

Auditors' reporting of KAMs in the European banking sector – Launch of a new publication

Introduction and Scope of Survey

Introduction:

- Auditor's reporting of KAMs is **milestone** for auditors, companies, audit committees, shareholders, regulators & users
- **Survey on auditor's reporting of KAMs** in the European banking sector, following the first year of KAM reporting requirements across Europe
- Auditors produce **more informative and insightful reports** to contribute to the public trust and stability of the banking sector

Scope of our survey:

- Insights and conclusions on auditor's reporting on KAMs for **62 European banks**, selected from the list of significant financial institutions supervised by the ECB under the Single Supervisory Mechanism (SSM)

What and Why of KAMs

Introduction:

- Before analysing the conclusions of the survey, our paper:
 - Introduces **what** KAMs are and **why** auditors report on them
 - Outlines the **value** and **challenges** in communicating KAMs

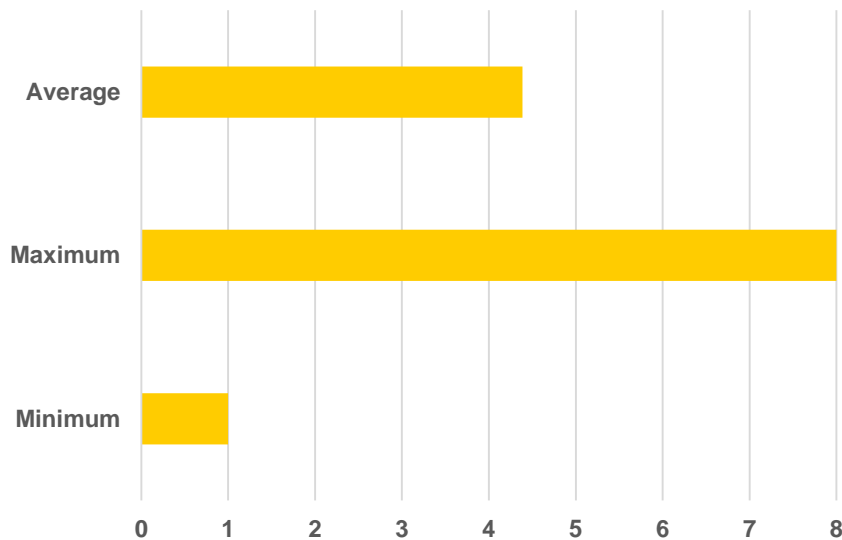
Benefits (value)	Challenges
Insight and value added	Fresh perspective:
Enhanced transparency	Clarity of language
Address public concerns	Understandability
Increased accountability	Tailoring & contextualisation
Monitoring & Benchmarking	
Stakeholders' recognition	

- Discusses how the KAMs are selected, and
- Highlights some of the issues encountered in reporting on KAMs (*Appendix 3*)

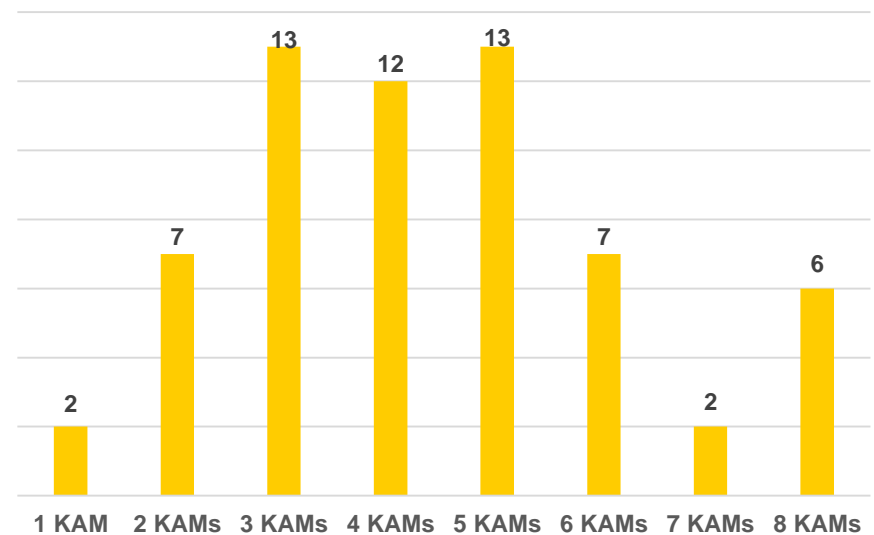
Analysis of the KAMs in the European banking sector: Average Number of KAMs

- With an average number of **4 KAMs/report** (on average, 4.4 KAMs/report), the average number of KAMs in the European banking sector is higher than the general industry average, by reference to other cross-industries studies

Average number of KAMs

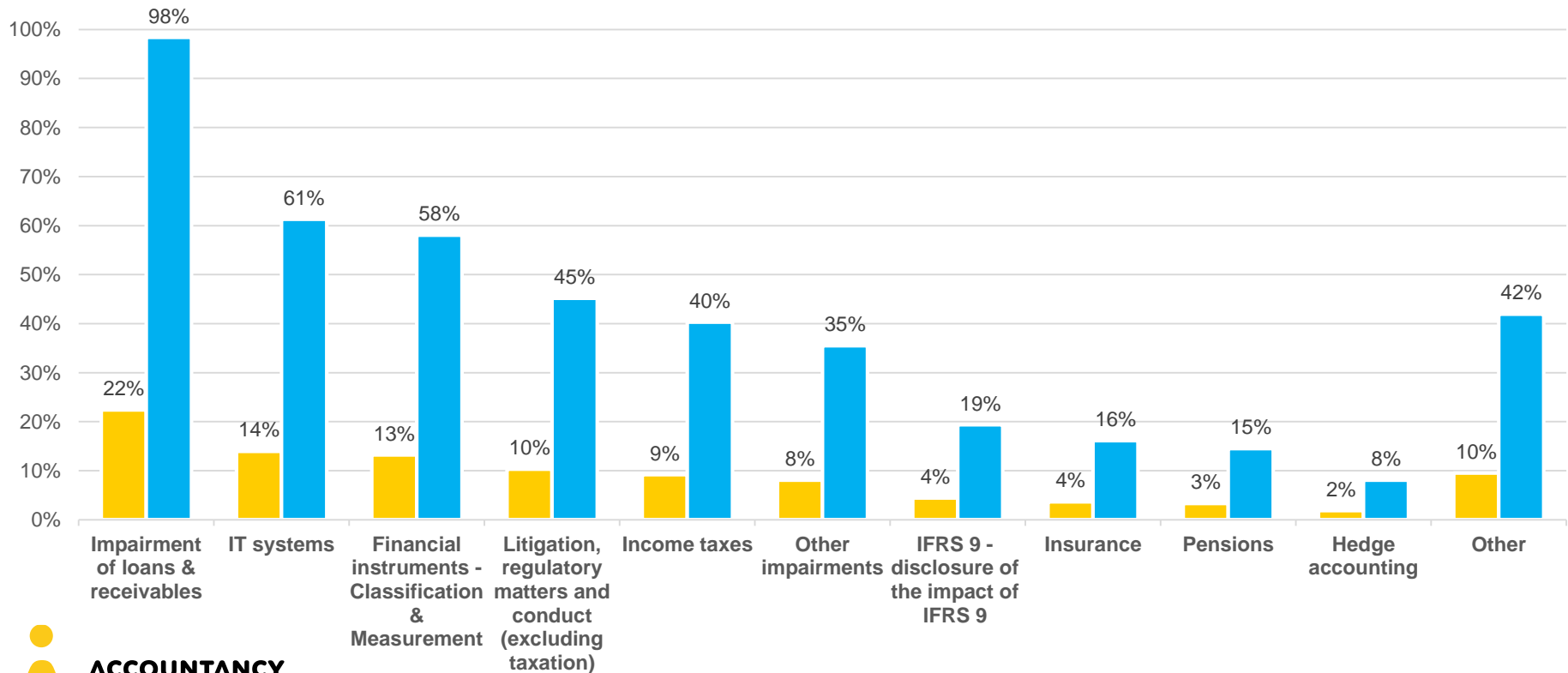


Number of KAMs per report



Main KAM Categories

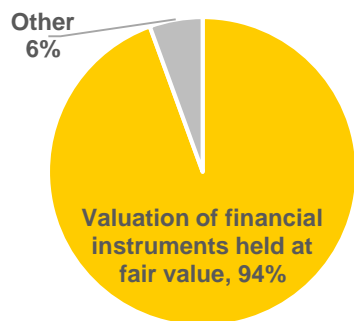
- The top-three KAM categories represent 49% of the total number of KAMs
- KAMs related to IT systems represent the 2nd main category
- Moving further, we explore main KAM sub-categories, if noted



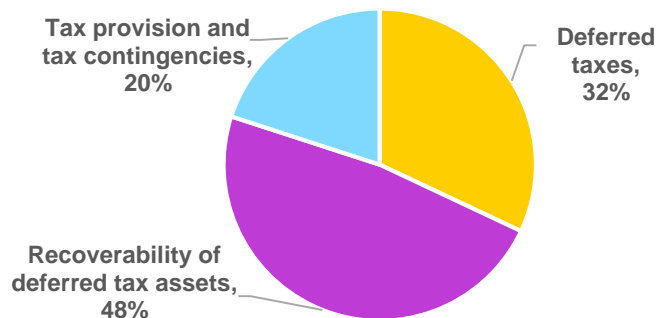
Main KAM Sub-categories

- Where the case, we identified the main **sub-categories of KAMs**, as presented below:

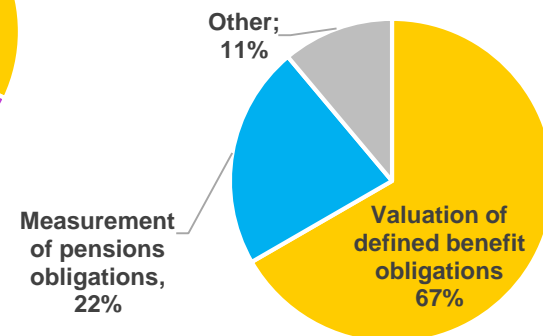
Financial instruments – Classification & Measurement



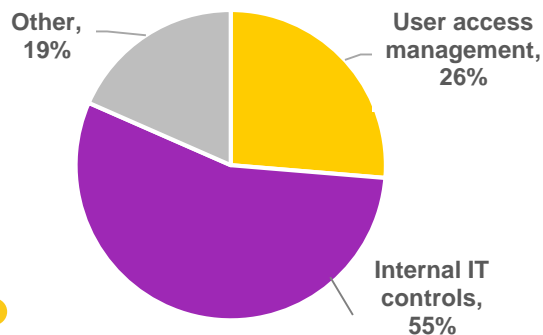
Income taxes



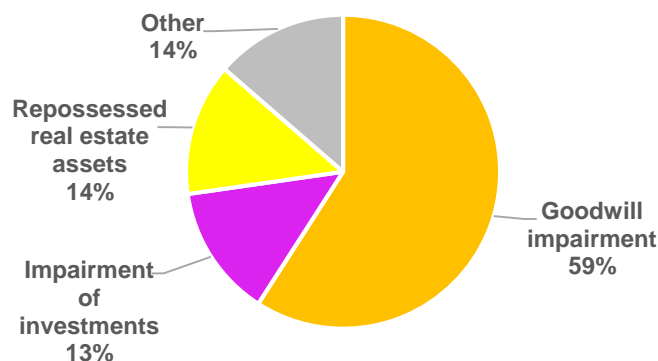
Pensions



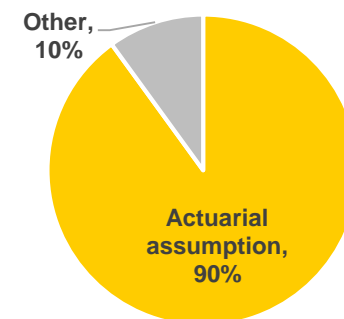
IT systems



Other impairments

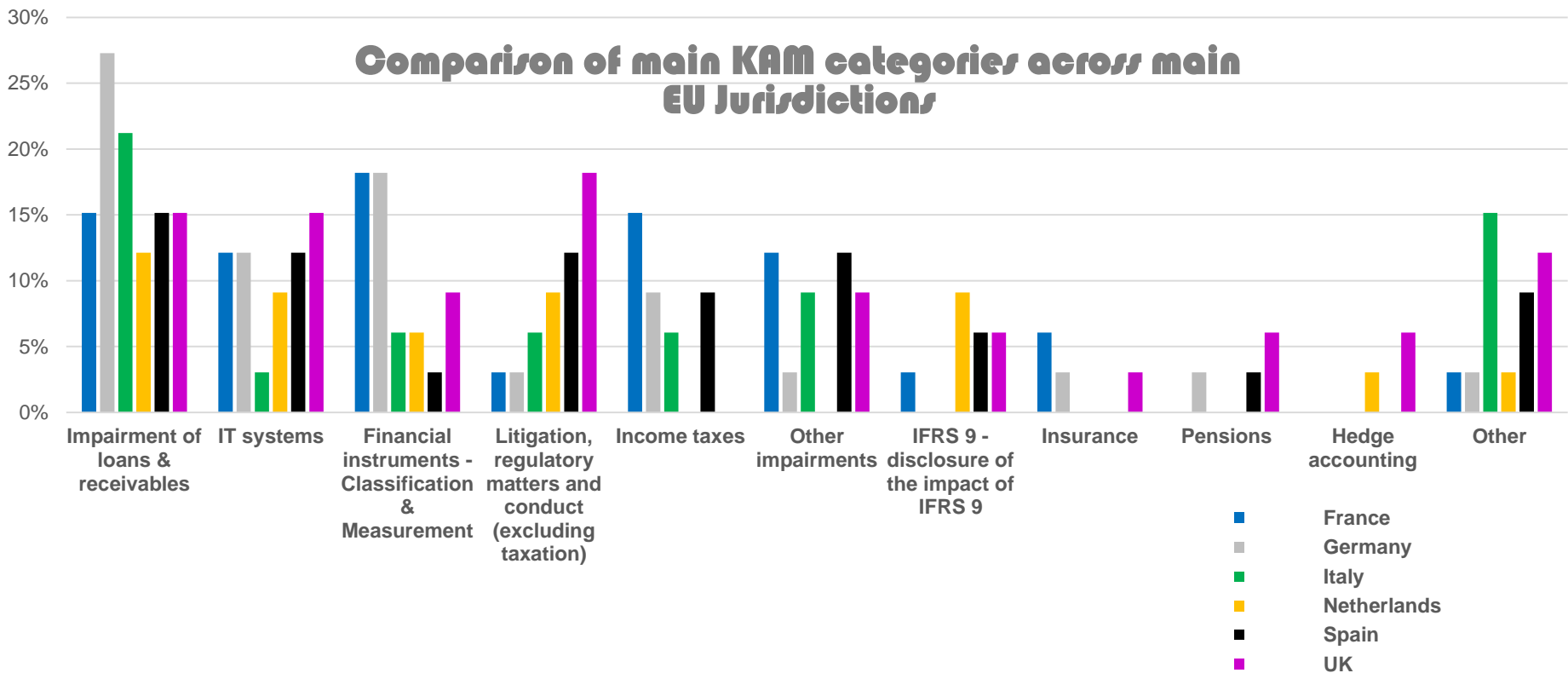


Insurance



Comparison of main KAM categories across main EU Jurisdiction

- We note **similarities and specifics of reporting patterns** for the main KAM categories across jurisdictions, opening the way for deeper analysis on this:

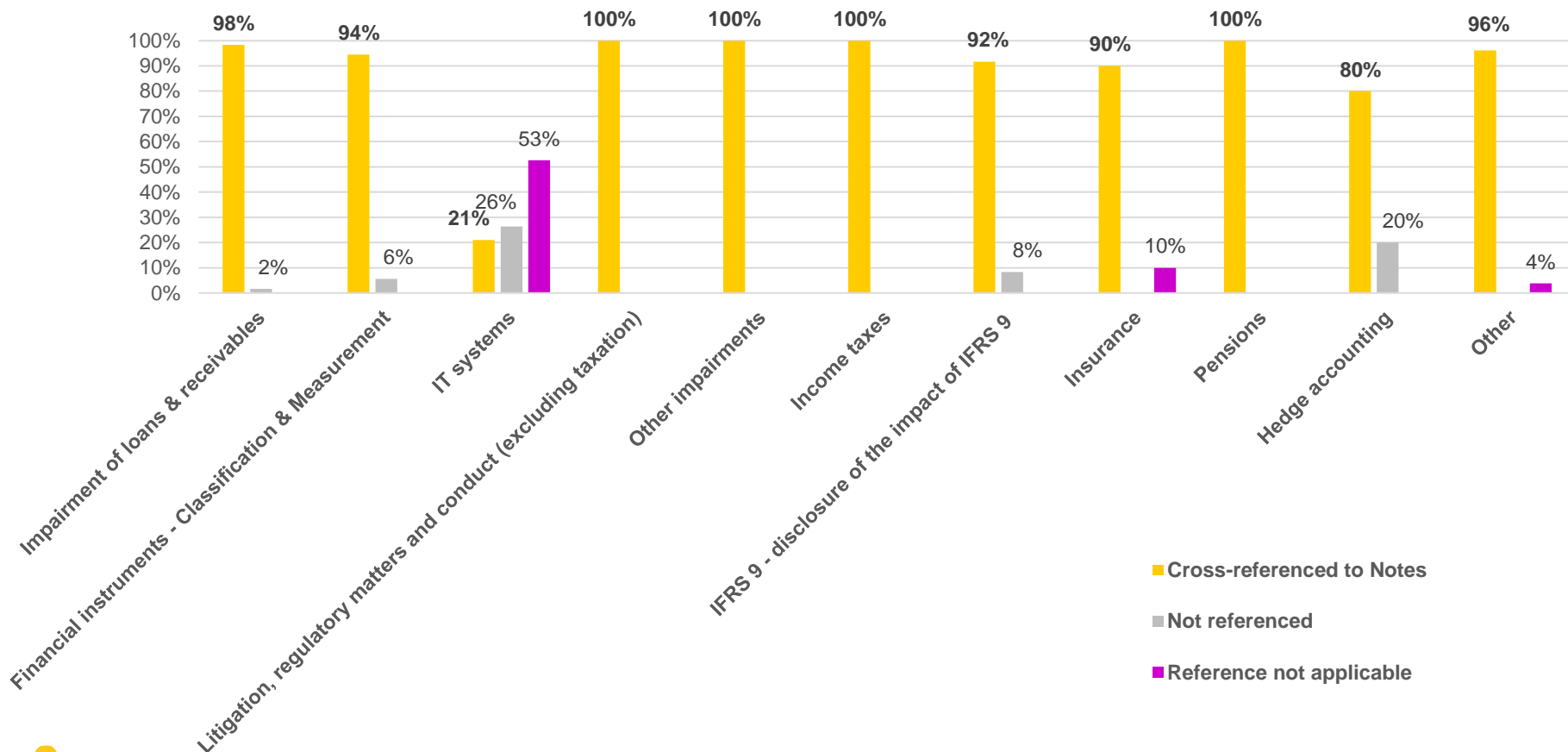


Note: The percentages shown in the chart above represent how much each main KAM category represents from the total population of KAMs per country

KAM Clarity: Clear cross-referencing with financial statements disclosures

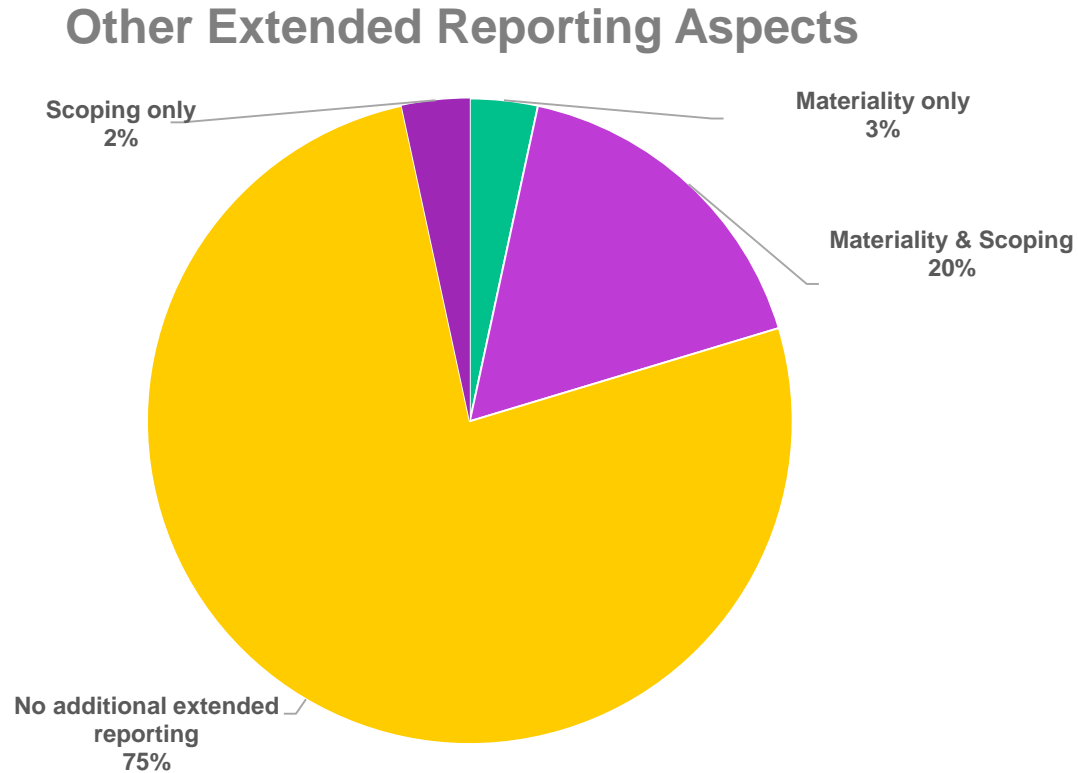
- The majority of KAMs were clearly linked to the financial statements' notes

Referencing of KAMs to financial statements disclosures



Other Extended Reporting Aspects

- Materiality and scoping disclosures
- A quarter of the banks in our sample had materiality and/or scoping reporting in their auditor's report, some having voluntary disclosures of these aspects



Main Findings:

- With an ***average number of 4.4 KAMs per audit report***, our survey shows a higher average number of KAMs reported for European banks, by reference to other cross-industries studies
- Our survey reveals a **concentration of the KAMs in the European banking sector**, as the top-three most recurring KAM topics represent 49% of the total number of KAMs, namely:
 - Impairment of loan and receivables: 22% of the total number KAMs (98% of the number of audit reports)
 - Classification and measurement of financial instruments: 14% (61%)
 - IT Systems: 13% (58%)
- Our comparison of the main KAM categories for the top-six EU jurisdictions (more than 1/2 of the analysed sample), outlines **similarities and specifics in KAM reporting patterns**, paving the way for further analysis
- Generally, KAMs are presented in a clear manner, **most of the KAMs are clearly cross-referenced** to financial statements disclosures
- We note **voluntary extended reporting** aspects (materiality/scoping)