

Airsoft Co is a listed company which manufactures stationery products. The company's profit before tax for the year ended 31 December 20X6 is \$16.3m and total assets as at that date are \$66.8m. You are an audit supervisor of Biathlon & Co and you are currently finalising the audit programmes for the year-end audit of your existing client Airsoft Co. You attended a meeting with your audit manager where the following matters were discussed:

### **Trade payables and accruals**

Airsoft Co purchases its raw materials from a large number of suppliers. The company's policy is to close the purchase ledger just after the year end and the financial controller is responsible for identifying goods which were received pre year-end but for which no invoice has yet been received. An accrual is calculated for goods received but not yet invoiced (GRNI) and is included within trade payables and accruals.

The audit strategy has identified a risk over the completeness of trade payables and accruals. The audit team will utilise computer assisted audit techniques (CAATs), in the form of audit software while auditing trade payables and accruals.

### **Bank overdraft and savings accounts**

Airsoft Co's draft financial statements include a bank overdraft of \$2.6m, which relates to the company's main current account. In addition Airsoft Co maintains a number of savings accounts. The savings account balances are classified as cash and cash equivalents and are included in current assets. All accounts have been reconciled at the year end.

### **Directors' remuneration**

Airsoft Co's board is comprised of eight directors. Their overall remuneration consists of two elements: an annual salary, paid monthly; and a significant annual discretionary bonus, which is paid in a separate payment run on 20 December. All remuneration paid to directors is included within wages and salaries. Local legislation requires disclosure of the overall total of directors' remuneration broken down by element and by director.

A member of your audit team has asked for information on ISA 701 Communicating Key Audit Matters in the Independent Auditor's Report as she has heard this standard is applicable to listed clients such as Airsoft Co.

**Required:**

**(e) Identify what a key audit matter (KAM) is and explain how the auditor determines and communicates KAM. (5 marks)**