



Key/Critical Audit Matters

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Catherine Tai

CPA, CA



- Catherine graduated from the University of British Columbia with a Bachelor of Commerce in 1995 and obtained her C.G.A. designation in 2002.
- In 2006, Catherine joined Davidson & Company and practices primarily in the auditing of public companies, many of which have international operations.
- Catherine is an active member of the firm's Audit and Assurance Committee, and operates with a high level of technical, communicative, and interpersonal skills, resulting in long-term relationship building with her clients.
- Away from the office, Catherine enjoys spending time with her family, hiking and is an outdoor enthusiast.
- She is also fluent in Mandarin and Cantonese.

Key/Critical Audit Matters

Background information

- Why the change?
- January 2015 – International Auditing and Assurance Standards Board (“IAASB”) issued its new and revised auditor reporting standards, ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*.
- June 2017 – PCAOB adopted a new standard, *The Auditor’s Report on Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*
- Late 2018 – Auditing and Assurance Standards Board (“AASB”) made amendments to CAS 700, *Forming an Opinion and Reporting on Financial Statements*

Key/Critical Audit Matters (cont'd)

Effective Dates

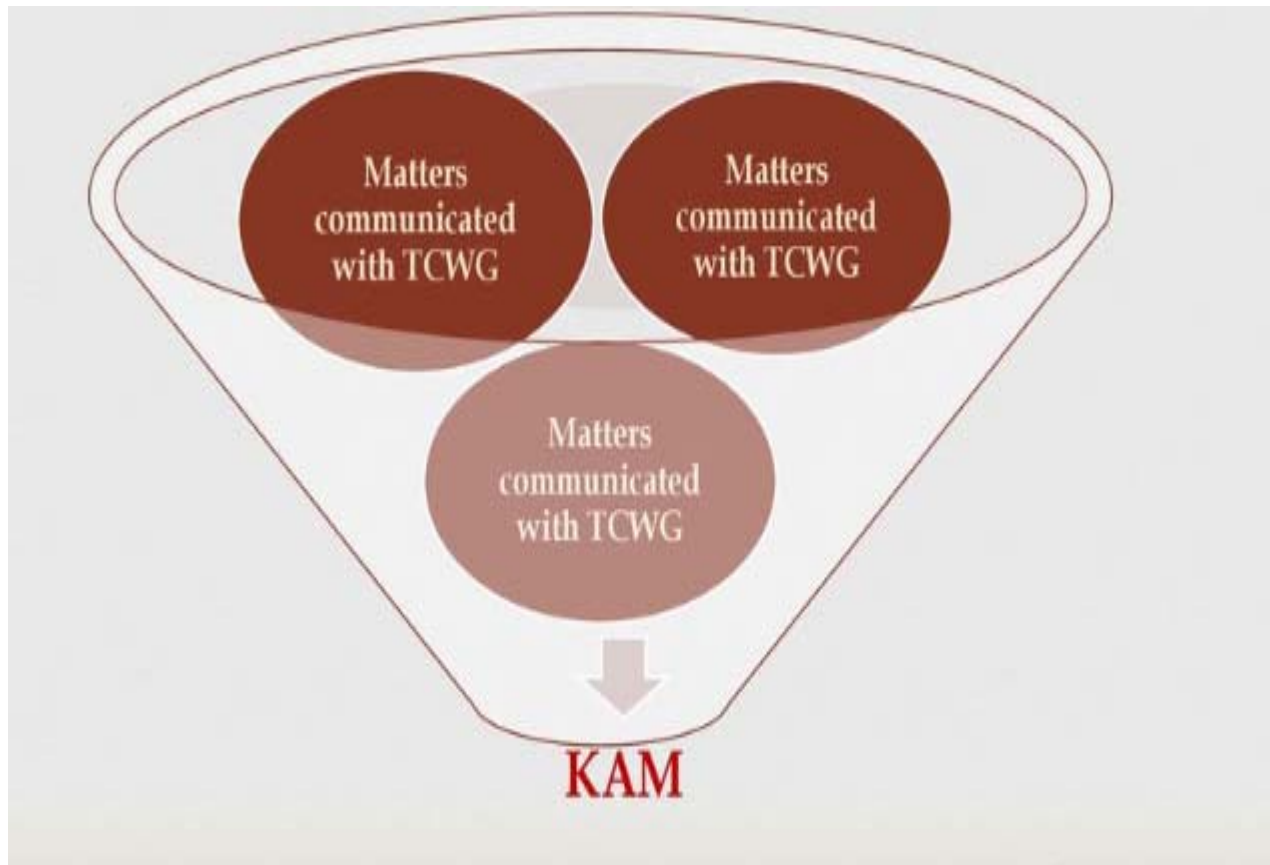
- TSX companies – fiscal periods ending on or after December 15, 2020
- Other listed entities – fiscal periods ending on or after December 15, 2022
- SEC filers:
 - Large accelerated filers – fiscal periods ending on or after June 30, 2019;
 - Other filers – fiscal periods ending on or after December 15, 2020

Key/Critical Audit Matters (cont'd)

What are KAM's and how are KAM's determined?

- Matters that, in the auditors' professional judgment, were of most significance in the audit of the current period
- Selected from matters communicated with those charged with governance
- Required significant auditor attention in performing the audit

Key/Critical Audit Matters (cont'd)



Key/Critical Audit Matters (cont'd)

Examples of common KAMs:

- Impairment of assets
- Tax
- Goodwill impairment
- Management override of controls
- Revenue recognition



Key/Critical Audit Matters (cont'd)

Required Elements in the Description of a KAM:

- **Why** the matter was considered to be one of the most significance in the audit and therefore determined to be a KAM; and
- **How** the matter was addressed in the audit

Key/Critical Audit Matters (cont'd)

Additional consideration:

- Audits with no KAMs;
- Material uncertainty related to going concern

Key/Critical Audit Matters (cont'd)

Illustrations of KAMs

Carrying value of Inventory

Risk Description

Refer to Note xx (accounting policy). Note xx to these Financial Statements.

The Group has recognized a total inventory provision of Rs. XX million in arriving at a total inventory value of Rs. XX million

The Group has significant levels of inventories and significant management judgements are taken with regard to categorization of inventories into obsolete and/or slow moving and which should be therefore be considered for provision. Estimates are then involved in arriving at provisions against cost in respect of slow moving and obsolete inventories to arrive at valuation based on lower of cost and net realizable value.

Given the level of significant management judgements and estimates involved this is considered to be a key audit matter.

Our Response

Our audit procedures included:

- Challenging the management with regard to the calculation methodology, the basis for provision and the process with respect to inventory provision.
- Testing the design, implementation and operating effectiveness of the key controls management had established for provision computations and to ensure the accuracy of the inventory provision
- Assessing the adequacy of, and movements in, inventory provisions held, by recalculating a sample of items included within the provision to ensure appropriate basis of valuation.
- Evaluating, on a sample basis, whether inventories were stated at the lower of cost or net realizable value at the reporting date by comparing the sales prices of inventories subsequent to the reporting date.
- Evaluating the appropriateness of the assumptions used based on our knowledge and information of the client and the industry.