

The value of audit after the audit reform

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The better the question. The better the answer.
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EU Audit reform - Germany




**Mandatory
audit firm
rotation**

<p>Legislation entered into force in 2014</p> 	<p>Scope: Public Interest Entities (PIE)</p> 	<p>External Rotation after 10 years max</p> 	<p>Member States derogation for extension of rotation up to 20/ 24 years</p> 	<p>No rotation extension option for banks and insurance companies</p> 
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**Non-Audit
Services
(NAS)**

<p>Transitional Regime until 2016</p> 	<p>Prohibited NAS</p> 	<p>Fee-cap (70%)</p> 	<p>Preapproval</p> 
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**Further
Requirements**

<p>Requirements to auditor selection process</p> 	<p>Requirements to the audit opinion</p> 	<p>Sanctioning of violations by Supervisory Board or Audit Committee</p> 
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Key Audit Matters (KAMs)



Background: The EU audit reform Content of the independent auditor's report



Adding content to the independent auditor's report for PIEs by KAMs or by the "most significant assessed risks of material misstatement" (Art. 10 EU Regulation) or by KAMs (ISA 701)

Improvement of the **informative value** of the independent auditor's report, but no substitution for compulsory financial statement disclosures, modification of audit opinion.

Improvement of **audit quality** by possibly enhanced awareness for individual issues due to the additional reporting duties.

Sharpening of **awareness** of management and the supervisory body for the explanation in the independent auditor's report.

More intensive **communication** between auditor and supervisory body, in particular concerning the KAMs.

Key Audit Matters (KAMs)



Background: The EU audit reform Structure of the new (ISA) independent auditor's report

▶ Title	
▶ Recipient	
▶ Report on the audit of the financial statements	
Audit opinion	1
Basis for opinion	2
Key audit matters (KAMs)	3
Management's responsibility	4
Auditor's responsibility	5
▶ Other legal and regulatory disclosures	
Report on the audit of the management report	6
Other regulatory requirements (particularly from Art. 10 EU Regulation)	7
▶ Name of the engagement partner	
▶ Place, date and auditor's signature	

Boilerplate possible?



Important changes:

- ▶ Potentially extended reporting on the going concern assumption
- ▶ **Reporting on key audit matters**
- ▶ Name of engagement partner
- ▶ First appointment of auditor
- ▶ Non-audit services

Increasingly individual content

Key Audit Matters (KAMs)



Reporting on KAMs Requirement of the EU regulation (PIEs) and ISAs



Art. 10 of the EU regulation requires an assertion of the following to support the audit opinion

A description of the **most significant assessed risks of material misstatement**, including assessed risks of material misstatement due to fraud



A **summary of the auditor's response** to those risks and

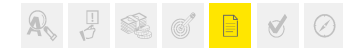


if appropriate, **key findings**, that arise with respect to those risks



The description of the “most significant assessed risks of material misstatement” as defined by Art. 10 of the EU regulation and the KAMs according to ISA 701 deviate in wording, but can be qualified as equivalent.

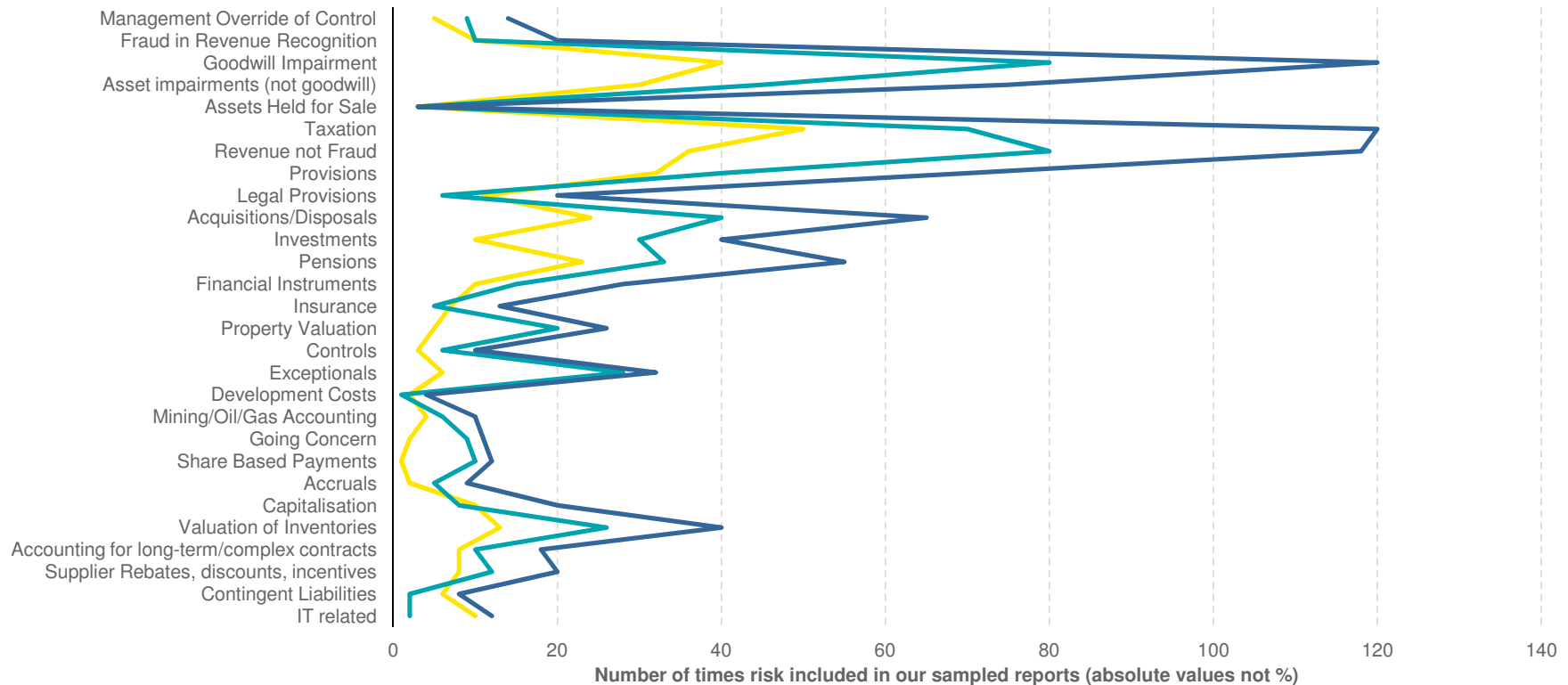
Key Audit Matters (KAMs)



Practical case studies

Practical experience from the UK - annual financial statements 2015

Risk types in year 2



Source: FRC analysis FTSE 100 FTSE 250 FTSE 350

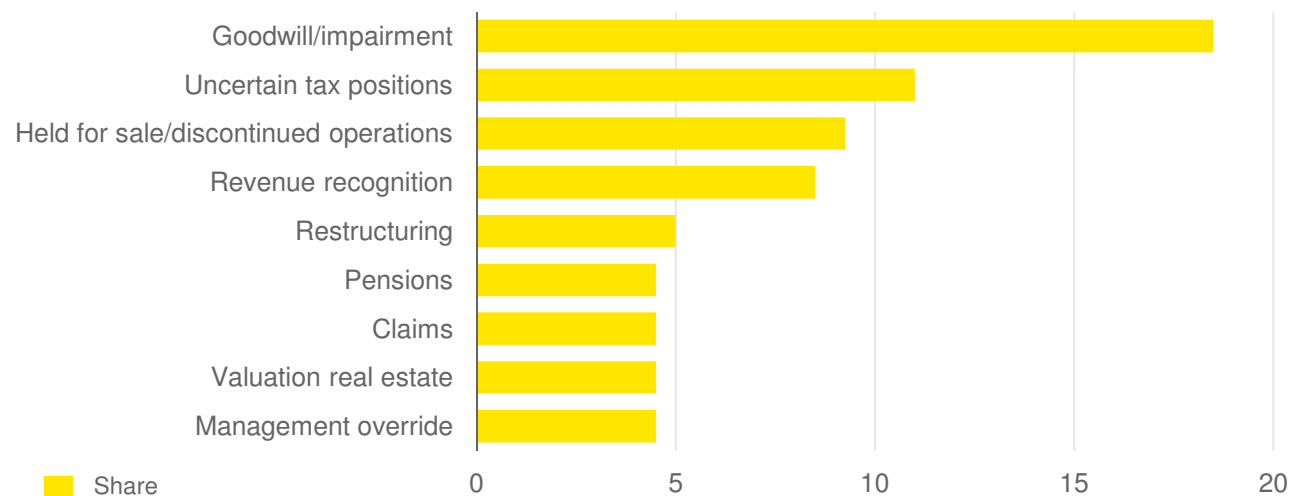
Key Audit Matters (KAMs)



Practical case studies Practical experience from the Netherlands - (financial statements 2014)



Which KAMs are presented?



How many KAMs are presented?

Index	Number	Average	Range
AEX	45	4.5	3 – 6
AMX	33	3.3	2 – 5
ASCX	20	2.5	1 – 4

Source: FRC analysis

Key Audit Matters (KAMs)



Communication with the supervisory body

The auditor has to communicate with the supervisory body

- ▶ The matter that the auditor determined as **key audit matters** or
- ▶ that the auditor determined that **no** key audit matters are to be communicated

Communication objective

- ▶ **To inform them about** the KAMs
- ▶ To give them an opportunity to discuss these **early** with the auditor
- ▶ Give the supervisory body the possibility to decide whether **further or improved disclosures** in the financial statements by the company's management would be useful, in the light of the fact that these disclosures are presented in the audit opinion
- ▶ Those disclosures are also to be communicated that are reported due to laws or other regulations **and not as KAMs** in the independent auditor's report

Resources



- ▶ Current brochure, September 2016

Neuer Prüfer, neue Perspektiven?

We show you how to deal with the EU Audit reform and the AReG [“Abschlussprüfungsreformgesetz”:
Regulation on specific requirements regarding statutory audit]



- ▶ EY Pocketguide on the audit reform (in German and English)



Visit our website

www.de.ey.com/abschlusspruefungsreform



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New reporting requirement for the audit report



Existing regulation: Sec. 321 HGB

- ▶ Audit report as special feature of German tax law



Following rulings are valid from 17 June 2016:

- ▶ Audit report **of non-PIEs**: (only) Sec. 321 HGB applies
 - ▶ No significant changes to current practice
- ▶ Audit report **of PIEs**: Sec. 321 HGB and **Art. 11 EU Regulation** apply
 - ▶ Provision on content that exceeds the previous German audit report

Relevant for you:

- ▶ The AReG **distinguishes** between PIEs and non-PIEs, because the requirements of the EU regulations are **not** also transferred to HGB
- ▶ Stronger focus on recipients

VI. New reporting requirements in the audit report



Key requirements pursuant to Art. 11 EU Regulation on the audit report that exceed the previous reporting:

Description of audit approach	▶ Detailed description of audit approach for each balance sheet item (assertion-based/substantive or test of controls)
Materiality thresholds	▶ Disclosure of materiality for the financial statements as a whole and, if applicable, for individual balance sheet items, business transactions, disclosures
Effects of valuation changes	▶ Disclosure of (quantitative/qualitative) effects due to changed valuation methods and parameters
Disclosure of all auditors involved	▶ Disclosure of all audit firms involved in the audit of the (consolidated) financial statements