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# Lessons Learned from Firms Implementing KAM Communications on Audits of TSX-Listed Entities

Roadmap to Developing a Successful  
KAM-Implementation Process

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April 2021

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# Introduction

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Communicating key audit matters (KAMs) in the auditor's report is the biggest change to the auditor's report the profession has seen in the last ten years. While KAM requirements have been in effect in jurisdictions around the world for about four years, it is a relatively new requirement for Canadian auditors and the last component in the enhanced auditor reporting project.

Canadian accounting firms have been developing a KAM-implementation process and performing KAM "practice runs" as they prepared to communicate KAMs in the auditor's report of entities listed on the Toronto Stock Exchange (TSX).

Firms that performed practice runs said it was a beneficial experience. They gathered initial feedback on their established processes, including firm tools and guidance developed to support implementing KAM communications. Firms indicated that management and the audit committee also benefited from the practice runs, which helped them understand what to expect once the requirements are in effect.

Staff of the AASB interviewed firm representatives from the department of professional practice, or the equivalent, to understand:

- the challenges faced during the practice runs;
- what went well when implementing the established processes; and
- what firms will do differently in the live setting.

Based on these interviews, staff created a general timeline for a firm to consider in communicating KAMs in the auditor's report. This timeline is designed for those performing audits of other listed entities<sup>1</sup>, who will be communicating KAMs for audits of financial statements for periods ending on or after December 15, 2022.

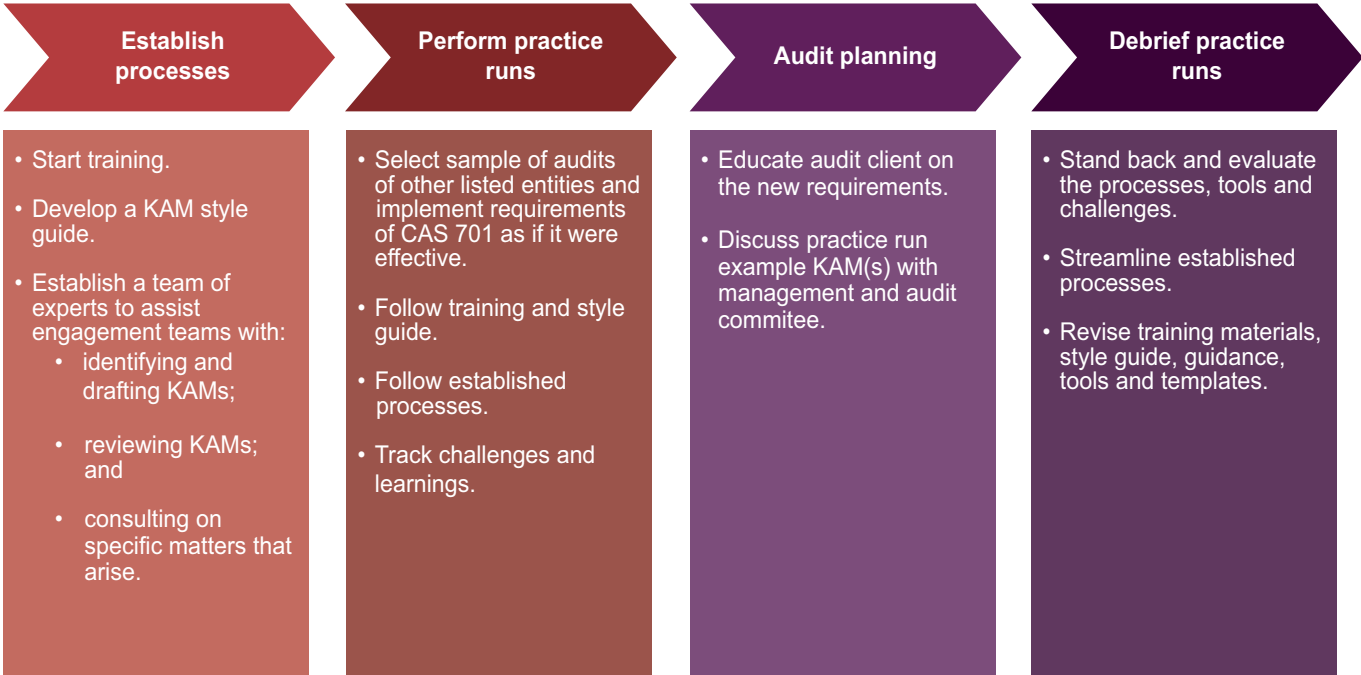
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<sup>1</sup> The CPA Canada Handbook – Assurance, Glossary of Terms, defines a "listed entity" as "an entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body." Other listed entities include all entities listed on exchanges other than the TSX (i.e., TSX Venture Exchange, Canadian Securities Exchange, Aequitas NEO Exchange).

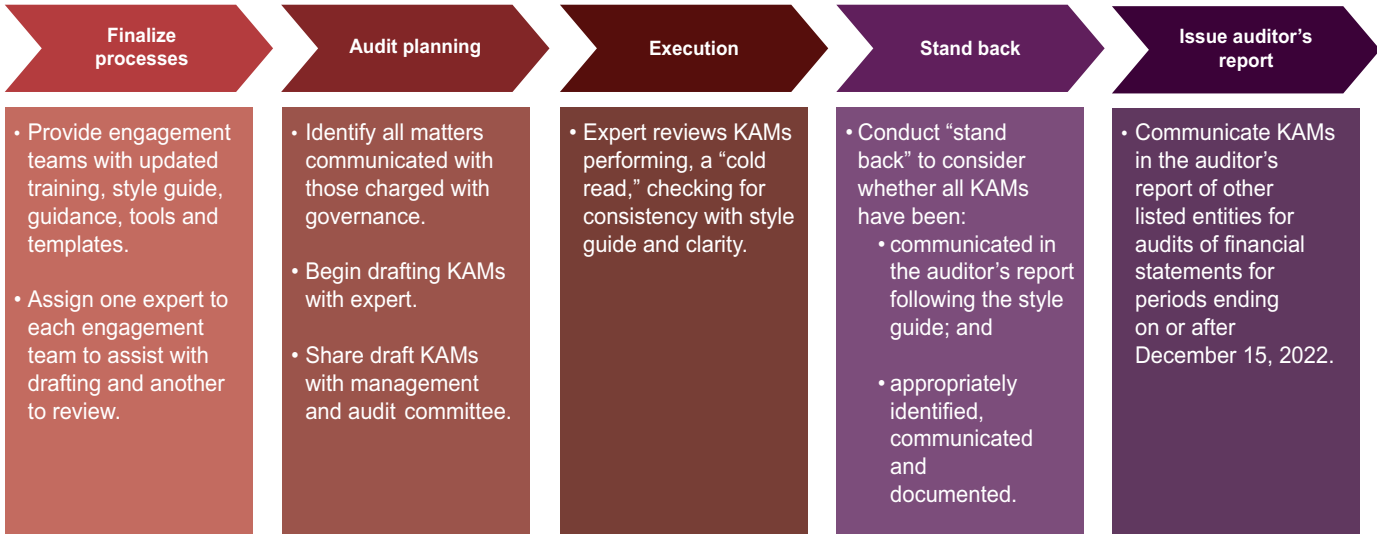
# Overview for Developing a Successful KAM-implementation Process

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## One Year Prior to Effective Date of Communicating KAM (2021)



**Year of Effective Date of Communicating KAM (2022)**



## One Year Prior to Effective Date of Communicating KAM (2021)

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### Establish processes

### Considerations and Lessons Learned from Practice Runs

- Train auditors involved in audits of other listed entities who will be communicating KAMs for audits of financial statements for periods ending on or after December 15, 2022.
- Develop a plain-language style guide for engagement teams to follow so the KAMs are drafted in a consistent manner across the firm and provide the intended user with a clear and understandable description of a KAM. The style guide may include:
  - using lists instead of long paragraphs;
  - using subheadings;
  - avoiding specific words (i.e., auditing jargon) in the description.
- Develop templates or other tools to make drafting consistent and clear.
- Be careful when creating sample KAMs for engagement teams. They may simply copy the wording and not tailor the KAM to the specific entity being audited.

Establish a team of experts to assume the following roles and responsibilities:

- **Assist engagement teams to identify and draft KAMs:** An expert will work with the engagement team to apply the firm's process for identifying KAMs. They will also work with the team, using the style guide to draft KAMs that meet the standard's requirements, are consistent with client terminology, and strike the right balance between breadth and depth for the intended user.
- **Review KAMs:** A different expert will do a "cold review" of the draft KAMs to ensure they comply with the style guide and are clear for the intended user.
- **Consultations:** Both teams will consult on specific matters that arise during the KAM-implementation process. For example, the firm may determine it appropriate for the engagement team to consult with the experts if the engagement team believes that there are no KAMs to communicate in the auditor's report of the current period financial statements. This may include a formal written document stating how the engagement team reached its conclusion, which is signed, and acknowledged by all parties involved in the conclusion.

**Perform practice runs (mid-2021)**

Considerations and Lessons Learned from Practice Runs

- Select a sample of audits of other listed entities whose auditors will be communicating KAMs for periods ending on or after December 15, 2022.
- Using the 2020 year-end audited financial statements as a basis, the engagement team identifies potential KAMs for the 2021 year-end audit. Following the style guide, the engagement team drafts the KAMs to communicate in the auditor’s report.
- Assign experts to assist the engagement team in drafting the KAMs. Both teams should follow the established processes.
- Assign an expert not involved in drafting the KAMs to perform a “cold review”. The engagement team needs to consult with the team of experts on specific matters, when applicable.
- Track the challenges both teams encounter while implementing the requirements and following the established processes.

**Audit-planning meetings with clients for 2021 year-end audits**

Considerations and Lessons Learned from Practice Runs

**Educate audit client on the new requirements in CAS 701.**

- Educate the client management and the audit committee on KAM communications. Discuss the nature of KAMs that may be communicated in the auditor's report if CAS 701 were effective for 2021 year-end audits.
- Consider providing the client with sample KAMs from TSX-listed entities in the same or similar industry. Be clear that these are **only for reference** and that KAMs communicated in the auditor's report will be tailored to the entity's specific circumstances.
- Discuss the practice-run KAMs with management and allow them to consider the appropriateness of the financial statement note disclosures relating to the matter(s) well in advance of the 2022 year-end.

**Debrief practice runs (beginning of 2022)**

Considerations and Lessons Learned from Practice Runs

- Engagement teams and experts stand back and evaluate the processes established, tools developed and challenges encountered during the practice runs.
- Discuss the challenges engagement teams encountered. Use the review and the challenges to:
  - streamline established processes;
  - revise training materials and/or develop further guidance to address the challenges; and
  - revise the KAM style guide, tools and/or templates.



## Year of Effective Date of Communicating KAM (2022)

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**Finalize processes** Considerations and Lessons Learned from Practice Runs

- Provide engagement teams with updated training materials, new guidance, revised style guide, tools and/or templates based on the lessons learned from the practice runs.
- Assign experts to the engagement teams, one to help draft the KAMs and the other to review.

### Audit planning

### Considerations and Lessons Learned from Practice Runs

- Identify matters most likely to be areas of significant auditor attention in the audit of the financial statements of the current period and, therefore, may be potential KAMs.
- The earlier you begin identifying KAMs, the better. Engagement teams can plan the audit accordingly. For example, if the audit procedures to address a KAM involve a specialist, the engagement team may have the specialist review the description of the KAM, including the audit procedures performed. This adds more time and effort to the process.

#### **Begin drafting KAMs.**

- Draft KAMs to communicate in the auditor's report. The expert considers whether the appropriate KAMs are identified and whether they are drafted according to the style guide.

#### **Discuss draft KAMs with management and the audit committee.**

- Discuss the KAMs with management and the audit committee early in the process. Management will then have time to consider new or enhanced disclosures in the financial statements or elsewhere, related to the matter to be communicated as a KAM, before the KAM wording is finalized. If KAMs are discussed too late in the process, management may not have sufficient time to consider making enhanced disclosures.
- Work with management and those charged with governance to organize meetings so they are scheduled earlier than in the past. Robust two-way communication between the auditor and management is crucial to a successful KAM-implementation process.

**Execution**

Considerations and Lessons Learned from Practice Runs

**Experts review KAMs.**

- All KAMs are identified and the drafting of the KAMs is well underway, if not near completion.
- The expert does a “cold review” of all the drafted KAMs for consistency with the drafting convention/style guide and for clarity. The expert will also review the KAM for consistency with client terminology and the wording used in the related note disclosure.

**Stand back**

Considerations and Lessons Learned from Practice Runs

**Do a stand back.**

- Both teams consider whether all KAMs have been communicated appropriately in the auditor’s report using the style guide.
- Both teams consider whether all identified KAMs are:
  - appropriate;
  - communicated in accordance with the requirements in [paragraph 11](#) of CAS 701; and
  - documented in accordance with the requirements in [paragraph 18](#) of CAS 701.

**Issue auditor's report**

Considerations and Lessons Learned from Practice Runs

- Communicate KAMs in the auditor's report of other listed entities for audits of financial statements for periods ending on or after December 15, 2022.

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