Key Audit Matters

Under Auditing Standard ASA 701 the company auditor is required to communicate in the audit report key audit matters – those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial report of the current period. Examples could include for example assessment of asset impairment and the accuracy and completeness of revenue recognition.

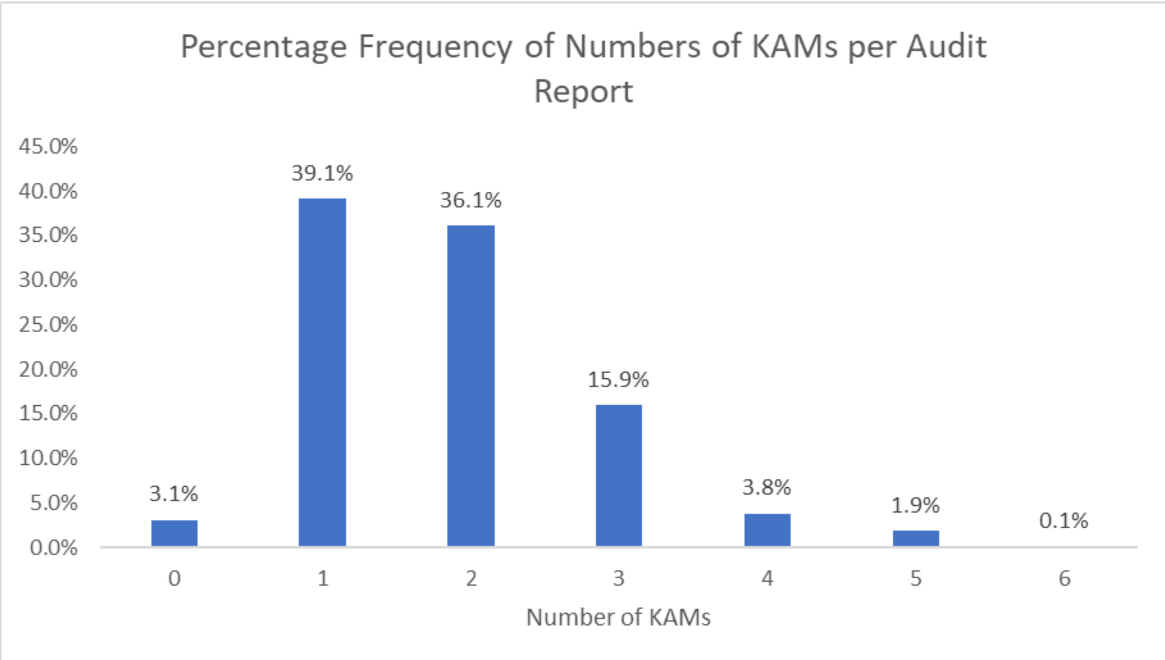
This report documents the main statistical facts regarding the frequency and nature of the reporting of Key Audit Matters (KAMs) in the Audit Reports of Australian ASX listed companies that issued financial statements in 2021.[1]

The main summary points are tabulated below and the supporting Tables in the Appendix provide the granular detail.

How many KAMs are usually reported?

The Figure below and Table 1 reports the number of KAMs per audit report. Main points:

- Overall auditors report a mean of 1.84 KAMs per audit report.
- The number of KAMs in an audit report range from a low of 0[2] through to the maximum of 6.
- The distribution of the number of KAMs is tightly clustered around the mean with 39% of audit reports having 1 KAM and 36% of audit reports having 2 KAMs. There are very few audit reports with 0 KAMs (3%) or 4 or more KAMs (6%)

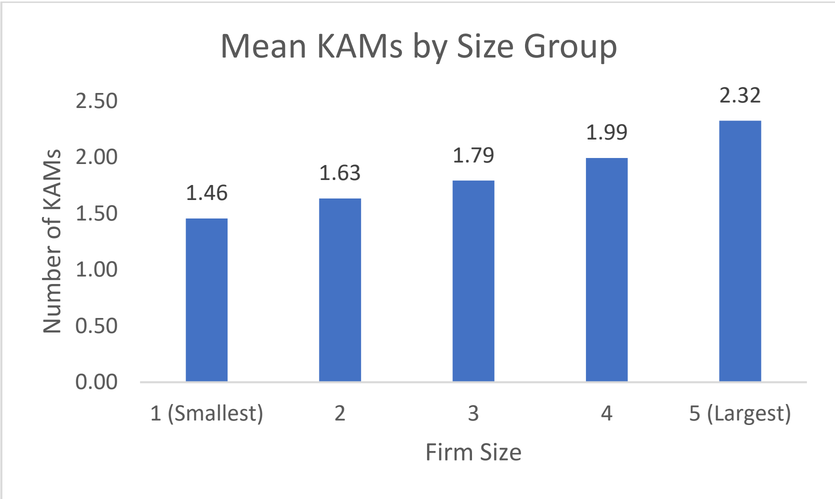


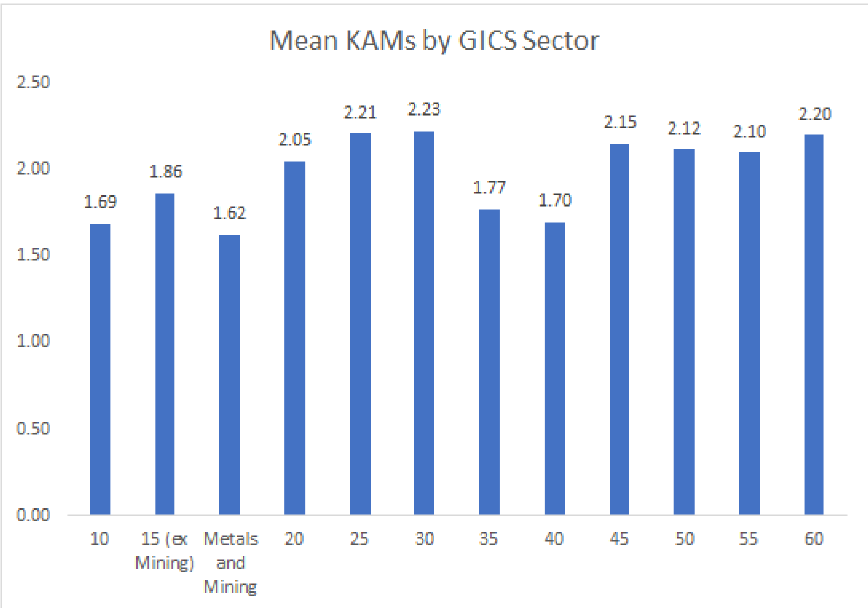
[1] This report is partly based on the KAM Insights 2021 report produced by CAANZ-UoM-UQ

[2] Under ASA 701 paragraph 16, an auditor can include no key audit matters if none arise during the audit or if the only key audit matters relate to circumstances that lead to a modified audit opinion or adverse going concern opinion.

Which Companies Report the Least and Most KAMs?

- The number of KAMs per audit report varies significantly as a positive function of the size of the company. The average number of KAMs for large companies is 2.32 compared to 1.46 for small companies.
- As can be seen in the Figure below the number of KAMs per audit report caries across industry sectors.[3] The industry with lowest number of KAMs is Metals & Mining (average = 1.62 KAMs) and highest Consumer Staples (average = 2.23 KAMs).



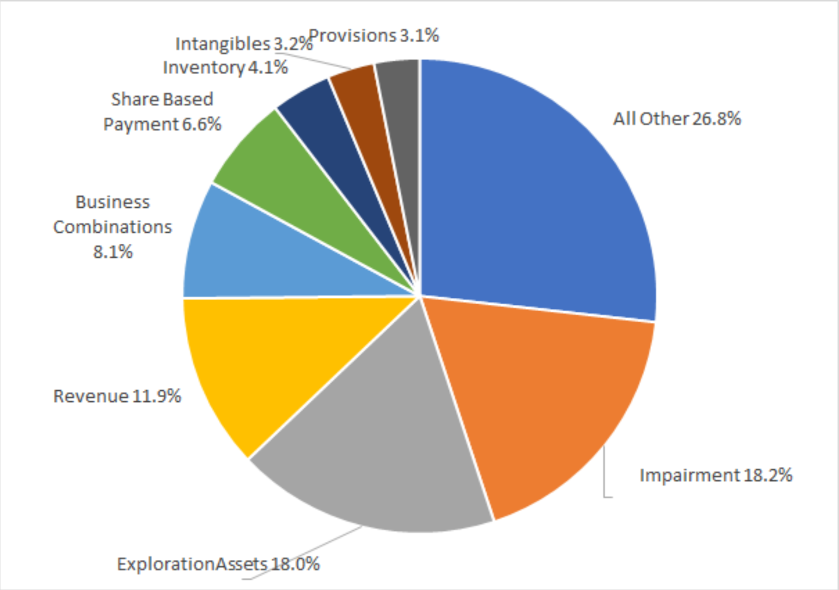


[3] We classify industries using the two-digit MSCI/S&P Global Industrial Classification (GICS) Standard codes. Metals and Mining (GICS Industry 151040) is separated from GICS Sector 15 due to the large number of mining companies in the Australian market.

What subject matters are the KAMs describing?

The Figure below and Table 2 reports the frequency of KAMS by subject matter area. The methodology for classification of the KAM subject matter area is discussed in the appendix. Main points:

- Overall, we have classified 54 distinct KAM subject matters areas implying there is a broad range of different areas that are been identified as being of most significance in the audit of the financial report. See the full list of subject matter areas in Table 2.
- These subject matter areas can be classified into a set of 8 subject areas that are most frequent and account 73% of all KAMs and another set of 46 areas that are infrequent and account for the remaining 27% of KAMs.
- The most frequent KAM subject matter was *Impairments* representing 18% of all KAMs.[4] The next most frequent areas in order were: *Exploration Assets* (18%); *Revenue* (12%); *Business Combinations* (8%); *Share Based Payment* (7%); *Inventory* (4%); *Intangibles* (3%) and *Provisions* (3%).
- There is a large and diverse number of less frequent areas. Example include: *Information Technology* which usually involved implementation of a new IT system, *Fraud Risk* due to risk of fraud in recognition of revenue, *Related Party Transactions* and *Funding & Liquidity*.



[4] The Impairment Category includes impairments regarding all assets except those associated with an exploration and Evaluation Asset. The Exploration and Evaluation asset category includes all subject matters associated with this asset including impairments.

Which large companies have 4 or more KAMs?

Table 3 (Panel A and B) lists the large Australian companies that had 4 or more KAMs and the subject matter of the KAMs (Panel B).

Impairments and Revenue

Impairments and Revenue are two subject matter areas that have a significant number of KAMs. We provide insight into the typical frequency and magnitude of impairments and discuss some of the reasons mentioned by auditors as to why revenue was a significant audit matter.

Impairments

A significant source of estimation uncertainty is impairment testing of goodwill. To provide some benchmarks we report descriptive statistics for impairment frequency and impairment magnitudes (% write-down of carrying amount) of goodwill over the period 2012-2019 by sector for both Australian companies and as a benchmark high-income world countries. The results for goodwill are reported in Table 4:

Some significant patterns in regard to goodwill impairment are:

- Approximately 20% of firms impair goodwill every year however the frequency varies significantly across sectors. In the large-firm portfolio the Metals and Mining sector has the highest frequency of impairments (40% of firms per year) and Consumer Discretionary the lowest frequency of impairment (8% of the firm per year)
- The median magnitude of goodwill impairment is a write-down of goodwill value by 18% however this magnitude varies substantially across sectors. The Metals and Mining sector has the highest write-down of 51% and the Utilities sector the lowest of 0.90%.
- The distribution of the magnitude of impairments is highly right skewed with a significant *minority* of firms recognising very large impairments. For example, in the Consumer Discretionary the median write-down is 23.4% however the write-down at the 75th percentile is 63.7%. This implies that 25% of firms in this sector have a write-downs of greater than 63.7%.

Revenue

In general the main reason why revenue was considered a key audit matter by auditors was because of the significance of the magnitude of revenue to the financial statements. The second main reason was because of the judgement involved in applying the relevant accounting standard (AASB 15: 'Revenue from Contracts with Customers') which requires the application of a five-step model to recognise revenue. This five-step model required a number of estimates and judgements to be made by management in order to determine the point at which performance obligations are met and revenue can be recognised. The most frequently cited areas of judgement are:

- The recognition and measurement of rebates and promotional allowance ('variable consideration')
- Varying contract arrangements across customers with different points in time when control of the asset is transferred to the customer
- Recognition of construction revenue due to judgment involved in determination of stage of completion and measurement of progress towards satisfaction of performance obligations

Some illustrative examples:

Variable Consideration

CELLNET GROUP LTD

"Revenue is recognised net of estimated incentives, rebates and expected returns as prescribed under AASB 15 Revenue from Contracts with Customers. Rebate and incentive arrangements offered by the Group vary and are customer specific. These obligations are established either in contract or through principal of constructive obligation based on customary business practice, and the associated refund liabilities are estimated based on past practice, sales volumes and customer claim history. The expected reversal of sales through customers exercising their right of return is estimated based on historical rates of return. Due to the variety of contractual terms with customers and the degree of management judgement involved, the estimation of variable consideration in respect of these items is considered to be complex. There is a risk that revenue could be misstated due to the level of estimation and judgement required in accounting for these obligations. As such, we considered revenue recognition to be a key audit matter"

Varying and Multiple Contract Arrangement with Customers

MACQUARIE TELECOM GROUP LTD

Majority of the revenue from contracts with customer is generated from service revenue. We considered revenue recognition a key audit matter because:: • revenue is the most financially significant item in the consolidated statement of comprehensive income • there are high volumes of transactions and multiple arrangements with customers that may relate to more than just the current financial period • revenue recognition relies on the successful interaction of systems and information from carriers for accurate billing to customers • for certain employees, part of their remuneration incentive is linked to revenue outcomes.

DOWNER EDI LTD

Recognition of revenue is a key audit matter due to the: • Significance of revenue to the financial statements; and • Large number of contracts with numerous estimation events potentially occurring over the course of the contract's life. This results in complex and judgemental revenue recognition from rendering of services and construction contracts and therefore significant audit effort is required to gather sufficient audit evidence for revenue recognition.

TECHNOLOGY ONE LTD

The Group has the following revenue streams: ► SaaS fees; ► Annual licence fees; ► Initial licence fees; and ► Consulting services The Group contracts with its customers using written contracts which often include a number of products and services (separately identifiable components). Revenue recognition for these contracts was considered to be a key audit matter due to the complexity of contracts and the judgement required to allocate revenue amongst the respective performance obligations. Note 1(d) to the financial statements details the Group's revenue streams and the associated accounting policies. Revenue is disclosed in Note 5, associated assets in Note 9 and Note 10 and associated liabilities in Note 16.

ARISTOCRAT LEISURE LTD

"Revenue was a key audit matter given the financial significance of revenue to the financial statements and the complexity of some contractual arrangements entered into with customers. Aristocrat has multiple revenue streams. For some streams (excluding digital) contracts can include different elements including delayed settlement, delayed delivery, bundling of products and multiple element agreements. For the digital revenue stream, determining the timing of revenue recognition is complex due to the determination of when game credits purchased by customers are consumed, which varies by game."

NEARMAP LTD

The Group derives the majority of its revenue from subscription fees from customers for access to its online location intelligence services, which it recognises rateably over the related contractual term. The Group's policy is that, at the year end, services sold to customers in advance (i.e. which are yet to be delivered) are recognised as a liability and classified as unearned revenue ($56.8 million), or contract assets when the services have been delivered and revenue has been recognised but not yet invoiced ($2.7 million). The recognition of revenue and related unearned revenue and contract assets is considered to be a key audit matter due to: • The significance of revenue and unearned revenue to the financial statements;

and • The high volume of high value multi-year staggered billing contracts, which require complex manual adjustments. We focused on assessing revenue recognised by the Group for subscription fees in accordance with the accounting standards and the basis for manual adjustments made by the Group related to revenue, unearned revenue and contract assets.

TABLE 1
Number of KAMs per Company

Count of KAMs	Number of Firms	Percentage Frequency
0	43	3.1%
1	548	39.1%
2	505	36.1%
3	223	15.9%
4	53	3.8%
5	26	1.9%
6	2	0.1%
	1400	100.00%

TABLE 2

	FREQUENCY	
Subject Area	**Number**	**Percentage Frequency**
Impairment	469	18.17%
Exploration Assets	464	17.98%
Revenue	308	11.93%
Business Combinations	209	8.10%
Share Based Payment	171	6.63%
Inventory	106	4.11%
Intangibles	83	3.22%
Provisions	80	3.10%
Going Concern	68	2.63%
Taxation	64	2.48%
Equity Investment	48	1.86%
Financial Liabilities	44	1.70%
MiningProperties	38	1.47%
Account Receivable	36	1.39%
DTA	35	1.36%
PPE	27	1.05%
Discontinued Operation	24	0.93%
Loan Payables	22	0.85%
Financial Assets	21	0.81%
Lease	21	0.81%
Cash	19	0.74%
Asset Disposal	18	0.70%
Derivatives	18	0.70%
ShareCapital	17	0.66%
Funding & Liquidity	16	0.62%
Contingent Liabilities	15	0.58%
Asset Acquisition	13	0.50%
Joint Venture	13	0.50%
Information Technology	12	0.46%
RelatedPartyTransactions	12	0.46%
OilandGas	11	0.43%
R&D	10	0.39%
BiologicalAssets	8	0.31%
Investment Property	6	0.23%
OtherExpenses	6	0.23%
Land	5	0.19%
Property	5	0.19%
Fraud Risk	4	0.15%
Loan Receivables	4	0.15%

TABLE 2 (continued)

Subject Area		
Presentation Currency	4	0.15%
Employment Cost	3	0.12%
Legal Risk	3	0.12%
Royal Liabilities	3	0.12%
WorkingCapital	3	0.12%
Change Accounting	2	0.08%
Covid Impact	2	0.08%
PriorErrors	2	0.08%
SubsequentEvents	2	0.08%
Trade Payables	2	0.08%
COGS	1	0.04%
ContingentLiabilities	1	0.04%
DTL	1	0.04%
Grant	1	0.04%
OtherCA	1	0.04%
	2581	

TABLE 3 Panel A

Large Companies that had 4 or more KAMs

ALTIUM LTD
ARDENT LEISURE GROUP LT
BRAVURA SOLUTIONS LTD
DECMIL GROUP LTD
ELANOR INVESTORS GROUP
ELDERS LTD
ELECTRO OPTIC SYSTEMS L
FLIGHT CENTRE TRAVEL GR
MMA OFFSHORE LTD
MNF GROUP LTD
MOSAIC BRANDS LTD
NTHN STAR RES LTD
ORICA LTD
ORIGIN ENERGY LTD
PREMIER INVESTMENTS LTD
QANTAS AIRWAYS LTD
RESOLUTE MINING LTD
SEEK LTD
SELECT HARVESTS LTD
SUPER RETAIL GROUP LTD
THE CITADEL GROUP LTD
TPG TELECOM LTD
VIVA LEISURE LTD
WISETECH GLOBAL LTD

Table 3 Panel B
Large Australian Companies that had 4 or more Key Audit Matters

Company	Auditor	Key Audit Matter
ALTIUM LTD	PwC	Contingent liability relating to the potential tax liability
ALTIUM LTD	PwC	Calculation of deferred tax asset (Refer to note 15) $49.5m
ALTIUM LTD	PwC	Carrying value of Goodwill (Refer to note 14) $29.5m
ALTIUM LTD	PwC	Revenue recognition (Refer to note 3 and note 6) $191.1m
ARDENT LEISURE GROUP LT	EY	Change in Accounting Policy from Revaluation to the Cost Model for Theme Park Assets
ARDENT LEISURE GROUP LT	EY	Main Event Goodwill Impairment Assessment
ARDENT LEISURE GROUP LT	EY	Recoverability of Main Event Property, Plant and Equipment
ARDENT LEISURE GROUP LT	EY	Recoverability of Theme Park Property, Plant and Equipment
BRAVURA SOLUTIONS LTD	EY	Business Combination
BRAVURA SOLUTIONS LTD	EY	Capitalised software development costs
BRAVURA SOLUTIONS LTD	EY	Revenue recognition for multiple-element arrangements
BRAVURA SOLUTIONS LTD	EY	Taxation
DECMIL GROUP LTD	RSM	Non-Current Asset Held-for-sale
DECMIL GROUP LTD	RSM	Recognition of Deferred Tax Assets
DECMIL GROUP LTD	RSM	Impairment of Intangible Assets
DECMIL GROUP LTD	RSM	Recognition of Revenue
ELANOR INVESTORS GROUP	PwC	Carrying value of equity accounted investments
ELANOR INVESTORS GROUP	PwC	Liquidity and funding
ELANOR INVESTORS GROUP	PwC	Valuation of Property, plant and equipment, and Investment properties
ELANOR INVESTORS GROUP	PwC	Hotel revenue
ELDERS LTD	PwC	Business combinations - Australian Independent Rural Retailers (‘AIRR’)
ELDERS LTD	PwC	Recoverability of deferred tax assets
ELDERS LTD	PwC	Accounting for rebates
ELDERS LTD	PwC	Lease accounting and adoption of new accounting standard AASB 16 – Leases
ELECTRO OPTIC SYSTEMS L	Deloitte	Recoverability of goodwill and intangible assets
ELECTRO OPTIC SYSTEMS L	Deloitte	Contract Asset recoverability
ELECTRO OPTIC SYSTEMS L	Deloitte	Capital Work-in-progress additions
ELECTRO OPTIC SYSTEMS L	Deloitte	Revenue recognition for significant contracts
FLIGHT CENTRE TRAVEL GR	EY	Liquidity risk and going concern basis of preparation of the financial statements
FLIGHT CENTRE TRAVEL GR	EY	Impairment Testing of Cash Generating Units (CGU)
FLIGHT CENTRE TRAVEL GR	EY	Capitalisation of software intangible assets
FLIGHT CENTRE TRAVEL GR	EY	Revenue Constraint – Travel Cancellations
MMA OFFSHORE LTD	Deloitte	Carrying value and classification of assets held for sale
MMA OFFSHORE LTD	Deloitte	Carrying value of the Subsea Cash Generating Unit
MMA OFFSHORE LTD	Deloitte	Carrying value of the Vessel - Continuing Operations Cash Generating Unit
MMA OFFSHORE LTD	Deloitte	Debt Restructure
MNF GROUP LTD	MNSA	Disposal of business operations
MNF GROUP LTD	MNSA	Carrying Value of Goodwill
MNF GROUP LTD	MNSA	Capitalisation of Software Development and asset lives
MNF GROUP LTD	MNSA	Revenue recognition
MOSAIC BRANDS LTD	BDO	Going concern
MOSAIC BRANDS LTD	BDO	Carrying value of intangible assets
MOSAIC BRANDS LTD	BDO	Valuation of inventory
MOSAIC BRANDS LTD	BDO	Continuation of AASB16 - Leases

Table 3 Panel B (Continued…)

Large Australian Companies that had 4 or more Key Audit Matters

Company	Auditor	Key Audit Matter
NTHN STAR RES LTD	Deloitte	Acquisition of Saracen Mineral Holdings Limited
NTHN STAR RES LTD	Deloitte	Write down of KCGM mineralised waste stockpiles
NTHN STAR RES LTD	Deloitte	Accounting for mine properties
NTHN STAR RES LTD	Deloitte	Rehabilitation provision
ORICA LTD	KPMG	Uncertain tax positions and contingent liability disclosure
ORICA LTD	KPMG	Impairment of property, plant and equipment ($3,316.4M) and intangible assets ($1,744.1M)
ORICA LTD	KPMG	Implementation of global Enterprise Resource Planning system ("4S")
ORICA LTD	KPMG	Environmental and decommissioning provisions ($388.9M) and contingent liability disclosures
ORIGIN ENERGY LTD	EY	APLNG Deferred Tax Liability
ORIGIN ENERGY LTD	EY	Carrying Value of the Energy Markets Group of Cash Generating Unit (CGU)
ORIGIN ENERGY LTD	EY	Carrying Value of the APLNG Equity Accounted Investment
ORIGIN ENERGY LTD	EY	Unbilled Revenue
PREMIER INVESTMENTS LTD	EY	Investment in associate – Breville Group Limited
PREMIER INVESTMENTS LTD	EY	Carrying value of intangible assets
PREMIER INVESTMENTS LTD	EY	Existence and valuation of inventory
PREMIER INVESTMENTS LTD	EY	Adoption of new accounting standard for leases
QANTAS AIRWAYS LTD	KPMG	Derivative financial instrument accounting
QANTAS AIRWAYS LTD	KPMG	Recoverability of non-current assets, in particular aircraft, and other related assets
QANTAS AIRWAYS LTD	KPMG	Frequent Flyer revenue recognition
QANTAS AIRWAYS LTD	KPMG	Passenger revenue recognition
RESOLUTE MINING LTD	EY	Physical existence and valuation of ore stockpiles and gold in circuit
RESOLUTE MINING LTD	EY	Impairment assessment of non-current assets
RESOLUTE MINING LTD	EY	Rehabilitation and restoration provisions
RESOLUTE MINING LTD	EY	Taxation
SEEK LTD	PwC	Classification of Assets held for sale and discontinued operations for SEEK Growth Fund
SEEK LTD	PwC	Accounting for the partial disposal of Zhaopin
SEEK LTD	PwC	Valuation of goodwill and indefinite lived intangible assets
SEEK LTD	PwC	Valuation of, and accounting for, equity accounted investments and equity instruments
SELECT HARVESTS LTD	PwC	Carrying value of goodwill and brand names in the Food Division CGU
SELECT HARVESTS LTD	PwC	Inventory valuation – current year almond crop
SELECT HARVESTS LTD	PwC	Financing arrangements
SELECT HARVESTS LTD	PwC	Accounting for bearer plants
SUPER RETAIL GROUP LTD	PwC	Carrying value of Goodwill and Brand names
SUPER RETAIL GROUP LTD	PwC	Computer software
SUPER RETAIL GROUP LTD	PwC	Inventory valuation
SUPER RETAIL GROUP LTD	PwC	Lease accounting
THE CITADEL GROUP LTD	PwC	Wellbeing business combination
THE CITADEL GROUP LTD	PwC	Goodwill impairment assessment
THE CITADEL GROUP LTD	PwC	Borrowings
THE CITADEL GROUP LTD	PwC	Revenue recognition
TPG TELECOM LTD	PwC	Business combinations – acquisition of TPG Corporation
TPG TELECOM LTD	PwC	Recognition of deferred tax assets – initial recognition
TPG TELECOM LTD	PwC	Carrying value of goodwill and indefinite life intangibles
TPG TELECOM LTD	PwC	Revenue from contracts with customers
VIVA LEISURE LTD	Hall Cha	Accounting for Business Combinations
VIVA LEISURE LTD	Hall Cha	Carrying value of goodwill
VIVA LEISURE LTD	Hall Cha	Right-Of-Use Assets and Lease Liabilities
VIVA LEISURE LTD	Hall Cha	Revenue Recognition and Contract Liabilities
WISETECH GLOBAL LTD	KPMG	Accounting for contingent consideration ($36.4m)
WISETECH GLOBAL LTD	KPMG	Testing for impairment of goodwill and other intangible assets ($904.5m)
WISETECH GLOBAL LTD	KPMG	Capitalisation of software development costs ($77.6m)
WISETECH GLOBAL LTD	KPMG	Recognition of revenue ($507.5m)

TABLE 4

Goodwill Impairment Frequency: 2012-2019

This table report the average annual frequency of goodwill impairments

	Australia				High Income World			
Sector	**Micro**	**Small**	**Mid**	**Large**	**Micro**	**Small**	**Mid**	**Large**
Energy	20.69%	6.67%	0.00%	14.89%	24.84%	20.42%	21.28%	18.94%
Materials	11.76%	16.67%	12.50%	24.24%	10.19%	9.74%	8.42%	9.17%
Metals and Mining	21.15%	15.00%	27.27%	40.48%	19.50%	14.37%	14.86%	17.47%
Industrials	25.26%	22.30%	13.74%	16.76%	13.15%	10.83%	12.98%	12.92%
Consumer Discretionary	28.76%	19.28%	15.86%	7.83%	12.89%	11.13%	9.72%	11.00%
Consumer Staples	17.65%	10.53%	9.09%	16.92%	12.50%	11.44%	9.60%	12.58%
Health Care	16.67%	12.07%	5.36%	5.56%	11.92%	9.33%	7.78%	8.41%
Information Technology	27.03%	10.14%	7.78%	13.51%	10.30%	9.47%	8.75%	9.20%
Communication Services	31.75%	16.67%	22.08%	27.78%	16.93%	15.55%	17.80%	20.08%
Utilities	83.33%	14.29%	0.00%	10.00%	18.62%	12.57%	9.17%	20.30%
Aggregate	25.34%	16.70%	12.88%	16.50%	13.07%	11.31%	11.33%	13.04%

Magnitude of Goodwill Impairment to Lagged Goodwill % 2012-2019

This table reports the magnitude of goodwill impairment computed as goodwill impairment/prior years goodwill value.

	Australia			High Income World		
Sector	**25th PCTL**	**Median**	**75th PCTL**	**25th PCTI**	**Median**	**'5th PCTL**
Energy	5.44%	15.88%	47.67%	8.55%	27.52%	74.07%
Materials Excluding Metals	6.67%	16.58%	34.17%	1.28%	7.70%	37.45%
Metals and Mining	2.43%	51.15%	98.30%	8.01%	34.63%	87.91%
Industrials	7.09%	18.91%	56.29%	1.02%	4.43%	16.73%
Consumer Discretionary	6.30%	23.42%	63.73%	1.77%	6.67%	25.27%
Consumer Staples	8.21%	14.86%	51.28%	0.59%	2.75%	14.80%
Health Care	1.28%	2.92%	21.13%	1.46%	7.01%	22.37%
Information Technology	10.66%	30.69%	100.00%	3.25%	13.49%	36.85%
Communication Services	3.40%	12.86%	46.68%	1.18%	4.48%	15.74%
Utilities	0.24%	0.90%	50.66%	1.03%	5.62%	20.74%
Aggregate	4.77%	18.10%	56.74%	1.46%	6.95%	27.23%

Small, Mid and Large Caps Combined

Methodology

We sampled the full population of ASX listed companies with a financial year-end from 31 December 2020 to 30 September 2021. Financial reports could not be obtained for some companies for reasons such as late filing, suspension and delisting. The final sample is 1,400 companies.[5]

We classified the KAMs into subject matter categories based on three broad decision rules. First, if the subject matter was not an impairment and related to a specific primary financial statement account (e.g. Revenue, Receivables, Inventory, Provisions) then that account was the category. Second, we had categories for any KAM subject that related to impairments, exploration and evaluation, and business combinations. The Impairment Category includes impairments in regard to all assets except those associated with an Exploration and Evaluation Asset. The Exploration and Evaluation asset category includes all subject matters associated with this asset including impairments. Finally, we had a range of categories for KAM subject matters that were relevant to the audit that may not directly affect a specific financial statement account such as information technology due to implementation of enterprise resource systems.

[5] In some tables the number of companies is somewhat lower due to data requirements.