

# Research: Cost and Benefits of Key Audit Matter Reporting

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## Finance

# At Last, a British Auditor Actually Does Its Job

Travel operator Thomas Cook has been too fond of using flattering profit adjustments. Fair play to Ernst & Young's auditors for calling this out.

By Chris Bryant

February 17, 2019, 11:00 PM PST



Thomas Cook's auditors deserve a nice holiday somewhere warm. *Photographer: DANIEL ROLAND/AFP*

Source:

<https://www.bloomberg.com/opinion/articles/2019-02-18/thomas-cook-s-auditor-ernst-young-actually-does-its-job>

Key Audit Matters = The most significant matters encountered by the auditor during the audit

# Carrying Value of Exploration and Evaluation Assets

## Key Audit Matter

Exploration and evaluation assets of \$8,953,712 form a significant proportion of the Group's assets as shown in note 13.

The recovery of the carrying value of the exploration and evaluation assets are subject to successful exploration, exploitation or sale in the future and as such is subject to management judgement in accordance with AASB 6 – Exploration for and Evaluation of Mineral Resources. Management have relied on the valuations prepared by third party expert valuers to support the carrying value of exploration assets at 30 June 2017.

The Group's exploration and evaluation assets are also exposed to market, economic, political and seasonal influences which may affect the value.

Exploration and evaluation expenditure is recorded in accordance with the accounting policy detailed in note 1 of the notes to the financial statements.

## How the matter was addressed in our audit

Our procedures in relation to the carrying value of exploration and evaluation included, amongst others:

- Assessing the competence, capabilities, objectivity and independence of the management experts engaged to value the assets, and the methodology they adopted;
- Analysing the financial and operating commitments of the licenses to see whether sufficient expenditure has been included in the cash flow forecast to ensure expenditure conditions are met;
- Assessing the Group's rights to tenure over the relevant exploration areas by obtaining the license agreements and also considering whether the Group maintains the tenements in good standing;
- Assessing the ability of the Group to finance any planned future exploration and evaluation activity; and
- Ascertaining whether management has any plans to abandon the held tenements.

# Canadian Implementation of KAM Reporting

TSX – December 15, 2020

TSX-Venture and other listed entities – ED proposes  
December 15, 2021

Concerns about cost and benefits for smaller listed  
entities

## Research Project

362 Australian listed entities

Year ends between December 15, 2016 and  
December 15, 2017

Market capitalization < AU\$10 million

## Costs of KAM Reporting

Average change in audit fees	-2.9%
Median change in audit fees	0.0%
Firms with a decrease in audit fees	48.5%
Firms with no change in audit fees	5.2%
Firms with increase in audit fees	46.3%

## Benefits of KAM Reporting - Signaling

	Mining & Metals	Oil & Gas	Technology & Medical	Utilities/ Transport/ Industrial	Services/ Food/ Retail
Exploration and evaluation assets	①	①			
Goodwill and intangibles			①	①	①
Other noncurrent assets	③	②		③	
Acquisitions and disposals	②		②		③
Liabilities and provisions	③	③		②	
Revenue recognition			②	③	②
Going concern					③



## Benefits of KAM Reporting - Transparency

“The purpose of communicating key audit matters is to enhance the communicative value of auditor’s reports by providing greater transparency about the audit that was performed.” (CAS 701 paragraph 2)

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## Transparency

Looked at all gold mining companies that reported significant impairments during the year

Seven entities had market capitalization < AU\$10 million – none provided good transparency

15 entities had market capitalization > AU\$10 million – nine provided good transparency and six did not

## Conclusions

Found no significant impact on audit fees

KAM reporting provided an effective 'signal' to readers of the key audit matters

In some cases, KAM reporting did not provide 'transparency' about those key audit matters

## Further Details

In Focus article – Key Audit Matter Reporting for Smaller Public Entities

Costs and Benefits of Key Audit Matter Reporting for Smaller Public Entities: The Australian Experience – available at: <http://hdl.handle.net/10214/14306>