

## Guidance on audit firm reporting

The EU audit legislation introduces new requirements for the auditor's reporting regarding statutory audits of public interest entities (PIEs) in the EU. The legislation will apply to financial years starting on or after 17 June 2016. Below is a summary of the measures regarding the new audit report and the additional report to the audit committee.

### The audit report

<b>Report to the audited PIE on the results of the statutory audit (The Audit Report)</b>		
a. State by whom or by which body the audit firm(s) was (were) appointed		
b. Indicate the date of the appointment and the period of total uninterrupted engagement including previous renewals and reappointments of the audit firm		
c. In support of the audit opinion:	• Describe the most significant assessed risks of material misstatement, including due to fraud	
	• Summarise the auditor's response to those risks	
	• Where relevant, provide key observations arising with respect to those risks	
	• Where relevant to the above information, provide a clear reference to the relevant disclosures in the financial statements	
d. Explain to what extent the audit was considered capable of detecting irregularities, including fraud		
e. Confirm that the audit opinion is consistent with the additional report to the audit committee		
f. Declare that prohibited non-audit services were not provided and that the audit firm(s) remained independent of the audited entity in conducting the audit		
g. Indicate any permissible services, in addition to the statutory audit, provided by the audit firm to the audited entity and its controlled undertaking(s), which were not disclosed in the management report or financial statements		
h. The statutory auditor(s) or audit firm(s) shall also:	• Express an opinion on:	• whether the management report is consistent with the financial statements for the same financial year
		• whether the management report has been prepared in accordance with the applicable legal requirements
	• State whether, in light of the knowledge and understanding of the undertaking and its environment obtained in the course of the audit, he, she or it has identified material misstatements in the management report, and shall give an indication of the nature of any such misstatements	
	• In light of the above, include an opinion and statement, both of which shall be based on the work undertaken in the course of the audit	

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## Additional report to the AC

The legislation includes a range of additional reporting requirements by the statutory auditor of PIEs, including to the audit committee, which has oversight responsibility for ensuring these requirements are complied with. These are summarised below.

<b>Audit committee report requirements</b>	
a. Their independence, and in addition to identifying any other statutory auditor or audit firm that is not part of the same network involved in the audit and any external experts, confirm that confirmations have been received regarding their independence	<b>More comprehensive disclosure</b>
b. The key audit partner (s) involved in the audit	
c. The nature, frequency and extent of communication with the audit committee (or equivalent), management and/or supervisory board, including dates of meetings	<b>More comprehensive disclosure</b>
d. The scope and timing of the audit	
e. Where more than one audit firm is appointed, the distribution of tasks	<b>New</b>
f. Identify audit work performed by third-country auditors other than by members of the same network	<b>New</b>
g. The methodology used, including which categories of the balance sheet have been directly verified and which have been based on system and compliance testing, including an explanation of any substantial variation in the weighting when compared to the previous year, even if carried out by another audit firm	<b>New</b>
h. Quantitative levels of materiality applied to perform the statutory audit for the financial statements as a whole and, if applicable, for particular classes of transactions, account balances or disclosures, and the qualitative factors considered when setting the level of materiality	<b>New</b>
i. The judgments about events or conditions identified during 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.	<b>Additional documentation required</b>
j. Any significant deficiencies in the internal financial control system, as well as in the accounting system. For each significant deficiency, the additional report shall state whether or not the deficiency in question has been resolved by the management	
k. Any significant matters involving actual or suspected non-compliance with laws and regulations or articles of association, which were identified during 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. Report and assess the valuation methods applied to the various items in the financial statements, including any impact of changes of such methods	<b>New</b>
m. Explain the scope of consolidation and the exclusion criteria, and whether the criteria applied are in accordance with the financial reporting framework	<b>New</b>
n. Indicate whether all requested explanations and documents were provided by the audited entity and report any significant difficulties encountered, any significant matters that were discussed or subject to correspondence with management, and any other matters that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process	