

Applicability of Key Audit Matter (KAM)

In the year 2016, ICAI revised the extant suite of auditor's reporting standard (i.e. SAs 700, 705, 706) and also issued a new standard SA 701, "Communicating Key Audit Matters in the Independent Auditor's Report". These standards were applicable for audits of financial statements for periods beginning on or after April 1, 2017. However, considering the magnitude of changes driven by these standards, the Council of ICAI has deferred these standards by one year. Now these standards are effective for audits of financial statements for periods beginning on or after April 1, 2018.

Although, the ICAI Council has again suggested to defer the effective date of KAM by 2 years and referred the matter to NFRA for approval but still **there is no clarification from Govt and this silence should not be taken as consent for deferment.**

With the introduction of new Standards on Auditing – SA 701 by ICAI, the members have been entrusted with the new responsibility along with opining on the financial statements, to communicate the key audit matters (KAM).

This SA applies to audits of complete sets of general purpose financial statements of listed entities and unlisted entities in situations where law or regulation requires communication of key audit matters in the audit report.

Now, it is to the professional judgement of the auditor to identify significant matters that requires significant auditors attention. The same needs to be communicated with those charged with governance and decide what should be reported as KAM in the audit report.

It is important to note that KAM is not a substitute for disclosure in the financial statement as per the applicable GAAP. It is not a substitute for modified opinion by the auditor and is not a substitute for reporting as per SA 570, when material uncertainty relating to the events or conditions that may cast significant doubt on entity's ability as a going concern

The large CA fraternity who got the allotment of bank audit and has to submit audit report in a short period span is still in the dilemma whether KAM should be included by branch auditors in their reports to the central auditors of the listed banks. Auditors of some banks have already included KAM in their reporting.

In my view, this SA should also apply to the branch auditors of listed banks. The professionals should thrive to include KAM in audit reports, so there is no ramification in case of no deferment.

CA Dheeraj Khandelwal

Please note that the above views are in the capacity of individual and should not be constituted as view/clarification by any statutory body