What is the length of KAMs?

Key findings:

- The mean number of words in the “Why Significant” section of a KAM across all entities is 129 (2022: 124).
- The mean number of words in the “Audit Procedures” section of a KAM across all entities is 157 (2022: 147).
- The range of the word count in the “Why Significant” section of a KAM is tightly clustered around the mean with most KAMs in a range between 87 and 158 words. Therefore, a KAM with less (greater) than 87 (158) words could be considered short (long)⁸ (see Figure 5).
- There is very little variation in the median number of words in the “Why Significant” section of a KAM across each of the most frequent KAM subject areas ranging from a low of 101 words for share-based payments through to 144 words for impairment (see Figure 6).
- There is a significant minority of the impairment KAMs that have a large number of words. Specifically, 25% of the impairment KAMs have more than 187 words.
- The table in the Appendix provides the median and a benchmark of high and low number of words for each KAM area for both “Why Significant” and “Audit Procedures”.

⁸ The 87 and 158 words are the 25th and 75th percentile respectively of the distribution of the word count.

Figure 6: Percentage frequency of number of words in “why significant” section of KAM

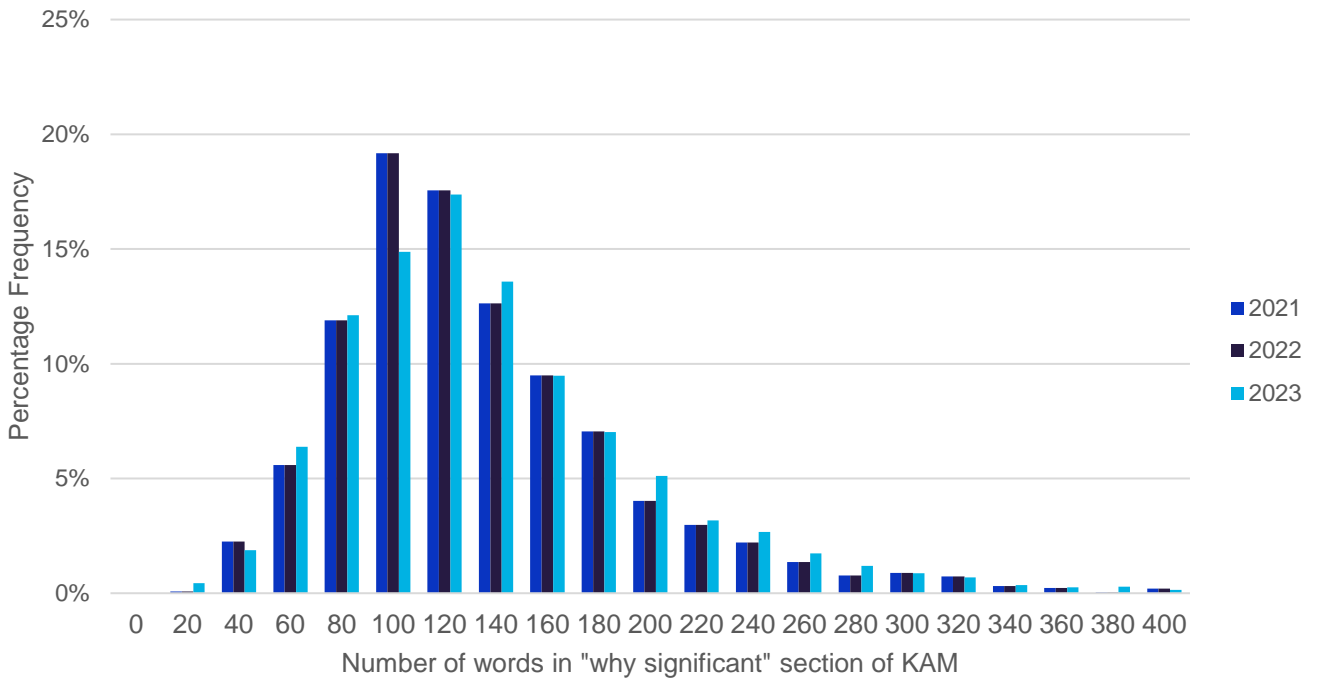
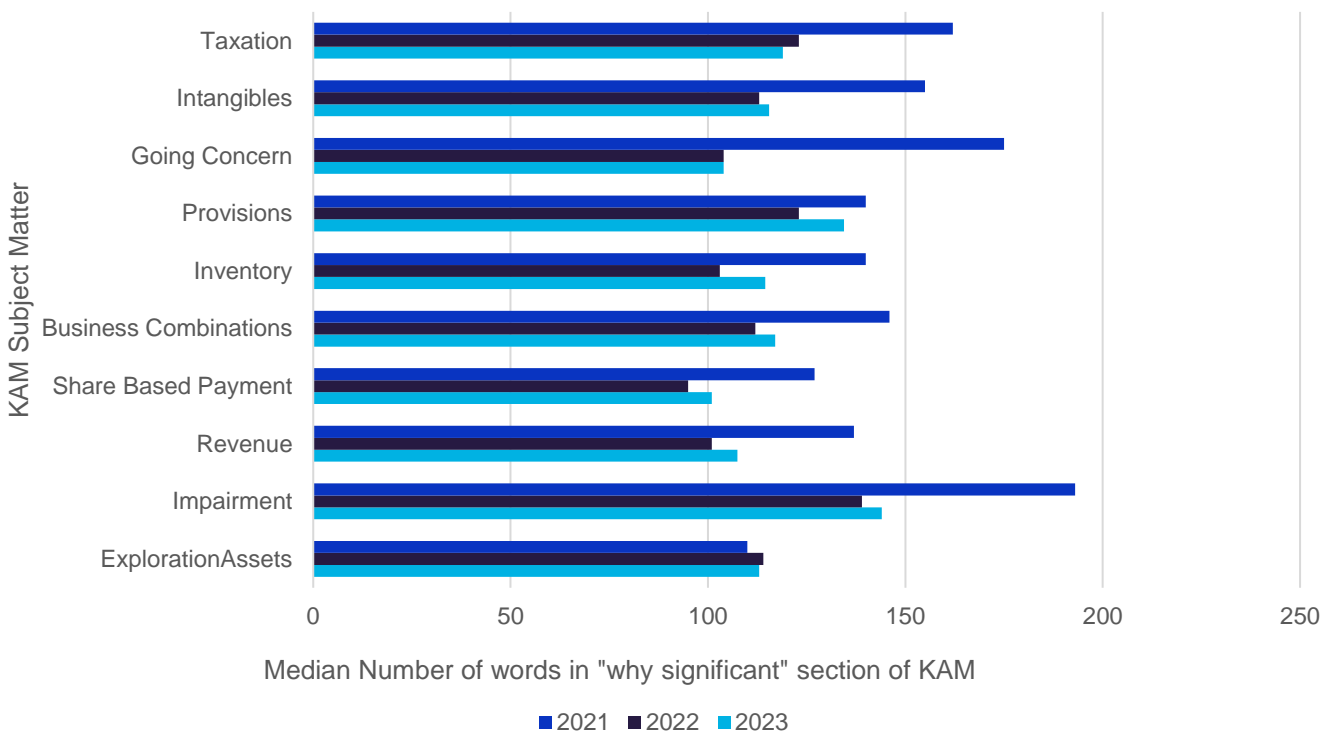


Figure 7: Median length of “why significant” section of KAM by subject matter



Appendix: Frequency and length of KAMs by subject matter

Frequency			Word Count					
Subject Matter	Number	Percentage	"Why Significant" Section of KAM			"Audit Procedure" Section of KAM		
			P25	Median	P75	P25	Median	P75
Exploration Assets	608	22.08%	90	113	140	90	113	140
Impairment	504	18.30%	102	144	187	102	144	187
Revenue	363	13.18%	75	108	143	75	108	143
Share Based Payment	187	6.79%	69	101	127	69	101	127
Business Combinations	167	6.06%	88	117	171	88	117	171
Inventory	109	3.96%	80	115	132	80	115	132
Provisions	103	3.74%	105	135	187	105	135	187
Going Concern	96	3.49%	78	104	147	78	104	147
Intangibles	84	3.05%	77	116	152	77	116	152
Taxation	58	2.11%	98	119	139	98	119	139
Investment Property	55	2.00%	117	173	200	117	173	200
Financial Assets	51	1.85%	86	111	147	86	111	147
PPE	44	1.60%	96	127	191	96	127	191
Financial Liabilities	35	1.27%	97	126	154	97	126	154
Borrowings	27	0.98%	84	110	167	84	110	167
DTA	27	0.98%	93	118	153	93	118	153
Equity Method	26	0.94%	72	116	165	72	116	165
Account Receivable	22	0.80%	79	104	113	79	104	113
Information Technology	22	0.80%	75	103	136	75	103	136
Lease	19	0.69%	88	120	146	88	120	146
Discontinued Operation	18	0.65%	110	126	144	110	126	144
Asset Disposal	12	0.44%	65	115	151	65	115	151
Contingent Liabilities	12	0.44%	104	153	181	104	153	181
Cash	11	0.40%	75	88	89	75	88	89
Expenses	10	0.36%	67	68	91	67	68	91
Joint Venture	10	0.36%	68	122	141	68	122	141
Share Capital	10	0.36%	99	132	202	99	132	202
Biological Assets	9	0.33%	101	122	131	101	122	131
Accounting Policy	8	0.29%	129	134	140	129	134	140
Financial Instruments	8	0.29%	104	123	194	104	123	194
Asset Acquisition	6	0.22%	109	117	129	109	117	129
Related Party Transactions	6	0.22%	83	103	147	83	103	147
R&D	5	0.18%	100	133	137	100	133	137
Derivatives	4	0.15%	169	184	209	169	184	209
Others	4	0.15%	86	116	145	86	116	145
Accruals	3	0.11%	75	94	167	75	94	167
Grant	3	0.11%	121	149	177	121	149	177
Abnormal events	2	0.07%	10	187	365	40	113	187
Management Fee	2	0.07%	115	125	135	115	125	135
Cash Flow Forecast	1	0.04%	114	114	114	72	72	72
Climate Change	1	0.04%	232	232	232	232	232	232
Loan Receivables	1	0.04%	122	122	122	122	122	122
Subsequent Events	1	0.04%	49	49	49	49	49	49
	2,754							

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