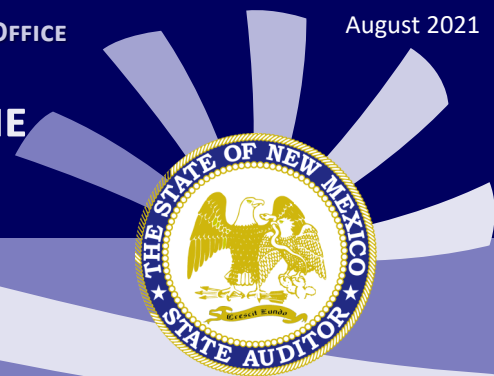


# COMMUNICATING KEY AUDIT MATTERS IN THE INDEPENDENT AUDITOR'S REPORT



EFFECTIVE FOR AUDITS OF FINANCIAL STATEMENTS FOR PERIODS ENDING ON  
OR AFTER DECEMBER 15, 2021

## MANAGEMENT MAY CHOOSE TO INCLUDE COMMUNICATION OF KEY AUDIT MATTERS

- ◆ Agencies subject to the audit rule may choose to include Key Audit Matters (KAM) in the agency's annual financial audit.
- ◆ By definition, KAM are those that, in the independent public accountant's (IPA) professional judgement, were of most significance in the audit.
- ◆ Management, by electing to include KAM, are transparently communicating to stakeholders. Communication of KAM in the auditor's report will occur when the auditor is engaged to do so.

### DEFINITION

Key audit matters: Those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance.

### BENEFIT

Agency management electing to include KAM in the financial audit directs IPAs to provide more entity-specific information to stakeholders in the auditor's report. KAM serves as a supplement to the auditor's opinion on the financial statements. KAM is essentially an enhancement to the auditor's report and provides greater transparency on matters of significance in the audit.

Communicating KAM will not change Management or the IPA's fundamental obligations and responsibilities. Rather, KAM is intended to highlight matters the auditor has, subjectively and through professional judgement, identified as most significant from the engagement performed.

Electing to include KAM will help highlight the agency's commitment to transparency. Greater transparency in an auditor's report may lead to a more thorough understanding of the audit report and a basis for stakeholders to further engage with management and those charged governance.

### RECOMMENDATION

The Office of the State Auditor recommends agency management and those charged with governance to communicate directly with their IPA if they are considering KAM.

**Review the standard here:**  
[AU-C Section 701 Communicating Key Audit Matters in the Independent Auditor's Report](#)