Federation of European Accountants
Fédération des Experts comptables Européens

Briefing Paper

Standing for trust and integrity

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RECENT DEVELOPMENTS IN AUDITOR COMMUNICATION

Introduction

This publication provides an overview of the recent changes to the European Union (EU) legislative requirements on auditor communication. It also compares these provisions with the international developments taking place under the remit of the International Auditing and Assurance Standards Board (IAASB) and highlights those areas where the requirements are equivalent or complementary.

An appendix is attached with a detailed comparison of the EU and IAASB requirements.

Even though the EU and IAASB provisions both cover the same subject matters and are easily comparable, in a few instances, the terminology used may be somewhat different. In general, EU terminology is used in this Briefing Paper, unless directly quoted from the IAASB text[1].

The following table describes what is referred to as "auditor communication" in this Briefing Paper:

What is auditor communication?	Page reference
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• The **audit report** on all audited financial statements	Page 4
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[1] For instance the term "audit report" featured in the EU legislation is equivalent to the term "auditor's report" used in the international standards on auditing (ISAs).

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Background Information

EU Legislation

The new European audit legislation[2] comprises updated European Union (EU) provisions regarding the communication of the auditor in:

- The **Directive2014/56/EU**[3] amending Directive 2006/43/EC[4] on statutory audits (2006 SAD) and containing a series of amended and new requirements governing every statutory audit in the EU (hereafter referred to as "the Directive"); and
- The **Regulation (EU) No 537/2014**[5] containing additional requirements that relate specifically to statutory audits of PIEs in addition to the ones stated in the Directive (hereafter referred to as "the Regulation").

Both the EU Directive and the Regulation entered into force on 16 June 2014. Member States have to adopt, publish and apply the measures necessary to comply with the Directive by 17 June 2016[6]. Most provisions of the Regulation shall also apply from 17 June 2016[7].

International Standards (ISAs)

A number of International Standards on Auditing[8] (ISAs) deal with auditor communication. One of the IAASB's main priorities since 2011 has been to determine whether and how the suite of ISAs should be amended to better accommodate stakeholders' needs and enhance the communicative value and relevance of the audit report.

As a result, the following ISAs have recently been amended or developed[9]:

ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements
ISA 701 (New), Communicating Key Audit Matters in the Independent Auditor's Report
ISA 260 (Revised), Communication with Those Charged with Governance
ISA 570 (Revised), Going Concern
ISA 705 (Revised), Modifications to the Opinion in the Independent Auditor's Report
ISA 706 (Revised), Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report
ISA 720 (Revised), The Auditor's Responsibilities Relating to Other Information[10]
Conforming Amendments to Other ISAs

[2] Background information included in the following FEE factsheet : http://www.fee.be/images/Factsheet_Audit_Policy_1404.pdf
[3] http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0056&from=EN
[4] http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CONSLEG:2006L0043:20080321:EN:PDF
[5] http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0537&from=EN
[6] 2014 Directive, Article 2 (1)
[7] 2014 Regulation, Article 44
[8] ISAs are developed and issued by the International Auditing and Assurance Standards Board (IAASB), which is an independent standard-setting body. The structures and processes that support the operations of the IAASB are facilitated by the International Federation of Accountants (IFAC).
[9] Accessible on the IAASB website at: www.iaasb.org/auditor-reporting
[10] Subject to Public Interest Oversight Board (PIOB) approval

ISAs are applicable to all auditors' reports issued as a result of an audit of financial statements with some specific requirements applicable to listed entities only. These requirements may be extended voluntarily to all audits.

New and revised standards will be applicable for accounting periods ending on or after 15 December 2016. Early adoption is permitted.

International Standards' Comparability with the EU Revised Legislation

The main differences between the EU and IAASB provisions are in respect of the effective date and the scope of some of the proposals that relate to PIEs (for the EU) as compared to listed entities (for the IAASB).

In summary, the effective dates of the measures will be as follows:

For the EU	For the ISAs	Comparison
The revised EU legislation applies from 17 June 2016. In practical terms, the first audit reports following these new requirements are likely to relate to financial years ending on 30 June 2017 and beyond.	The new and revised auditor reporting standards will be applicable for accounting periods ending on or after 15 December 2016. In practical terms, the first audit reports following these new requirements are likely to relate to the financial years ending on 31 December 2016 and beyond.	Early application is possible under ISAs. The practical impact of this difference is that, for those countries that have adopted ISAs, a number of the EU requirements that are comparable with the new ISA requirements will be adopted early.

ISAs in the EU

Based on the Directive and Regulation, EU countries should, for all statutory audits, require the use of ISAs adopted by the European Commission (EC). EU law also empowers the EC to adopt ISAs at a European level[11], but a timetable for this has not yet been set. In the meantime, the Audit Directive provides that Member States may apply national auditing standards.

Notwithstanding that many EU Member States have voluntarily already adopted the ISAs at a national level, either without modification or with a few national additions, formal adoption by the EC is still desirable for a number of reasons, such as:

- Some EU Member States, including large ones, have not yet adopted ISAs voluntarily and are said to wait for EC adoption (France, Germany and Portugal) and some are still in the process of full adoption (Austria and Poland);

- Without an EU adoption mechanism, new and revised ISAs may be adopted at different times or certain standards may not be adopted at all in some jurisdictions resulting in a lack of harmonisation throughout the EU; and

- EU-wide coordination and collaboration would enable the establishment of more effective mechanisms to guarantee the quality and acceptability of ISA translations.

[11] Reference is made to Article 26 of the Directive and Article 9 of the Regulation.

The Audit Report: Enhancing the Informative Value

Although users still support the current pass/fail audit opinion, it is important for the auditor to respond to the calls, mostly from investors, for more informative audit reports with entity specific information.

Requirements Applicable to All Statutory Audit Reports

General Requirements

EU Legislation

The minimum content requirements for the audit report, such as the identification of the audited financial statements and the applicable financial reporting framework, a description of the scope of the audit, and the need for expressing an unqualified, qualified or adverse audit opinion, are included in the 2013 Accounting Directive[12].

In addition to these requirements included in the Accounting Directive, the updated text of the Audit Directive provides measures to enhance investors' understanding of the audit process. The most significant change is the requirement for the auditor to report in the event that the auditor identifies a material uncertainty related to going concern.

The Audit Directive also includes a Member State option to add any further requirements[13] in relation to the content of the audit report. Before adding further general requirements to the content of the audit report, Member States should weigh expected benefits relative to the administrative burden that may be triggered by applying this option.

International Standards (ISAs)

The minimum general requirements are included in ISA 700 (Revised). ISA 700 (Revised) also requires the auditor to form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework and are fairly presented. In performing an audit, the auditors may also be required to comply with legal or regulatory requirements in addition to the ISAs. The ISAs do not override law or regulation that governs an audit of financial statements. ISA 700 (Revised) foresees the inclusion of a section headed 'Report on Other Legal and Regulatory Requirements' to include reporting on national specificities, where applicable.

The main changes included in this revised standard are as follows:

- The auditor's opinion is now required to be presented first in the report, and all sections to have a subheading to enhance readability and better structure the audit report. The ISAs also allow for the use of a specific layout or wording of the audit report if prescribed by law or regulation in a jurisdiction, provided that certain minimum elements are included;

- Improvements to enhance transparency or clarify responsibilities, such as a statement about the auditor's compliance with independence and other ethical responsibilities, the naming of the engagement partner (but only for listed entities), an improved description of the auditor responsibilities and key features of the audit, as well as a description of management and auditor's responsibilities for going concern;

- A new section in the audit report to address other information when such information is presented with the audited financial statements (see below); and

- As applicable, information relating to going concern issues (see below).

International Standards' Comparability with the EU Revised Legislation

A statutory audit performed in compliance with the ISAs will generally meet the requirements introduced by the recent EU legislation. Specific EU or national content will be disclosed. As detailed hereafter, the EU text requires an opinion on whether the management report has been prepared in accordance with the applicable legal requirements. The relationship to the work effort and reporting required under ISA 720 (Revised) is analysed below. The revised ISAs go a step further in terms of format and clarifications about auditor's responsibilities, but they are otherwise broadly consistent with the revised EU legislation.

Material Uncertainty Related to Going Concern

EU Legislation

One of the significant new requirements imposed on all statutory audits is to provide "a statement on any material uncertainty relating to events

12 Article 35 of the 2013 Accounting Directive, replacing the 4th and 7th Directives, accessible at: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:182:0019:0076:EN:PDF

13 2014 Directive, Article 28 (2)

or conditions that may cast significant doubt about the entity's ability to continue as a going concern"[14] in the audit report. This disclosure is only required when the auditor has identified such material uncertainty.

International Standards (ISAs)

ISA 570 (Revised) deals with the way in which auditors may have to report on going concern. Under this ISA, the objectives of the auditor are to:

- Obtain sufficient appropriate audit evidence and conclude on the appropriateness of management's use of the going concern basis of accounting in the preparation of the entity's financial statements;
- Conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and
- To report in accordance with the ISA.

When a material uncertainty about going concern is adequately disclosed in the financial statements by management, the audit report should include a separate section "Material Uncertainty Related to Going Concern" without modification of the audit opinion. If such uncertainty is not disclosed by management, the auditor has to express a qualified or adverse opinion.

When a close-call has arisen from events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, but ultimately a conclusion is taken that there is no material uncertainty, ISA 570 (Revised) now requires the auditor to evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures of these events and conditions. ISA 701 observes that matters relating to the auditor's conclusion regarding going concern issues arising from the work effort under ISA 570 (Revised) could also be considered a key audit matter (KAM – see below). No additional reporting is required when no going concern issue is identified.

For all audit reports, an enhanced description is also required on the respective responsibilities of management and the auditor in relation to going concern.

International Standards' Comparability with the EU Revised Legislation

Both requirements linked to a material uncertainty related to going concern are likely to result in equivalent disclosure in the audit report. They will only result in disclosure in a separate section of the audit report when the auditor concludes that a material uncertainty exists relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. The descriptions of the respective responsibilities as required by ISA 700 (Revised) are an add-on in comparison to the EU requirements.

Even if the auditor is generally not in a position to communicate information to the public that the management of the audited company has not disclosed itself, the auditor does perform work with regard to management's going concern assumptions and is therefore well placed to communicate more on this area.

The key issues reside in cases where:

- **A close-call has arisen from events or conditions being identified, but ultimately a conclusion is taken that there is no material uncertainty following debate between the auditor and management. In such cases, the auditor is required to evaluate the adequacy of management's disclosure of these events or conditions in view of the requirements of the applicable financial reporting framework. In addition, the auditor might communicate this as a KAM; or**
- **Material uncertainties have been identified by the auditor, but nothing has been disclosed by management. In these cases, the auditor has to express a qualified or adverse opinion.**

Accounting standards will also need to be enhanced to provide more requirements and/or guidance on management disclosures related to going concern[15]. Whether this would ever result in a requirement for entities to explicitly include comments on its going concern assumptions in its annual report and for its auditor to report on it, is a matter for later consideration.

[14] 2014 Directive, Article 28 (2) (f)

[15] Although not authoritative, according to a recent agenda decision of the IFRIC Interpretations Committee, the company's decision regarding going concern could qualify as an IAS1 significant judgements that should be disclosed.

Other Information Accompanying the Financial Statements and the Auditor Work Thereon

EU Legislation

In the Accounting Directive[16], it is now required for the statutory auditor to:

- Express "an opinion" on whether the management report[17] is consistent with the financial statements and prepared in accordance with the applicable legal requirements; and
- State whether, based on the auditor's knowledge and understanding, there are any material misstatements in the management report.

International Standards (ISAs)

ISA 720 (Revised)[18] also includes new requirements related to auditor reporting. In the revised ISA, the auditor is required to read and consider other information[19], and take appropriate actions. The report needs to include either a statement that there is nothing to report or, if the auditor has determined that there is an uncorrected material misstatement of the other information, a statement describing any uncorrected material misstatement of other information. The auditor should also "remain alert" for indications that the other information not related to the financial statements or the auditor's knowledge obtained in the audit appears to be materially misstated.

International Standards' Comparability with the EU Revised Legislation

In ISA 720 (Revised), "other information" may encompass a wider scope of material published by the entity than the "management report", as referred to in the EU legislation.

The work effort required by ISA 720 (Revised) is explicit whereas the EU legislation does not include a specific provision about the work effort. For instance, further consideration needs to be given to the work effort necessary to provide the opinion required by the Accounting Directive as referred to in the first bullet point above and what users' interpretation would be of this required opinion. Both EU and IAASB reporting requirements clarify the auditor's role on other (non-financial) information, adding therefore value to the report users.

Requirements Applicable to Statutory Audits of Public-Interest Entities

To Support the Audit Opinion Itself

EU Legislation - applicable to PIEs

According to the new Regulation provisions[20], in support of the audit opinion, the audit report of PIEs shall provide the following:

- 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.

The audit report should also explain to what extent the statutory audit was considered capable of detecting irregularities, including fraud, as well as confirm that the audit opinion is consistent with the additional report to the audit committee. No further reference to this report to the audit committee should be made apart from this confirmation.

Member States are given the option to include additional requirements in relation to the content of the audit report for audits of PIEs. Due to existing national specificities, many Member States have already added national reporting requirements to their audit reports. Before adding any further general requirements to the content of the audit report, Member States should consider the administrative burden that may be triggered by applying this option weighed against the benefits.

FEE welcomes the approach taken by the EU policy makers to enhance public auditor reporting in a meaningful way. In particular, the inclusion of these key observations enhances the informative value of the audit report for its users. A similar approach is already applied in France and in the UK and will also be applicable in the Netherlands for periods ending on or after 15 December 2014 (already applicable on a voluntary basis).

[16] 2013 Accounting Directive, Article 34
[17] The management report used to be called "annual report" in the previous EU text, but the disclosures requirements are almost identical for the entity.
[18] Subject to PIOB approval of due process followed
[19] Defined in ISA 720 (Revised) as financial or non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report
[20] 2014 Regulation, Article 10 (2)

International Standards (ISAs) - applicable to listed entities

Communicating KAMs in the independent audit report is required for listed entities by the IAASB in the new ISA 701. It may also be required by law or regulation or provided voluntarily by the auditor for other entities.

In determining matters that required significant auditor attention, the auditor is required to consider:

- Areas of higher assessed risk of material misstatements or significant risks (risks requiring special audit consideration);
- Significant auditor judgements relating to areas of significant management judgement (e.g. complex accounting estimates); and
- Effects of significant events or transactions on the audit.

From matters that required significant auditor attention, the auditor is required to determine which of these were of most significance in the audit and, therefore, KAMs to be included in the audit report. ISA 701 provides guidance to assist the auditor in making this determination.

In most cases, a KAM will relate to significant or complex matters disclosed in the financial statements, but they are not limited to these. The auditor is not precluded from disclosing a matter that is not disclosed in the financial statements. However, the auditor should seek to avoid providing original information about the entity that would be inappropriate for the auditor alone to disclose.

As for fraud risks that may cause a material misstatement in the financial statements, the audit work based on ISAs already addresses these potential risks. ISA 240[21] requires considering fraud and maintaining a certain level of professional scepticism during the whole audit to cover this risk and specifically requires the auditor to:

- Identify and assess the risks of material misstatement of the financial statements due to fraud;
- Obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- Respond to fraud or suspected fraud identified during the audit. This response may or may not include appropriate disclosure in the audit report.

International Standards' Comparability with the EU Revised Legislation

Whilst the wording in the EU text is not the same as in ISA 701, the outcome could generally be expected to be the same. Due to the fact that the concept of 'identifying and assessing risks of material misstatements' used in the EU text comes from the ISAs[22], both methods should result in similar matters being communicated. As explained above, an ISA audit report might also disclose matters that are not included in the financial statements, if such matters are determined to be KAMs in accordance with ISA 701.

Other Disclosures Requirements

EU Legislation

About Other Provisions (Non-Audit Services and Mandatory Rotation)

Other disclosure requirements are linked to the newly introduced provisions on mandatory audit firm rotation and prohibition of certain non-audit services[23]:

- In connection to the auditor rotation, the report has to include specific information about the auditor appointment, such as the appointing body, the date of appointment and the period of uninterrupted engagement[24]; and
- The auditor needs to declare that none of the prohibited non-audit services were provided to the audited entity and that the independence of the auditor was maintained. In connection to this statement, any other services provided by the statutory auditor or audit firm to the audited entity and its controlled undertaking(s) should be disclosed in the audit report if not already disclosed in the management report or the financial statements[25].

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21 ISA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

22 Reference is made to ISA 315, Identifying and Assessing Risks of Material Misstatements where, after having obtained and documented an understanding of the entity including its internal control, the auditor is in a position to identify and assess the risks of material misstatement, which should be done at the financial statement level, and at the assertion level for classes of transactions, account balances and disclosures. The point of the risk assessment is to provide a basis for designing and performing further audit procedures.

23 2014 Regulation, Article 17 and 2014 Regulation, Article 5, respectively
These topics have been addressed in previous FEE Briefing Papers:
- The Appointment of the Auditor and the Duration of the Audit Engagement, accessible at: http://www.fee.be/images/publications/auditing/BP_140825_-_Appointment_of_the_Auditor.pdf; and
- Provision of Non-Audit Services to Public-Interest Entity Statutory Audit Clients, accessible at: http://www.fee.be/images/publications/auditing/BP_140825_-_Provision_of_NAS.pdf

24 2014 Regulation, Article 10 (2)

25 2014 Regulation, Article 10 (2) (f) and (g)

About Joint Audit

Further requirements on the audit report are connected to the specific situation where more than one auditor performs the audit. In such cases, the auditors have to agree on their conclusions and submit a joint report and opinion. In case of disagreement between the auditors performing a joint audit, they should still submit only one audit report, but each of them should include their opinion in separate paragraphs[26].

International Standards' Comparability with the EU Revised Legislation

ISA requirements do not cover these EU additional disclosure requirements linked to other provisions. These will therefore constitute unique EU disclosures to be included under the section headed "Report on Other Legal and Regulatory Requirements" as discussed above.

FEE fully supports an audit report that is more informative, user friendly and easier to understand. A report prepared under ISA 700 (Revised) is generally compatible with EU legislation and auditors who have to comply with both sets of requirements will not need to produce two differing sets of audit reports. FEE is pleased to observe how close both final requirements have ended up. Comparability is important for investors and global markets and thus it is desirable for the audit report to remain as consistent as possible across jurisdictions.

Additional Report to the Audit Committee

EU Legislation

The additional report to the audit committee was already required by the 2006 SAD for PIE audits where the statutory auditor or audit firm reports to the audit committee on key matters arising from the statutory audit, and in particular on material weaknesses in internal controls with regard to the financial reporting process.

Some information gathered by the auditor during the audit is directly relevant to governance responsibilities and is submitted to those charged with governance of the entity via the additional report to the audit committee. Alongside other communications and discussions between the auditor and the audit committee, this additional report to the audit committee contributes to strengthening the communication between both parties.

In many EU countries, more specific requirements on communications from the auditor to the audit committee and/or those charged with governance have been in place for many years. In 2012, FEE carried out a survey on the functioning of audit committees[27]. This survey revealed that even if in some countries the communication was more formalised than in others (e.g. a special long form report), information sharing by the external auditor to those charged with governance was effective (e.g. in formal presentations to the audit committee).

The Regulation formalises and expands the content of this report with the following set of requirements[28]:

A declaration of independence and a confirmation that independence requirements were fulfilled by any other auditor or external expert participating in the audit (where relevant)
An identification of each key audit partner involved in the audit (where relevant)
A description of the frequency and nature of the communication between the statutory auditor or audit firm and the audit committee, management and/or supervisory board, including dates of meetings
A description of the scope and timing of the audit
A distribution of tasks between more statutory auditors (where relevant)

[26] 2014 Directive, Article 28 (3)
[27] We refer to pages 43 to 46 of the FEE discussion paper accessible at : http://www.fee.be/images/Discussion_Paper_on_Audit_Committees_120615.pdf
[28] 2014 Regulation, Article 11 (2)

A description of the methodology used, including which categories of the balance sheet have been directly verified and which have been based on system and compliance testing
A disclosure of the quantitative level of materiality applied to perform the statutory audit for the financial statements as a whole and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures
An explanation on 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
A report on 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
A report on 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
An assessment of the valuation methods applied to the various items in the annual or consolidated financial statements, including any impact of changes of such methods
An explanation of the scope of consolidation (where relevant)
An identification of the work performed by third country auditors (where relevant)
A report on any significant difficulties encountered during the audit, any significant matters arising from the audit that were discussed, or subject to correspondence with management or 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

Member States are given the option to impose additional requirements on the content of the report to the audit committee, to require the report be submitted to the administrative or supervisory body of the audited entity, and to also allow disclosure of this report to any third parties.

International Standards (ISAs)

ISAs include requirements and more detailed guidance on the communication between the external auditor and those charged with governance[29] in ISA 260 (Revised) and ISA 265[30], as well as within a number of individual ISAs[31].

ISA 260 (Revised) underlines the need for an effective and timely two-way communication between the external auditor and those charged with governance. The matters that the auditor should communicate according to the related ISAs are:

- The scope of the auditor’s responsibilities in relation to the audit of the financial statements;
- Planned scope and timing of the audit, including communicating about the significant risks identified by the auditor;
- Significant findings from the audit;

[29] Include the board and the audit committee. “Those charged with governance” is defined as person(s) or organization(s) (e.g., a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager. (source: ISA 260 (Revised))

[30] ISA 260 (Revised) Communication with Those Charged with Governance and ISA 265 Communicating Deficiencies in Internal Control to Those Charged with Governance and Management

[31] See appendix 1 of ISA 260 (Revised)

- Matters related to auditor independence; and

- Significant deficiencies in internal control identified by the auditor during the audit.

International Standards' Comparability with the EU Revised Legislation

The EU requirements regarding communication with the audit committee are much more specific than ISA 260 (Revised), which is primarily principles-based. While ISA 260 (Revised) requires a number of specific communications with those charged with governance for all audits, it allows flexibility for this communication to be made orally. There is no requirement at international level for the statutory auditor to provide the audit committee or any supervisory board with a formal additional report dealing with all matters to be communicated. Whilst many of the matters that are required to be communicated are broadly comparable, the level of detail prescribed differs. The EU legislation also has some specific requirements not covered by the ISAs, for instance the ones included in the 2014 Regulation, Article 11 (2) (b), (c) and (f) on the involvement of key audit partners and other auditors, as well as Article 11 (2) (g) on the methodology applied and categories of testing.

FEE believes that enhanced communication between the auditor and the audit committee is beneficial to both parties in the discharge of their respective duties. With due consideration to its content, this additional report is already common practice in many Member States and supports a value-added relationship between the auditor and the audit committee. FEE does not advise Member States to take advantage of the option to extend the content of this additional report to the audit committee. Additional information could address business needs on a case by case basis and could be provided voluntarily. The submission of the report to the administrative or supervisory body is acceptable. However, disclosing the report to outside parties would contradict the nature of the report, which is intended for internal governance use only. On the other hand, information communicated from the audit committee to the public could be beneficial.

Other Auditor Communication

At the Audit Assignment Level

Communication on Irregularities and Reporting to Supervisors

EU Legislation

In general terms, the audit report shall explain to what extent the statutory audit was considered capable of detecting irregularities, including fraud[32].

When such irregularities are suspected by the auditor of a PIE, this should be communicated to the audited entity. The entity should then investigate the matter and take measures to mitigate and prevent these irregularities. If the entity refuses to do so, the auditor should inform the authorities, which should not constitute a breach of any contractual or legal restriction on disclosure of information[33].

Statutory auditors of PIEs are required by the Regulation to report to the supervising competent authorities the following[34]:

- A material breach of the laws, regulations or administrative provisions which lay down, where appropriate, the conditions governing authorisation or which specifically govern pursuit of the activities of such PIE;

- A material threat or doubt concerning the continuous functioning of the PIE; and

- A refusal to issue an audit opinion or the issuing of an adverse or qualified opinion.

Member States have the option to add to this list of requirements.

The disclosure of information to competent authorities or other supervisors can only be done if it does not violate any legal restrictions on confidentiality[35] and should only be used in exceptional cases. The rationale behind reporting to the supervisor is to establish an effective two way dialogue between supervising competent authorities and auditors. Both parties, the auditor and the supervisor, should be responsible for establishing such dialogue[36].

[32] 2014 Regulation, Article 10 (2)
[33] 2014 Regulation, Article 7
[34] 2014 Regulation, Article 12 (1)
[35] 2014 Regulation, Article 12 (3)
[36] 2014 Regulation, Article 12 (2)

International Standards (ISAs)

With respect to irregularities, ISAs focus on the detection of fraud in the course of the audit of financial statements. In the audit report, a section describes the auditor's responsibilities which are to identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; to design and perform audit procedures responsive to those risks; and to obtain audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. In addition, ISA 240 requires the auditor to communicate on a timely basis a fraud identified or information that indicates that a fraud may exist to those who are primarily responsible for prevention and detection of such irregularities. In exceptional circumstances, the auditor may be legally obliged to breach client confidentiality and communicate the suspicion outside the entity.

According to ISA 250[37], when carrying out an audit of financial statements, the auditor should also report any non-compliance with laws and regulations to those charged with governance that come to the auditor's attention during the course of the audit, except when these matters are clearly inconsequential. However, if the auditor suspects an involvement of those charged with governance, the matter should be escalated. The auditor has to determine whether the non-compliance should be communicated outside the entity.

International Standards' Comparability with the EU Revised Legislation

The EU requirement on how the audit could detect irregularities including fraud is covered by performing the working and reporting procedures included in ISA 240 and by describing the corresponding auditor's responsibilities in the audit report following ISA 700 (Revised). The auditor will use professional judgement to determine if there is a need or not for any more specific disclosures in the audit report.

The comparability related to communication of irregularities and reporting to supervisors is limited. The EU requirements form part of a legal instrument and, when applied in EU Member States, can be more extensive. They can provide protection for the auditor employment situation, personal safety and liability, like other "whistle-blower" legislation in general. Standards or codes dealing with suspicion of irregularities cannot, by essence, provide for such protection. Therefore, ISAs cannot be expected to adequately deal with such measures other than on a broader principles-based level.

At the Audit Firm Level

Transparency report

EU Legislation

A transparency report is another means for the auditor to communicate to the public. This report should be publicly available on the website of audit firms carrying out audits of PIEs within four months after the end of each financial year and be available for at least five years.

The requirements placed upon the content of the transparency report, which were already included in the 2006 SAD, have been removed from the Directive and are now included in the Regulation[38].

In addition to the original requirements such as information on the legal structure and ownership of the audit firm, a description of the internal quality control system and information concerning partners' remuneration, higher emphasis is now placed upon the information relevant to auditors' belonging to a network and categories of revenues.

International Standards (ISAs)

The audit firms are not required to produce transparency reports under ISAs.

Conclusion and Looking Ahead

The profession is currently on a journey towards implementing the new European and international requirements concerning auditor communication.

The changes introduced, especially the requirement to describe in the audit report the most significant assessed risks of material misstatement, are particularly momentous in that they will enable the profession to provide more meaningful and transparent information to stakeholders. These changes represent key historical steps towards improving the way auditors communicate the value of their work and FEE anticipates that, as auditors gain experience from practice, this will continue to evolve.

It is worth emphasising that a report prepared under ISAs, whilst not mirroring, will be compatible with the EU legislation and auditors who have to comply with both sets of requirements will not need to produce two differing sets of reports. Comparability is important for investors and global markets and FEE firmly believes that the audit report should remain as consistent as possible across jurisdictions.

[37] ISA 250 Consideration of Laws and Regulations in an Audit of Financial Statements
[38] 2014 Regulation, Article 13

Appendix to the Briefing Paper on Auditor Communication – Comparison and compatibility between EU and IAASB requirements

Topic	EU	ISA	Comparison
Background information			
Effective date	The revised EU legislation applies from 17 June 2016. In practical terms, the first audit reports following these new requirements are likely to relate to financial years ending on 30 June 2017 and beyond.	The new and revised auditor reporting standards will be applicable for accounting periods ending on or after 15 December 2016. In practical terms, the first audit reports following these new requirements are likely to relate to financial years ending on 31 December 2016 and beyond.	The effective dates differ. In addition, early application is possible under ISAs. The practical impact of this difference is that, for those countries that adopt ISAs, a number of EU requirements that are comparable with the new ISA requirements will be adopted early.
Scope	The Directive is applicable to all statutory audits of annual accounts and consolidated accounts and the Regulation for statutory audits of public-interest entities (PIEs).	ISAs are applicable to all auditors' reports issued as a result of an audit of financial statements with some specific requirements applicable to listed entities.	The EU Regulation places specific requirements on the audit report of PIEs. Whilst the IAASB requires additional reporting only for listed entities, this may be extended voluntarily to all audits. The definition of PIE is implemented differently in each Member State, but has to include at least listed entities, credit institutions and insurance undertakings. The practical impact of this difference is that, for those countries that adopt ISAs, the EU requirements that are comparable with the new ISA requirements will be adopted early and beyond listed entities.
Audit report			
General requirement (for all audits)	**Article 28 (2) of the Directive** 2. The audit report shall be in writing and shall: (a) identify the entity whose annual or consolidated financial statements are the subject of the statutory audit; specify the annual or consolidated financial statements and the date and period they cover; and identify the financial reporting framework that has been applied in their preparation;	**ISA 700 (Revised) and ISA 706 (Revised) Requirements** **ISA 700 (Revised)** 20. The auditor's report shall be in writing. Auditor's Report for Audits Conducted in Accordance with International Standards on Auditing *Title* 21. The auditor's report shall have a title that clearly indicates that it is the report of an independent auditor. *Addressee* 22. The auditor's report shall be addressed, as appropriate, based on the circumstances of the engagement.	A statutory audit performed in compliance with the ISAs will generally meet the requirements introduced by the recent EU legislation. Specific EU or national content will be disclosed. Reference is made to Article 28 (2) (c) (ii) of the Directive. Other examples are highlighted in the table below.

Topic	EU	ISA	Comparison
General requirement (for all audits)	(b) include a description of the scope of the statutory audit which shall, as a minimum, identify the auditing standards in accordance with which the statutory audit was conducted; (c) include an audit opinion, which shall be either unqualified, qualified or an adverse opinion and shall state clearly the opinion of the statutory auditor(s) or the audit firm(s) as to: (i) whether the annual financial statements give a true and fair view in accordance with the relevant financial reporting framework; and, (ii) where appropriate, whether the annual financial statements comply with statutory requirements. If the statutory auditor(s) or the audit firm(s) are unable to express an audit opinion, the report shall contain a disclaimer of opinion; (d) refer to any other matters to which the statutory auditor(s) or the audit firm(s) draw(s) attention by way of emphasis without qualifying the audit opinion; (e) […] (see below); (f) […] (see below); (g) identify the place of establishment of the statutory auditor(s) or the audit firm(s). Member States may lay down additional requirements in relation to the content of the audit report.	*Auditor's Opinion* 23. The first section of the auditor's report shall include the auditor's opinion, and shall have the heading "Opinion". 24. The Opinion section of the auditor's report shall also: (a) Identify the entity whose financial statements have been audited; (b) State that the financial statements have been audited; (c) Identify the title of each statement comprising the financial statements; (d) Refer to the notes, including the summary of significant accounting policies; and (e) Specify the date of, or period covered by, each financial statement comprising the financial statements. 25. When expressing an unmodified opinion on financial statements prepared in accordance with a fair presentation framework, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases, which are regarded as being equivalent: (a) In our opinion, the accompanying financial statements present fairly, in all material respects, […] in accordance with [the applicable financial reporting framework]; or (b) In our opinion, the accompanying financial statements give a true and fair view of […] in accordance with [the applicable financial reporting framework]. 26. When expressing an unmodified opinion on financial statements prepared in accordance with a compliance framework, the auditor's opinion shall be that the accompanying financial statements are prepared, in all material respects, in accordance with [the applicable financial reporting framework]. 27. If the reference to the applicable financial reporting framework in the auditor's opinion is not to IFRSs issued by the International Accounting Standards Board or IPSASs issued by the International Public Sector Accounting Standards Board, the auditor's opinion shall identify the jurisdiction of origin of the framework. *Basis for Opinion* 28. The auditor's report shall include a section, directly following the Opinion section, with the heading "Basis for Opinion", that: (a) States that the audit was conducted in accordance with International Standards on Auditing;	The revised ISAs go a step further in terms of format and clarifications about auditor's responsibilities, but they are otherwise consistent with the revised EU legislation. The ISAs allow for the use of a specific layout or wording of the audit report if prescribed by law or regulation in a jurisdiction, provided that certain minimum elements are included.

Topic	EU	ISA	Comparison
General requirement (for all audits)		(b) Refers to the section of the auditor's report that describes the auditor's responsibilities under the ISAs; (c) Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall identify the jurisdiction of origin of the relevant ethical requirements or refer to the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code); and (d) States whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion. […] *Auditor's Address* 47.* The auditor's report shall name the location in the jurisdiction where the auditor practices. **ISA 706 (Revised)** *Emphasis of Matter Paragraphs in the Auditor's Report* 8. If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements, the auditor shall include an Emphasis of Matter paragraph in the auditor's report provided: (a) The auditor would not be required to modify the opinion in accordance with ISA 705 (Revised) as a result of the matter; and (b) When ISA 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report. 9. When the auditor includes an Emphasis of Matter paragraph in the auditor's report, the auditor shall: (a) Include the paragraph within a separate section of the auditor's report with an appropriate heading that includes the term "Emphasis of Matter";	

Topic	EU	ISA	Comparison
General requirement (for all audits)		(b) Include in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements. The paragraph shall refer only to information presented or disclosed in the financial statements; and (c) Indicate that the auditor's opinion is not modified in respect of the matter emphasized. *Other Matter Paragraphs in the Auditor's Report* 10. If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report, the auditor shall include an Other Matter paragraph in the auditor's report, provided: (a) This is not prohibited by law or regulation; and (b) When ISA 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report. 11. When the auditor includes an Other Matter paragraph in the auditor's report, the auditor shall include the paragraph within a separate section with the heading "Other Matter", or other appropriate heading. *Communication with Those Charged with Governance* 12. If the auditor expects to include an Emphasis of Matter or an Other Matter paragraph in the auditor's report, the auditor shall communicate with those charged with governance regarding this expectation and the wording of this paragraph.	
Going concern	**Article 28 (2) (f) of the Directive**	**ISA 570 (Revised) Requirements and AM and ISA 700 (Revised) Requirements**	Both requirements linked to a material uncertainty related to going concern are likely to result in equivalent disclosure in the audit report. They will only result in disclosure in a separate section of the audit report when the auditor concludes that a material uncertainty exists relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
	2. The audit report shall be in writing and shall: […] (f) 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; […]	**ISA 570 (Revised)** *Adequacy of Disclosures When Events or Conditions Have Been Identified and a Material Uncertainty Exists* 19. If the auditor concludes that management's use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements:	

Topic	EU	ISA	Comparison
Going concern		(a) Adequately disclose the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and (b) Disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business. *Adequacy of Disclosures When Events or Conditions Have Been Identified but No Material Uncertainty Exists* 20. If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained the auditor concludes that no material uncertainty exists, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures about these events or conditions. **Implications for the Auditor's Report** *Use of Going Concern Basis of Accounting Is Inappropriate* 21. If the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the preparation of the financial statements is inappropriate, the auditor shall express an adverse opinion. *Use of Going Concern Basis of Accounting Is Appropriate but a Material Uncertainty Exists* Adequate Disclosure of a Material Uncertainty Is Made in the Financial Statements 22. If adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express an unmodified opinion and the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" to: (a) Draw attention to the note in the financial statements that discloses the matters set out in paragraph 19; and (b) State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter.	The descriptions of the respective responsibilities as required by ISA 700 (Revised) are an add on in comparison to the EU requirements.

Topic	EU	ISA	Comparison
Going concern		Adequate Disclosure of a Material Uncertainty Is Not Made in the Financial Statements 23. If adequate disclosure about the material uncertainty is not made in the financial statements, the auditor shall: (a) Express a qualified opinion or adverse opinion, as appropriate, in accordance with ISA 705 (Revised); and (b) In the Basis for Qualified (Adverse) Opinion section of the auditor's report, state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter. Management Unwilling to Make or Extend Its Assessment 24. If management is unwilling to make or extend its assessment when requested to do so by the auditor, the auditor shall consider the implications for the auditor's report. **ISA 700 (Revised)** 33.* This section of the auditor's report shall describe management's responsibility for: […] (b) Assessing the entity's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate as well as disclosing, if applicable, matters relating to going concern. The explanation of management's responsibility for this assessment shall include a description of when the use of the going concern basis of accounting is appropriate. […] 38.* The Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report shall further: […] (b) […] (iv) To conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the opinion. The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause an entity to cease to continue as a going concern.	

Topic	EU	ISA	Comparison
	Article 28 (2) (e) of the Directive	**ISA 720 (Revised)[39]**	In ISA 720 (Revised), 'other information' may encompass a wider scope of material published by the entity than the 'management report', as referred to in the EU legislation. The work effort required by ISA 720 (Revised) is explicit whereas the EU legislation does not include a specific provision about the work effort. For instance, further consideration needs to be given to the work effort necessary to provide the opinion required by the Accounting Directive as referred to in the Briefing Paper and what users' interpretation would be of this required opinion. Both EU and IAASB reporting requirements clarify the auditor's role on other (non-financial) information, adding therefore value to the report users.
Management report	2. The audit report shall be in writing and shall: […] (e) include an opinion and statement, both of which shall be based on the work undertaken in the course of the audit, referred to in the second subparagraph of Article 34(1) of Directive 2013/34/EU; […] The statutory auditor(s) or audit firm(s) shall also: (a) express an opinion on: (i) whether the management report is consistent with the financial statements for the same financial year, and (ii) whether the management report has been prepared in accordance with the applicable legal requirements […]	*Reading and Considering the Other Information* 14. The auditor shall read the other information and, in doing so shall: (a) Consider whether there is a material inconsistency between the other information and the financial statements. As the basis for this consideration, the auditor shall, to evaluate their consistency, compare selected amounts or other items in the other information (that are intended to be the same as, to summarize, or to provide greater detail about, the amounts or other items in the financial statements) with such amounts or other items in the financial statements; and (b) Consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit, in the context of audit evidence obtained and conclusions reached in the audit. 15. While reading the other information in accordance with paragraph 14, the auditor shall remain alert for indications that the other information not related to the financial statements or the auditor's knowledge obtained in the audit appears to be materially misstated. *Responding When a Material Inconsistency Appears to Exist or Other Information Appears to be Materially Misstated* 16. If the auditor identifies that a material inconsistency appears to exist (or becomes aware that the other information appears to be materially misstated), the auditor shall discuss the matter with management and, if necessary, perform other procedures to conclude whether: (a) A material misstatement of the other information exists; (b) A material misstatement of the financial statements exists; or (c) The auditor's understanding of the entity and its environment needs to be updated. *Responding When the Auditor Concludes That a Material Misstatement of the Other Information Exists* 17. If the auditor concludes that a material misstatement of the other information exists, the auditor shall request management to correct the other information. If management: (a) Agrees to make the correction, the auditor shall determine that the correction has been made; or	

[39] Subject to PIOB approval

Topic	EU	ISA	Comparison
Management report		(b) Refuses to make the correction, the auditor shall communicate the matter with those charged with governance and request that the correction be made. 18. If the auditor concludes that a material misstatement exists in other information obtained prior to the date of the auditor's report, and the other information is not corrected after communicating with those charged with governance, the auditor shall take appropriate action, including: (a) Considering the implications for the auditor's report and communicating with those charged with governance about how the auditor plans to address the material misstatement in the auditor's report (see paragraph 22(d)(ii)); or (b) Withdrawing from the engagement, where withdrawal is possible under applicable law or regulation. 19. If the auditor concludes that a material misstatement exists in other information obtained after the date of the auditor's report, the auditor shall: (a) If the other information is corrected, perform the procedures necessary in the circumstances; or (b) If the other information is not corrected after communicating with those charged with governance, take appropriate action considering the auditor's legal rights and obligations, to seek to have the uncorrected material misstatement appropriately brought to the attention of users for whom the auditor's report is prepared. *Responding When a Material Misstatement in the Financial Statements Exists or the Auditor's Understanding of the Entity and Its Environment Needs to Be Updated* 20. If, as a result of performing the procedures in paragraphs 14–16, the auditor concludes that a material misstatement in the financial statements exists or the auditor's understanding of the entity and its environment needs to be updated, the auditor shall respond appropriately in accordance with the other ISAs. *Reporting* 21. The auditor's report shall include a separate section with a heading "Other Information", or other appropriate heading, when, at the date of the auditor's report: (a) For an audit of financial statements of a listed entity, the auditor has obtained, or expects to obtain, the other information; or (b) For an audit of financial statements of an entity other than a listed entity, the auditor has obtained some or all of the other information,	

Topic	EU	ISA	Comparison
Management report		22. When the auditor's report is required to include an Other Information section in accordance with paragraph 21, this section shall include: (a) An identification of: (i) Other information, if any, obtained by the auditor prior to the date of the auditor's report; and (ii) For an audit of financial statements of a listed entity, other information, if any, expected to be obtained after the date of the auditor's report; (b) A statement that the auditor's opinion does not cover the other information and, accordingly, that the auditor does not express (or will not express) an audit opinion or any form of assurance conclusion thereon. (c) A description of the auditor's responsibilities relating to reading, considering and reporting on other information as required by this ISA; (d) When other information has been obtained prior to the date of the auditor's report, either: (i) A statement that the auditor has nothing to report; or (ii) If the auditor has concluded that there is an uncorrected material misstatement of the other information, a statement that describes the uncorrected material misstatement of the other information. 23. When the auditor expresses a qualified or adverse opinion in accordance with ISA 705 (Revised), the auditor shall consider the implications of the matter giving rise to the modification of opinion for the statement required in paragraph 22(d). Reporting Prescribed by Law or Regulation 24. If the auditor is required by law or regulation of a specific jurisdiction to refer to the other information in the auditor's report using a specific layout or wording, the auditor's report shall refer to International Standards on Auditing only if the auditor's report includes, at a minimum: (a) Identification of the other information obtained by the auditor prior to the date of the auditor's report; (b) A description of the auditor's responsibilities with respect to the other information; and (c) An explicit statement addressing the outcome of the auditor's work for this purpose. *Documentation* 25. In addressing the requirements of ISA 230 as it applies to this ISA, the auditor shall include in the audit documentation: (a) Documentation of the procedures performed under this ISA; and (b) The final version of the other information on which the auditor has performed the work required under this ISA.	

Topic	EU	ISA	Comparison
Key audit matters	**Article 10 (2) of the Regulation (applicable to PIE audit engagements)** 2. The audit report shall be prepared in accordance with the provisions of Article 28 of Directive 2006/43/EC and in addition shall at least: […] (c) provide, in support of the audit opinion, the following: (i) a description of the most significant assessed risks of material misstatement, including assessed risks of material misstatement due to fraud; (ii) a summary of the auditor's response to those risks; and (iii) where relevant, key observations arising with respect to those risks. […]	**ISA 700 (Revised) and ISA 701 requirements** **Requirements (ISA 700 (Revised))** *Key Audit Matters* 30. For audits of complete sets of general purpose financial statements of listed entities, the auditor shall communicate key audit matters in the auditor's report in accordance with ISA 701. 31. When the auditor is otherwise required by law or regulation or decides to communicate key audit matters in the auditor's report, the auditor shall do so in accordance with ISA 701. **Requirements (ISA 701)** *Determining Key Audit Matters* 9. The auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following: (a) Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with ISA 315 (Revised). (b) Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty. (c) The effect on the audit of significant events or transactions that occurred during the period. 10. The auditor shall determine which of the matters determined in accordance with paragraph 9 were of most significance in the audit of the financial statements of the current period and therefore are the key audit matters. *Communicating Key Audit Matters* 11. The auditor shall describe each key audit matter, using an appropriate subheading, in a separate section of the auditor's report under the heading "Key Audit Matters", unless the circumstances in paragraphs 14 or 15 apply. The introductory language in this section of the auditor's report shall state that: (a) Key audit matters are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements [of the current period]; and (b) These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and the auditor does not provide a separate opinion on these matters.	Whilst the wording in the EU text is not the same as in ISA 701, the latter providing more guidance, the outcome could generally be expected to be the same. Due to the fact that the concept of 'identifying and assessing risks of material misstatements' used in the EU text comes from the ISAs, both methods should result in similar matters being communicated. As noted in the Briefing Paper, an ISA audit report might also disclose matters that are not included in the financial statements, if such matters are determined to be KAM in accordance with ISA 701.

Topic	EU	ISA	Comparison
Key audit matters		*Key Audit Matters Not a Substitute for Expressing a Modified Opinion* 12. The auditor shall not communicate a matter in the Key Audit Matters section of the auditor's report when the auditor would be required to modify the opinion in accordance with ISA 705 (Revised) as a result of the matter. *Descriptions of Individual Key Audit Matters* 13. The description of each key audit matter in the Key Audit Matters section of the auditor's report shall include a reference to the related disclosure(s), if any, in the financial statements and shall address: (a) Why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter; and (b) How the matter was addressed in the audit. *Circumstances in Which a Matter Determined to Be a Key Audit Matter Is Not Communicated in the Auditor's Report* 14. The auditor shall describe each key audit matter in the auditor's report unless: (a) Law or regulation precludes public disclosure about the matter; or (b) In extremely rare circumstances, the auditor determines that the matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication. This shall not apply if the entity has publicly disclosed information about the matter.	
Joint audit	**Article 28 (3) of the Directive** 3. Where the statutory audit was carried out by more than one statutory auditor or audit firm, the statutory auditor(s) or the audit firm(s) shall agree on the results of the statutory audit and submit a joint report and opinion. In the case of disagreement, each statutory auditor or audit firm shall submit his, her or its opinion in a separate paragraph of the audit report and shall state the reason for the disagreement.	**n/a**	ISA requirements do not cover these EU additional disclosure requirements linked to other provisions. When relevant, these will therefore constitute unique EU disclosures to be included under the section headed "Report on Other Legal Regulatory Requirements".

Topic	EU	ISA	Comparison
Signing the audit report	**Article 28 (4) of the Directive** 4. The audit report shall be signed and dated by the statutory auditor. Where an audit firm carries out the statutory audit, the audit report shall bear the signature of at least the statutory auditor(s) carrying out the statutory audit on behalf of the audit firm. Where more than one statutory auditor or audit firm have been simultaneously engaged, the audit report shall be signed by all statutory auditors or at least by the statutory auditors carrying out the statutory audit on behalf of every audit firm. In exceptional circumstances Member States may provide that such signature(s) need not be disclosed to the public if such disclosure could lead to an imminent and significant threat to the personal security of any person.	**ISA 700 (Revised) Requirements** *Name of the Engagement Partner* 45.* The name of the engagement partner shall be included in the auditor's report for audits of complete sets of general purpose financial statements of listed entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat. In the rare circumstances that the auditor intends not to include the name of the engagement partner in the auditor's report, the auditor shall discuss this intention with those charged with governance to inform the auditor's assessment of the likelihood and severity of a significant personal security threat. *Signature of the Auditor* 46. The auditor's report shall be signed.	The requirements on signing the audit report and naming the engagement partner are similar.
Non-audit services	**Article 10 (2) (f) and (g) of the Regulation** 2. The audit report shall […] (f) declare that the prohibited non-audit services referred to in Article 5(1) were not provided and that the statutory auditor(s) or the audit firm(s) remained independent of the audited entity in conducting the audit; (g) indicate any services, in addition to the statutory audit, which were provided by the statutory auditor or the audit firm to the audited entity and its controlled undertaking(s), and which have not been disclosed in the management report or financial statements.	**ISA 700 (Revised) Requirements** 28. The auditor's report shall […] (c) Include a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall identify the jurisdiction of origin of the relevant ethical requirements or refer to the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code); and […]	The European legislation specifically requires the auditor to disclose information connected to the provision of non-audit services (NAS), while the IAASB requires a general statement of the auditor's independence.
Irregularities	**Article 10 (2) (d) and Article 7 of the Regulation** **Article 7** Without prejudice to Article 12 of this Regulation and Directive 2005/60/EC, when a statutory auditor or an audit firm carrying out the statutory audit of a public-interest entity suspects or has reasonable grounds to suspect that irregularities, including fraud with regard to the financial statements of the audited entity, may occur or have occurred, he, she or it shall inform the audited entity and invite it to investigate the matter	**ISA 240 Introduction and ISA 700 (Revised) Requirements** **ISA 700 (Revised)** 38.* The Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report shall further: […] (b) Describe an audit by stating that the auditor's responsibilities are: (i) To identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; to design and perform audit procedures responsive to those risks; and to obtain audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion,	The EU requirement on how the audit could detect irregularities including fraud is covered by performing the working and reporting procedures included in ISA 240 and by describing the corresponding auditor's responsibilities in the audit report following ISA 700 (Revised). The auditor will use professional judgement to determine if there is a need or not for any more specific disclosures in the audit report.

Topic	EU	ISA	Comparison
Irregularities	and take appropriate measures to deal with such irregularities and to prevent any recurrence of such irregularities in the future. Where the audited entity does not investigate the matter, the statutory auditor or the audit firm shall inform the authorities as designated by the Member States responsible for investigating such irregularities. The disclosure in good faith to those authorities, by the statutory auditor or the audit firm, of any irregularities referred to in the first subparagraph shall not constitute a breach of any contractual or legal restriction on disclosure of information. **Article 10 (2) (d)** 2. The audit report shall [...] (d) explain to what extent the statutory audit was considered capable of detecting irregularities, including fraud.	forgery, intentional omissions, misrepresentations, or the override of internal control. **ISA 240** *Responsibilities of the Auditor* 5. An auditor conducting an audit in accordance with ISAs is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs. *Communications to Management and with Those Charged with Governance* 40. If the auditor has identified a fraud or has obtained information that indicates that a fraud may exist, the auditor shall communicate these matters on a timely basis to the appropriate level of management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities.	The comparability related to communication of irregularities and reporting to supervisors is limited. The EU requirements form part of a legal instrument and, when applied in EU Member States, can be more extensive. They can provide protection for the auditor employment situation, personal safety and liability, like other 'whistle-blower' legislation in general. Standards or codes dealing with suspicion of irregularities cannot, by essence, provide for such protection. Therefore, ISAs cannot be expected to adequately deal with such measures other than on a broader principles-based level.
Consistency with additional report to the audit committee	**Article 10 (2) (e) of the Regulation** 2. The audit report shall [...] (e) confirm that the audit opinion is consistent with the additional report to the audit committee referred to in Article 11.	**n/a**	No comparison can be drawn between both frameworks.
Additional Report to the Audit Committee			
Recipients	**Article 11 (1) of the Regulation** 1. Statutory auditors or audit firms carrying out statutory audits of public-interest entities shall submit an additional report to the audit committee of the audited entity not later than the date of submission of the audit report referred to in Article 10. Member States may additionally require that this additional report be submitted to the administrative or supervisory body of the audited entity. If the audited entity does not have an audit committee, the additional report shall be submitted to the body performing equivalent functions within the audited entity. Member	**ISA 260 (Revised) Definitions and Requirements** **Definitions** 10. For purposes of the ISAs, the following terms have the meanings attributed below: (a) Those charged with governance – The person(s) or organization(s) (e.g., a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager. For discussion of the diversity of governance structures, see paragraphs A1–A8.	The EU requirements regarding commu–nication with the audit committee are much more specific than the ones included in ISA 260 (Revised), which is primarily principles-based. While ISA 260 (Revised) requires a number of specific communications with those charged with governance for all audits, it allows flexibility for this communication to be made orally. There is no requirement at international level for the statutory auditor to provide the audit committee or any supervisory board with a formal additional report.

Topic	EU	ISA	Comparison
Recipients	States may allow the audit committee to disclose that additional report to such third parties as are provided for in their national law.	(b) Management – The person(s) with executive responsibility for the conduct of the entity's operations. For some entities in some jurisdictions, management includes some or all of those charged with governance, for example, executive members of a governance board, or an owner-manager. **Requirements** *Those Charged with Governance* 11. The auditor shall determine the appropriate person(s) within the entity's governance structure with whom to communicate. *Communication with a Subgroup of Those Charged with Governance* 12. If the auditor communicates with a subgroup of those charged with governance, for example, an audit committee, or an individual, the auditor shall determine whether the auditor also needs to communicate with the governing body. *When All of Those Charged with Governance Are Involved in Managing the Entity* 13. In some cases, all of those charged with governance are involved in managing the entity, for example, a small business where a single owner manages the entity and no one else has a governance role. In these cases, if matters required by this ISA are communicated with person(s) with management responsibilities, and those person(s) also have governance responsibilities, the matters need not be communicated again with those same person(s) in their governance role. These matters are noted in paragraph 16(c). The auditor shall nonetheless be satisfied that communication with person(s) with management responsibilities adequately informs all of those with whom the auditor would otherwise communicate in their governance capacity.	The scope of the EU Regulation and the IAASB requirements and guidance are not the same. The EU legislation refers specifically to the additional report to the audit committee, while ISAs 260 and 265 (as well as requirements in other ISAs) cover, in broader terms, communication with those charged with governance.
Contents	**Article 11 (2) of the Regulation** 2. The additional report to the audit committee shall be in writing. It shall explain the results of the statutory audit carried out and shall at least: (a) include the declaration of independence referred to in point (a) of Article 6(2); (b) where the statutory audit was carried out by an audit firm, the report shall identify each key audit partner involved in the audit; (c) where the statutory auditor or the audit firm has made arrangements for any of his, her or 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, the report shall indicate that fact and shall	**ISA 260 (Revised) Requirements** **Matters to Be Communicated** *The Auditor's Responsibilities in Relation to the Financial Statement Audit* 14. The auditor shall communicate with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, including that: (a) The auditor is responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance; and (b) The audit of the financial statements does not relieve management or those charged with governance of their responsibilities. *Planned Scope and Timing of the Audit* 15. The auditor shall communicate with those charged with governance an overview of the planned scope and timing of the audit, which	There is no requirement at international level for the statutory auditor to provide the audit committee or any supervisory board with a formal additional report dealing with all matters to be communicated. Whilst many of the matters that are required to be communicated are broadly comparable, the level of detail prescribed differs. The EU legislation also has some specific requirements not covered by the ISAs, for instance the ones included in the 2014 Regulation, Article 11 (2) (b), (c) and (f) on the involvement of key audit partners and other auditors, as well as Article 11 (2) (g) on the methodology applied and categories of testing.

Topic	EU	ISA	Comparison
Contents	confirm 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) describe 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) include a description of the scope and timing of the audit; (f) where more than one statutory auditor or audit firm have been appointed, describe the distribution of tasks among the statutory auditors and/or the audit firms; (g) describe 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 to the previous year, even if the previous year's statutory audit was carried out by other statutory auditor(s) or audit firm(s); (h) 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; (i) 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; (j) report 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	includes communicating about the significant risks identified by the auditor. *Significant Findings from the Audit* 16. The auditor shall communicate with those charged with governance: (a) The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. When applicable, the auditor shall explain to those charged with governance why the auditor considers a significant accounting practice, that is acceptable under the applicable financial reporting framework, not to be most appropriate to the particular circumstances of the entity; (b) Significant difficulties, if any, encountered during the audit; (c) Unless all of those charged with governance are involved in managing the entity: (i) Significant matters arising during the audit that were discussed, or subject to correspondence, with management; and (ii) Written representations the auditor is requesting; (d) Circumstances that affect the form and content of the auditor's report, if any; and (e) Any other significant matters arising during the audit that, in the auditor's professional judgment, are relevant to the oversight of the financial reporting process. *Auditor Independence* 17. In the case of listed entities, the auditor shall communicate with those charged with governance: (a) A statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence; and (i) All relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be thought to bear on independence. This shall include total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity. These fees shall be allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on the independence of the auditor; and	

Topic	EU	ISA	Comparison
Contents	deficiency, the additional report shall state whether or not the deficiency in question has been resolved by the management; (k) report any significant matters involving actual or suspected non-compliance with laws and regulations or articles of association which 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) report and assess 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, explain 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, identify 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) indicate whether all requested explanations and documents were provided by the audited entity; (p) report: (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. […]	(ii) The related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.	
Other reporting			
Report to supervisors of PIEs	**Article 12 of the Regulation**	**n/a**	No comparison can be drawn between both frameworks. (The audit firms are not required to produce transparency reports under ISAs.)
Transparency report	**Article 13 of the Regulation**		

* These paragraphs of ISA 700 (Revised) will be amended with conforming amendments after ISA 720 (Revised) final issuance.

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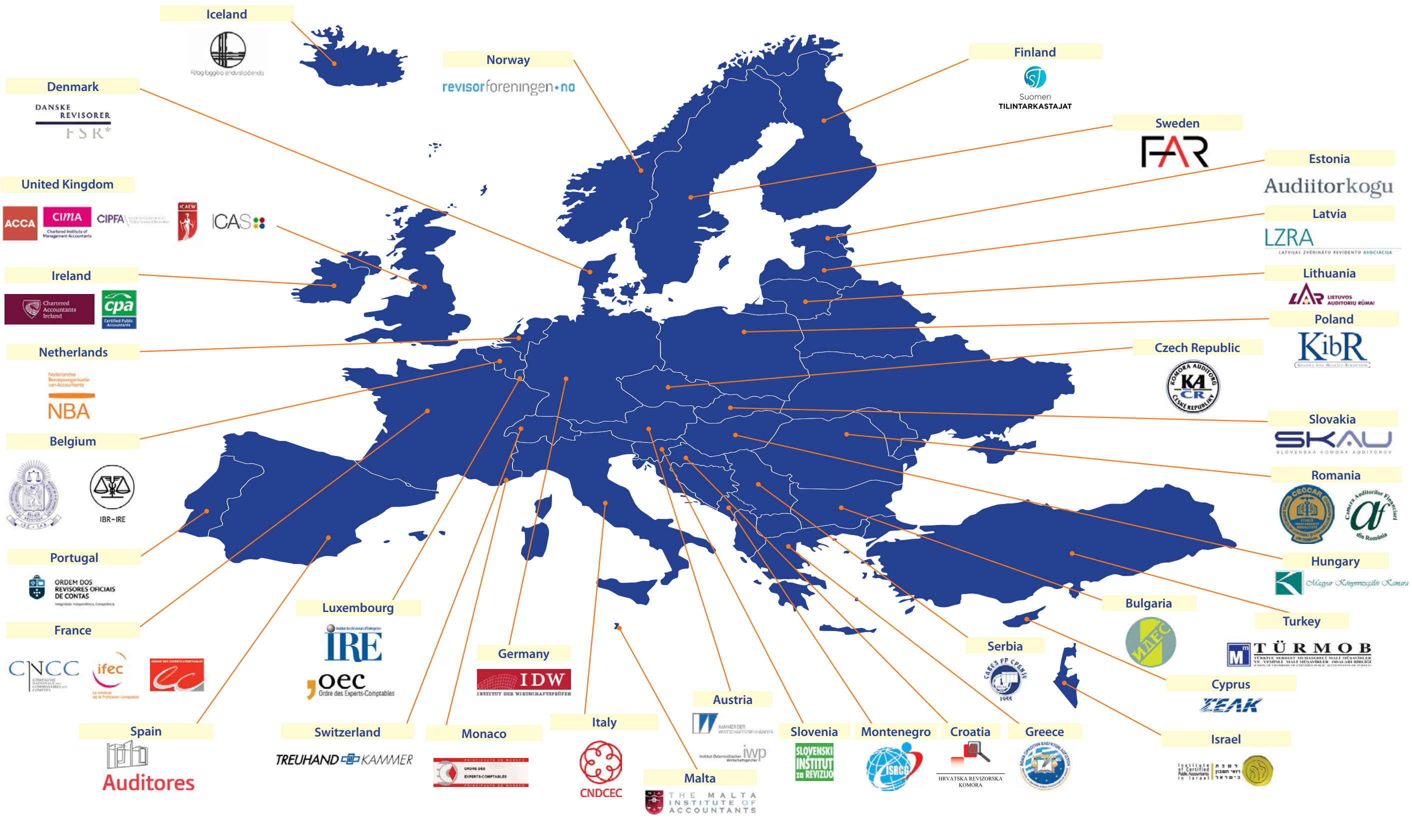

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FEE (Fédération des Experts-comptables Européens – Federation of European Accountants) is an international non-profit organisation based in Brussels that represents 47 institutes of professional accountants and auditors from 36 European countries, including all of the 28 EU member states.

FEE has a combined membership of more than 800,000 professional accountants, working in different capacities in public practice, small and large accountancy firms, businesses of all sizes, government and education – all of whom contribute to a more efficient, transparent and sustainable European economy.

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