



# EU audit reform – What you need to know

## Fact sheet: Auditor reporting requirements

The EU Audit legislation introduces additional reporting requirements for the statutory auditor of EU public interest entities (PIEs<sup>1</sup>) covering the statutory audit report, audit committee reporting and reporting to supervisory bodies of PIEs.

### 1. Audit report<sup>2</sup>

The legislation relating to auditor reports includes a series of requirements designed to enhance investors' understanding of the audit process, including the critical judgements made during the audit. The table below summarises the key requirements.

#### For an EU PIE, the audit report has to at least ...

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| <ul style="list-style-type: none"> <li>a. state by whom or by which body the statutory auditor<sup>3</sup> was appointed;</li> <li>b. indicate the date of the appointment and the period of total uninterrupted engagement, including previous renewals and reappointments of the statutory auditor;</li> <li>c. in support of the audit opinion, provide:             <ul style="list-style-type: none"> <li>i. a description of the most significant assessed risks of material misstatement, including due to fraud;</li> <li>ii. a summary of the auditor's response to those risks; and</li> <li>iii. where relevant, key observations arising with respect to those risks.</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>d. explain to what extent the statutory audit was considered capable of detecting irregularities, including fraud;</li> <li>e. confirm that the audit opinion is consistent with the additional report to the audit committee;</li> <li>f. declare that the prohibited non-audit services (NASs) were not provided and that the statutory auditor remained independent of the audited entity in conducting the audit; and</li> <li>g. indicate any services, in addition to the statutory audit, that were provided by the statutory auditor to the audited entity and its controlled undertaking(s), and which have not been disclosed in the management report or financial statements.</li> </ul> |
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The audit report has to include, for items (i)–(iii) above, a clear reference to the relevant disclosures in the financial statements;

1. See Article 2(13) of the Directive for a full definition: [http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L\\_.2014.158.01.0196.01.ENG](http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2014.158.01.0196.01.ENG).
2. See Article 10 of the Regulation: [http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L\\_.2014.158.01.0077.01.ENG](http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2014.158.01.0077.01.ENG), and Article 28 of the Directive for all statutory audits.
3. The use of the word 'auditors/(s)' in this document refers to auditor(s) and/or audit firms.

### For ALL statutory audits in the EU (not just statutory audits of PIEs), the auditor also has to:

Express clearly their opinion on:

- a. whether the annual financial statements give a true and fair view in accordance with the relevant financial reporting framework; and
- b. where appropriate, whether the annual financial statements comply with statutory requirements.

Provide a statement on any material uncertainty relating to events or conditions that may cast significant doubt about the entity's ability to continue as a going concern.

Include an opinion and a statement, both of which have to be based on the work undertaken in the course of the audit.

## What are the key new requirements for audit reports?

As summarised in the table above, both the Regulation and the Directive contain detailed provisions relating to the content of the audit report.

For **PIEs**, the audit report will need to provide, in support of 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
- where relevant, key observations arising with respect to those risks.

For **ALL** statutory audits in the EU (not just statutory audits of PIEs), the audit report will need to:

- 'provide a statement on any material uncertainty relating to events or conditions that may cast significant doubt about the entity's ability to continue as a going concern'.

## Are the new audit report requirements in line with the IAASB<sup>4</sup> requirements?

Much of the audit report will be consistent with the IAASB requirements, although there are still some unique EU disclosures – e.g. a declaration that no prohibited non-audit services have been provided to the audited entity and a separate indication of the length of the auditor-client relationship.

Under the new requirements, the auditor of a PIE has to provide a description of significant risks of material misstatement including assessed risks of material misstatement due to fraud of these risks, a summary of the response to those risks and, where relevant, key observations arising with respect to those risks. The IAASB requirements

include a similar requirement which is for the auditor of a listed entity to describe key matters in the audit report. See our [EU Audit Legislation FAQs](#) for further discussion on how the EU requirements align with the IAASB requirements.

## 2. Additional report to the audit committee<sup>5</sup>

Statutory auditors of PIEs will be required to provide a written report to the audit committee. This is already the case in some Member States, but this requirement will now apply for PIEs throughout the EU. This report will provide more detailed information on the results of the audit performed, together with explanatory text.

### What are the key requirements of the report to the audit committee?

Auditors will be required to disclose 'the quantitative level of materiality applied to perform the statutory audit for the financial statements as a whole and where applicable the materiality level or levels for particular classes of transactions account balances or disclosures, and disclose the qualitative factors which were considered when setting the level of materiality'.

Auditors will also be required to 'report and explain judgements about events or conditions identified in the course of the audit that may cast significant doubt on the entity's ability to continue as a going concern and whether they constitute a material uncertainty, and provide a summary of all guarantees, comfort letters, undertakings of public intervention and other support measures that have been taken into account when making a going concern assessment'.

The table at Appendix 1 outlines the key requirements.

### Are the requirements a significant departure from current practice?

Although many of the requirements do not constitute a significant departure from current practice, there are some new requirements, more specificity required and some that require further clarification, including:

- a description of the nature, frequency and extent of communication with the audit committee, including the dates of the meetings with those bodies;
- a description of which balance sheet categories have been directly verified and which have been based on system and compliance testing;
- a report on and assessment of the valuation methods applied to the various items in the financial statements, including the impact of any changes in such methods;

4. International Auditing and Assurance Standards Board.

5. See Article 10 of the Regulation: [http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L\\_.2014.158.01.0077.01.ENG](http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2014.158.01.0077.01.ENG).

- any significant deficiencies in the entity’s or, in the case of consolidated financial statements, the parent undertaking’s internal financial control system and/or in the accounting system. For each such significant deficiency, the additional report must state whether the deficiency in question has been resolved by the management; and
- the significant difficulties, if any, encountered during the audit.

The full list of requirements for the report to the audit committee is set out in the Appendix.

### When does the additional report have to be provided to the audit committee?

The statutory auditor has to submit the additional report to the audit committee not later than the date of submission of the audit report.

### Does the additional report to the audit committee have to be in writing?

The auditor has to discuss with the audit committee any key matters addressed in the additional report, and in particular any significant deficiencies in the audited entity’s financial statements, internal financial control systems and accounting systems.

### Will the additional report to the audit committee be a public document?

No – however, on request, and in accordance with national law, the auditor is required to make available without delay the additional report to the competent authorities.

### Are there any Member State options in relation to either auditor reporting or audit committee reporting?

Yes – there are numerous Member State options in the legislation, including on auditor reporting requirements. The table below summarises the key options.

#### Member State options<sup>6</sup>

Member States may lay down additional requirements in relation to the content of the audit report.

Member States may lay down additional requirements in relation to the content of the additional report to the audit committee and may additionally require that this additional report be submitted to the administrative or supervisory body of the audited entity (in addition to the audit committee).

Member States may allow the audit committee to disclose that additional report to such third parties as are provided for in their national laws.

See our [KPMG interactive map](#) for information on how countries have implemented the Member State options.

## 3. Other reporting requirements

### Reporting irregularities – Article 7 (Regulation)

If the Statutory auditor of the PIE has ‘reasonable grounds to suspect that irregularities, including fraud with regard to the financial statements of the audited entity, may occur or have occurred’ then the Regulation requires that the statutory auditor informs the audited entity; invites it to investigate the matter; and takes appropriate measures to deal with and prevent any recurrence of such irregularities in the future. If the audited entity does not investigate the matter or take appropriate action the statutory auditor is required to inform the Competent Authority.

### Report to supervisors of PIEs – Article 12 (Regulation):

Auditors are required to report on any information identified during the course of the statutory audit of the PIE that may relate to the following.

#### Report to supervisors of PIEs:

- a material breach of the laws, regulations or administrative provisions that lay down, where appropriate, the conditions governing authorisation or that specifically govern pursuit of the activities of the PIE;
- a material threat or doubt concerning the continuous functioning of the PIE; and
- a refusal to issue an audit opinion on the financial statements or the issuing of an adverse or qualified opinion.

The statutory auditor has the same duty to report any information referred to in points (a), (b) or (c) above that they become aware of in the course of carrying out the statutory audit of an undertaking that has close links<sup>7</sup> with the PIE.

Member States may require additional information from the statutory auditor provided that it is necessary for effective financial market supervision as provided for in national law.

6. See summary of all Member State options at: [http://www.fee.be/index.php?option=com\\_content&view=article&id=1412&Itemid=106&lang=en](http://www.fee.be/index.php?option=com_content&view=article&id=1412&Itemid=106&lang=en).

7. Has the meaning assigned to that term in point (38) of [Article 4\(1\) of Regulation \(EU\) No 575/2013](#) of the European Parliament and of the Council.

## Transparency reporting – Article 13 (Regulation):

Any statutory auditor of PIEs is required to publish an annual transparency report that includes the following.

### Transparency report

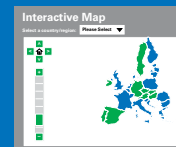
- A list of the PIEs for which statutory audits were carried out during the preceding financial year.
- Information about the total turnover of the statutory auditor divided into:
  - revenues from the statutory audit of annual and consolidated financial statements of PIEs and entities belonging to a group of undertakings whose parent undertaking is a PIE;
  - revenues from the statutory audit of annual and consolidated financial statements of other entities;
  - revenues from permitted non-audit services to entities that are audited by the statutory auditor; and
  - revenues from non-audit services to other entities.
- A description of the internal quality control system of the statutory auditor and a statement on the effectiveness of its functioning.

- An indication of when the last quality assurance review was carried out.
- A statement concerning the statutory auditor's independence practices, which also confirms that an internal review of independence compliance has been conducted.
- A description of the statutory auditor's policy concerning the rotation of key audit partners.
- Other specific details on the legal structure, ownership of the audit firm, network affiliation and governance structure.

The first transparency report complying with the EU Audit legislation will have to be published for financial years starting on or after 17 June 2016. The transparency report needs to be made public within four months of the end of each financial year on the auditor's website. KPMG's 2015 International transparency report is available on our [website](#)<sup>8</sup>.

8. <http://www.kpmg.com/global/en/about/governance/pages/transparency-report.aspx>

For further information please see our [EU Audit Legislation FAQs](#) and [Interactive Map of Member State Legislation](#), and speak to your usual KPMG contact.



## Appendix 1: Report to the audit committee

The Regulation states that the auditor has to explain the results of the statutory audit in an additional report to the audit committee, which at least:

- a. includes a **declaration of independence**;
- b. where the statutory audit was carried out by an audit firm, identifies each **key audit partner involved** in the audit;
- c. where the statutory auditor or the audit firm has made arrangements for any of its activities to be conducted by another statutory auditor or audit firm that is not a member of the same network, or has used the work of external experts, indicates that fact and **confirms that the statutory auditor** or the audit firm **received a confirmation from the other statutory auditor** or audit firm and/or the external expert regarding their independence;
- d. **describes the nature, frequency and extent of communication with the audit committee** or the body performing equivalent functions within the audited entity, the management body and the administrative or supervisory body of the audited entity, including the dates of meetings with those bodies;
- e. includes a **description of the scope and timing** of the audit;
- f. where more than one statutory auditor or audit firm have been appointed, **describes the distribution of tasks** among the statutory auditors and/or the audit firms;
- g. describes the methodology used, including which categories of the balance sheet have been **directly verified** and which categories have been **verified based on system and compliance testing**, including an explanation of any substantial variation in the weighting of system and compliance testing when compared with the previous year, even if the previous year's statutory audit was carried out by other statutory auditor(s) or audit firm(s);
- h. discloses the **quantitative level of materiality applied** to perform the statutory audit for the financial statements as a whole and, where applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures, and discloses the qualitative factors that were considered when setting the level of materiality;
  - i. reports and explains **judgements about events or conditions** identified in the course of the audit that may cast significant doubt on the entity's ability to continue as a going concern and whether they constitute a material uncertainty, and provides a summary of all guarantees, comfort letters, undertakings of public intervention and other support measures that have been taken into account when making a going concern assessment;
  - j. reports on any **significant deficiencies** in the audited entity's or, in the case of consolidated financial statements, the parent undertaking's internal financial control system, and/or in the accounting system. For each such significant deficiency, the additional report has to state whether the deficiency in question has been resolved by management;
  - k. reports any significant matters involving **actual or suspected non-compliance with laws and regulations** or articles of association that were identified in the course of the audit, in so far as they are considered to be relevant in order to enable the audit committee to fulfil its tasks;
- l. reports and assesses the **valuation methods applied** to the various items in the annual or consolidated financial statements, including any impact of changes of such methods;
- m. in the case of a statutory audit of consolidated financial statements, explains the scope of consolidation and the exclusion criteria applied by the audited entity to the non-consolidated entities, if any, and whether those criteria applied are in accordance with the financial reporting framework;
- n. where applicable, identifies any audit work performed by third-country auditor(s), statutory auditor(s), third-country audit entity(ies) or audit firm(s) in relation to a statutory audit of consolidated financial statements other than by members of the same network as to which the auditor of the consolidated financial statements belongs;
- o. indicates whether all requested explanations and documents were provided by the audited entity; and
- p. reports:
  - i. any significant difficulties encountered in the course of the statutory audit;
  - ii. any significant matters arising from the statutory audit that were discussed or were the subject of correspondence with management; and
  - iii. any other matters arising from the statutory audit that in the auditor's professional judgement are significant to the oversight of the financial reporting process.