Entities listed in Canada and in the United States (“US”) will see significant changes to the content of their auditor’s report on annual financial statements in coming years. The changes are due to the new auditing standards on auditor reporting, approved by the Canadian Accounting and Assurance Standard Board (“AASB”) and the Public Company Accounting Oversight Board (“PCAOB”) in the United States.

What are the key changes and who does it apply to?

In late 2018 amendments to Canadian Auditing Standard 701, Communicating Key Audit Matters in the Independent Auditor’s Report (“CAS 701”) were approved by the AASB, requiring auditors to communicate key audit matters (“KAMs”) in the auditor’s report for audits of complete sets of general purpose financial statements.


When are these changes coming into effect?

For Canadian companies listed on the TSX (other than entities that are required to comply with National instrument 81-106, Investment Fund Continuous Disclosure) the requirements to communicate KAMs will be effective for financial years ending on or after December 15, 2020 (therefore effective for those companies with December 31, 2020 financial year ends).

Communication of CAMs will be required for large accelerated filers in the US subject to PCAOB requirements from June 30, 2019 (for most Canadian mining companies also listed in the US this means December 31, 2019 financial year ends, depending on various factors including market capitalization), with other entities subject to PCAOB requirements required to communicate CAMs from financial years ended on or after December 15, 2020 (i.e. December 31, 2020 financial year ends).
KAMs vs CAMs

Both the AASB’s and the PCAOB’s auditor reporting standards were adopted with the overall intent of communicating matters in the auditor’s report that are likely to be of interest to users. The PCAOB has stated that although the processes of identifying these matters vary across jurisdictions, there are commonalities in the underlying criteria regarding the matters to be communicated and the communication requirements, such that expanded auditor reporting could result in the communication of many of the same matters under the various approaches.¹

The process of identifying what constitutes KAMs vs CAMs can be illustrated as follows:

**Identification of KAMs**
- Matters communicated to those charged with governance
- Matters that required significant auditor attention in performing the audit
- Matters that are of most significance in the audit of the financial statements for the current period

**Identification of CAMs**
- Matters arising from the audit that were communicated or required to be communicated to the Audit Committee
- Relates to accounts or disclosures that are material to the financial statements
- Involve especially challenging, subjective, or complex auditor judgement

Source: KPMG Canada

While there are similarities in the specific factors and other considerations that an auditor will use in determining KAMs and CAMs, there are certain differences in their definitions. For example, the implementation of a new information technology ("IT") system during the period may be an area of significant auditor attention and may in some cases be identified and communicated as a KAM. Since the PCAOB’s definition of a CAM requires that the matter relate to an account or disclosure that is material to the financial statements, the new IT system would likely not in and of itself result in a CAM.

*We expect increased communication between a company’s management, audit committee and auditor over what information communicated to those charged with governance may represent KAMs or CAMs. We also expect audit committees and auditors to discuss drafts of the audit report earlier during the year and with a different focus than before.*


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Key Audit Matter survey

For some internationally listed mining companies, where audits are performed in accordance with the International Standards of Auditing ("ISAs"), the communication of KAMs has been effective for a number of years. KPMG surveyed the auditor’s reports of 14 international mining companies on the number and nature of KAMs reported.

Number of KAMs communicated

The number of KAMs communicated in the auditor’s reports of mining companies surveyed ranged from 1 to 5 with the most common number of KAMs communicated by auditors being 3.

Number of KAMs

![Number of KAMs chart]

- Antofagasta Mining
- Gold Fields, Harmony Gold and Randgold
- Anglo American, Anglo Gold Ashanti, DRD Gold, Newcrest Mining, Rio Tinto, South 32 and Vale
- Sibanye Mining and Lonmin
- BHP

Nature of KAMs communicated

Of the 14 mining companies surveyed, 12 of the auditor’s reports included communication of KAMs related to the valuation of mineral interest. Taxes and asset retirement obligations were also commonly communicated KAMs with more than half of the auditor’s reports surveyed including these items as KAMs.

Nature of KAMs

- Impairment/valuation of non financial assets
- Taxes
- Asset retirement obligations
- Impairment reversal
- Going concern
- Acquisition related
- Recoverability of government receivables
- Accounting for dam failure
- Net realizable value of inventory
- Sale of assets
- Deferred revenue

The implementation of KAMs and CAMs will have a significant impact on information communicated in the auditor’s report for Canadian and US listed companies in the coming years. Management, audit committees and auditors should have frequent interaction and communication about the upcoming changes and matters that may ultimately constitute key or critical audit matters.

We expect that, in most audits, the auditor would determine that at least one matter would meet the definition of a KAM or a CAM.

Source: KPMG Canada

The implementation of KAMs and CAMs will have a significant impact on information communicated in the auditor’s report for Canadian and US listed companies in the coming years. Management, audit committees and auditors should have frequent interaction and communication about the upcoming changes and matters that may ultimately constitute key or critical audit matters.

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