



Key Audit Matters

Auditor's report snapshot

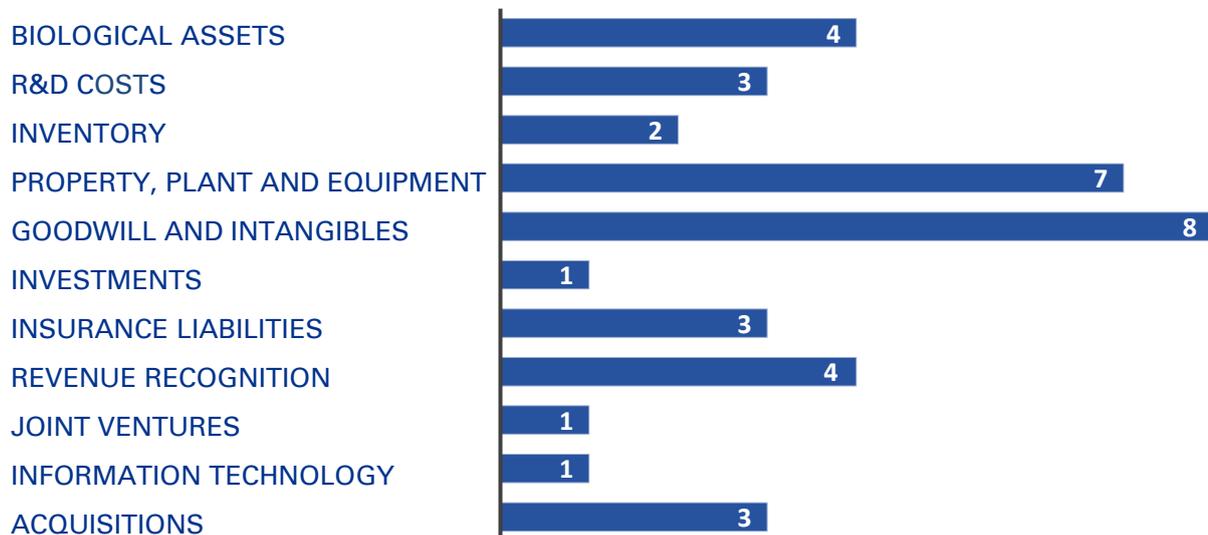
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December 2016 was the first period where all listed entities had to issue new style audit reports, including Key Audit Matters (KAMs). This snapshot provides insights on those KAMs, which are the matters that required significant auditor attention. Below are the themes from 16 entities listed on the NZX with December year-ends that reported KAMs.

Reports by industry



KAMs by topic



Number of KAMs

With 16 December balance date audit reports released, the top 4 Key Audit Matter topics represented 60 percent of all KAMs communicated.

KAM topic

Goodwill and Intangibles



Observations

- The most common KAM relates to carrying value assessments or impairment of Goodwill and Intangibles.
- This KAM was reported across three of the six industries, being Financial Services (FS), Technology and Telecommunications (TMT), and Infrastructure, Government and Health (IGH). This KAM appears most frequently within FS, with 100% of FS reports including this KAM.
- Common reasons cited as driving the greater auditor attention include the requirement to test goodwill annually for impairment, and the significant judgment associated with forward-looking estimations in valuation models.

KAM topic

Property, Plant and Equipment (PPE)



Observations

- Majority of PPE KAMs reported within the Corporates, Energy and Natural Resources (ENR) and Agribusiness sectors, with 100% inclusion rates in each.
- Majority of PPE KAMs relate to the valuation of Land and Buildings, with a common reasons cited including the significance of the balances and judgment involved in deriving these values. Also included within this category is the valuation of investment properties.
- In all cases, the auditors relied upon external experts to gain comfort over these balances and paid particular attention to the assumptions used in the valuation models of these assets.

KAM topic

Revenue Recognition



Observations

- Revenue Recognition was included evenly across three industries, with no one particular industry more likely to include this KAM. This indicates that issues surrounding revenue recognition may be applicable to any industry and in fact relates more to the specifics of each reporting entity
- Of the four Revenue KAMs reported, three related to revenue from contracts. The common reason cited for these were due to the complex calculations involved in deriving these balances.
- This was the only KAM to relate solely to the income statement.

KAM topic

Biological Assets



Observations

- Biological assets only reported within the Agribusiness sector, but with a 100% inclusion rate. In addition, one report included two KAMs relating to Biological Assets, demonstrating how critical this KAM is to the Agribusiness sector.
- All of these particular KAMs related to the valuation of fruit trees or the unharvested fruit remaining on the trees at balance date.
- The common reason cited for this matter to be considered a KAM is due to the subjective judgements and assumptions in the valuation models, many of which are unobservable in the market.

Other observations on the auditor's report

- Gone are the days of the historical two page auditor's report. The average length of enhanced auditor' reports is 4.1 pages, mainly because of the inclusion of KAMs, but also due to certain reports including materiality and scoping. Compared to our Australian counterparts, the New Zealand reports are on average, one page shorter. This is partly due to most NZ reports utilising the option to remove standardized text from the auditor's responsibilities section and cross-reference to the full descriptions contained on the website of the XRB.
- Despite being optional, the majority of reports (75%) included materiality, with three out of the four Big 4 firms including materiality in their reports. There were differences in the way materiality was disclosed, with some firms reporting only the materiality figure, while others report the figure along with the benchmark and percentage used. The most common benchmark reported was Profit Before Tax. Scoping was included in approximately 40% of the audit reports reviewed, however, no specifics of what exactly was considered in or out of scope was provided. Instead, a high-level explanation of what scoping is, in the context of an audit, was given.
- In New Zealand two of the big four audit firms have included some form of 'findings' or results from procedures performed over KAMs in their audit reports. This represented 56% of audit reports issued.
- The average number of KAMs per audit report was 2.3. There were three reports with only one KAM, and one report that included five KAMs – the most KAMs in any report.
- There were a few differences comparing Australia's first reporters and ours, other than the length of the audit report. Australian entities had taxation as a common KAM. This was found in 21% of their reports, but found in none of ours. Australia also had 4 entities with Material Uncertainties Related to Going Concern. NZ had no reports which included this. However these were all found in Australia's ENR industry, which we only had one report released in this industry so far.
- The majority of KAMs focus on the valuation of balance sheet items, with very few income statement items being included as a KAM (other than Revenue). Common reasons cited for including KAMs relating to the valuation of balance sheet items were the significance of the account balances and the judgements and assumptions involved.

The implementation of KAMs is the biggest change to auditing standards and the audit report since the introduction of the clarity standards in 2004.

The platform for change was to provide insights to shareholders on the conduct of the audit, previously only viewed by those in the board room.

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