

KEY AUDIT MATTERS IN EUROPEAN BANKS

AUDITORS IDENTIFYING RISKS

WHAT HAS CHANGED?

As of 2017, EU law and international standards required auditors to communicate Key Audit Matters (KAMs) when they audit the financial statements of listed companies and other 'public interest entities'. The new requirement aims to add insight to the audit report. Before the inclusion of KAMs, many companies received 'clean' reports, which consisted of 2 pages of standardised language. The auditors' assessment did not have to signal the greatest audit risks, so stakeholders often remained unaware of areas for concern. Reporting KAMs allows for higher quality audit reports, which is vital for people to be able to rely on company information and have trust in markets.



NEW
AUDIT REPORTS

HOW DO KEY AUDIT MATTERS IMPROVE THE AUDIT REPORT?

These new audit reports provide auditors the opportunity to share their innermost thoughts and concerns on their clients' audits. By requiring KAMs, regulators addressed issues raised in the aftermath of the financial crisis, namely:

- public concerns on an audit's value and relevance
- stakeholders' request for more transparency and insight in the audit process

Reporting KAMs also opens up information to the public that previously was only accessible to the company's audit committee. It makes audit reports more entity specific, informative, and understandable. Over time, it will allow for benchmarking and comparing KAMs across sectors. Ultimately, this serves to improve the quality of audits and it demonstrates the value of auditors in preserving financial stability.

WHY DID WE ANALYSE EUROPEAN BANKS' KEY AUDIT MATTERS?

In both 2017 and 2018, we analysed the KAMs of European banks. This is because the banking sector is essential to the EU economy and its financial stability. Reporting on KAMs here could demonstrate how informative and insightful auditor reports can contribute to the sector's public trust and stability. This year-on-year analysis is helpful to see trends over time and how KAMs can help banks understand their audit risks and possibly react.



18 COUNTRIES



62 BANKS

WHAT DID WE FIND?

ABOVE AVERAGE NUMBER OF KAMS

In 2017, there was average number of 4.4 KAMs and in 2018 there was an average number of 4.2 KAMs per report, which is higher than in other sectors. This could be explained by the complexity of banking operations.

HIGH LEVEL OF RECURRENCE

For reporting on KAMs, auditors can decide how they phrase these. The 62 banks we analysed reported 272 audit risks in 2017 and 260 in 2018 as KAMs. In both 2017 and 2018, we classified these in ten main categories of recurring items, as outlined in the chart on the following page. The top ten main categories represented 90% in 2017 and 93% of the analysed KAMs in 2018.



260 KAMS



93% IN 10 MAIN
CATEGORIES

HIGH LEVEL OF CONCENTRATION

KAMs are highly concentrated in the European banking sector: in both 2017 and 2018 the top three categories represent 49% of the total number of KAMs we analysed.

In 2018, the 62 audit reports often showed the same KAMs, namely:

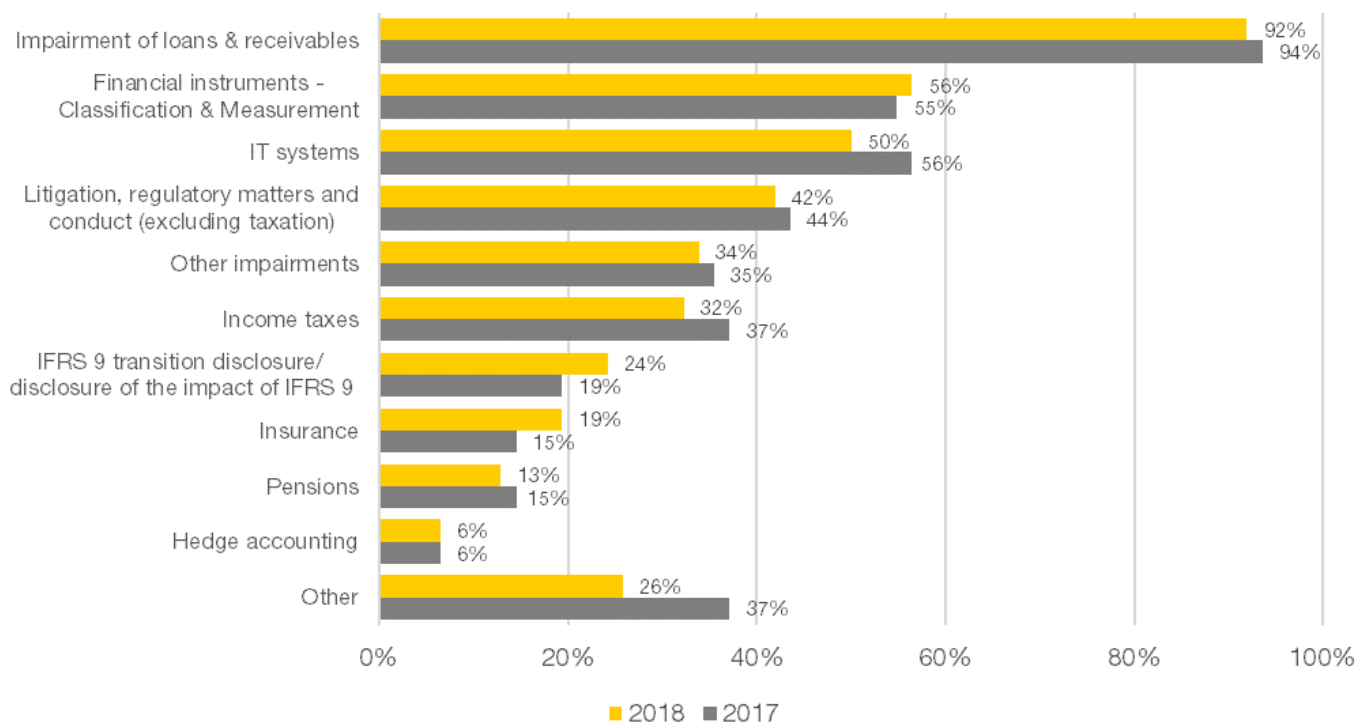
impairment of loan and receivables: 92% of reports

financial instruments - classification and measurement: 56%

IT systems: 50%

Compared to the previous year, financial instruments have increased their prominence. This can be explained by IFRS 9 *Financial Instruments* becoming effective as of 1 January 2018. KAMs related to IT systems remain crucial

MAIN KAM CATEGORIES AS PERCENTAGE OF THE TOTAL NUMBER OF AUDIT REPORTS (62)



WHAT ELSE DID WE FIND?

CLARITY: Generally, KAMs are presented in a clear manner and are easy to peruse and understand, as many of them are clearly cross-referenced to the related financial statements' disclosures. The inclusion of IT systems, which are not immediately related to financial reporting, as the third most prominent KAM shows that auditors will report new information, if they think there is a significant audit risk.

COMPARISON AND BENCHMARKING: The analysis of the KAM reporting requirement across the EU over two years opens the way for more in-depth analysis in the future. Auditors will have to follow-up and explain the year-on-year developments of their key risk assessment, enabling users to perform comparison and benchmarking.

See our [full survey](#) to get the detailed insights on auditor's reporting on KAMs for 62 European banks.

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