



Bundesministerium  
der Justiz

# Long-Form Audit Report in Germany

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**Audit Regulatory Committee**  
**3 March 2011**

Green Paper: Audit Policy

Article 41 (4) Directive 2006/43/EC

## **Long Form Report in Germany**

- ▶ **Functions**
- ▶ **Presentation**
- ▶ **Content**

Annex 1: § 321 German Commercial Code

Annex 2: Sample Content of Report



# Green Paper: Audit Policy

## Better Internal Communication

Q9: „Is there adequate and regular dialogue between the external auditors, internal auditors and the Audit Committee? If not, how can this communication be improved?“

„Regular dialogue should be assured between the company's Audit Committee, the external i.e. statutory auditor as well as the internal auditor. This would ensure that there are no loopholes in the total coverage of compliance, risk monitoring as well as the substantive verification of assets, liabilities, revenues and expenses. A good example of such communication is found in the German legislation, which requires the external auditor to submit a ‘long-form report’ to the supervisory board. Such a report, which is not available to the public, summarises in greater detail than the auditor's report the fundamental findings of the audit on the going concern assumption and associated monitoring systems, future development and risks facing the company, material disclosures, irregularities encountered, accounting methods used or any ‘window dressing’ transactions.“

## Directive 2006/43/EC

### Article 41 (4):

„The statutory auditor or audit firm shall report to the audit committee on key matters arising from the statutory audit, and in particular on material weaknesses in internal control in relation to the financial reporting process.“

*Potential for intensifying the cooperation and dialogue between the auditors and those charged internally with governance of the company ?*

# German Commercial Code

§ 322 Commercial Code (Handelsgesetzbuch – HGB): **Audit Opinion**  
(„Bestätigungsvermerk“)

## **§ 321 HGB: Long Form Report („Prüfungsbericht“)**

§ 170 para. 3 Stock Corporation Act (Aktiengesetz – AktG): Long Form Report available for members of the Supervisory Board / Non-executive Directors.

§ 171 para. 1 s. 2 AktG: Participation of the auditor in the supervisory board's or audit committee's meetings at which they discuss the financial reports, and obligation to orally report on significant audit findings.



## Functions of the Long Form Report:

- ▶ Information
- ▶ Support
- ▶ Evidence

## Presentation (§ 321 para. 5 HGB):

- ▶ Signed by the auditor
- ▶ Presented to the supervisory board (non-executive directors) as those who are charged with the governance
- ▶ Management board (executive directors) shall have opportunity to comment on the report before it is presented to the supervisory board

**German Auditing Standard: IDW PS 450 (conforms with ISA 260)**

## Content of the Long Form Report (1)

### General Findings

- Comment on the general situation of the company and going concern assessment (based on the audited records and management report)
- Facts and significant risks that affect the future development and existence of the company
- Any irregularities or violations of statutory provisions or the articles of incorporation by representatives or employees of the company

### Basis of the Audit

- Subject, nature and scope of the audit
- Applied Accounting and Auditing Standards
- Confirmation of the auditor's independence

## Content of the Long Form Report (2)

### Accounting Policy Decisions

- Accounting methods, substantial bases of valuation and changes thereof
- Exercise of accounting and measurement options
- Exercise of discretion, estimation and judgement
- Structuring measures (“window dressing” transactions)
- Any material disclosures not already in the notes

### Risk Management and Internal Control

- In case of listed companies: whether the executive management has implemented sufficient risk management and internal control systems



# Annex 1: § 321 HGB

## § 321 HGB - Long Form Audit Report (Prüfungsbericht)

(1) The auditor shall report in writing and with the necessary clarity on the nature and scope as well as on the results of his audit. In the audit report, there shall be at the beginning be a comment on the opinion by the legal representatives as to the state of the company or group of companies, especially an assessment of the going concern and the future development of the company taking into consideration the management report and, in case of audit of consolidated financial statements of parent companies, an assessment of the group of companies taking into consideration the consolidated management report, insofar as the audited records and the management report or consolidated management report permit such an assessment. In addition, the auditor shall report any irregularities determined in carrying out the audit or violations of statutory provisions as well as facts that risk the existence of the audited company or the group of companies or can substantially harm its development or show serious violations of the law or the articles of association by legal representative or employees.

(2) In the main part of the long form report it shall be determined whether the bookkeeping records and the other audited records, the annual financial statements, the management report, the consolidated financial statements and the consolidated management report conform to the statutory provisions and the supplementary provisions of the articles of association. In this context there shall also be reported any objections that have not lead to a restriction or denial of the audit opinion to the extent that this is of importance for the supervision of the management and of the audited company. It shall also be discussed whether the financial statement as a whole, pursuant to generally accepted accounting principles, presents a true and fair view of the net assets, financing and results of operations of the company. Substantial basis for valuation and measurement shall be discussed as well as the overall influence of changes in the bases of valuation including the exercise of options for accounting and valuation principles and the use of discretion as well as measures to structure the facts on the presentation of the net assets, financing and results of operation of the company. The items in the annual financial statement and the consolidated financial statement shall be broken down and adequately explained to the extent that this information is not contained in the notes. It shall be explained whether the legal representatives have supplied the required explanations and records.

(3) The subject, nature and scope of the audit shall be explained in a special section of the long form report. The relevant accounting and auditing standards shall be mentioned.

(4) If in the scope of the audit an assessment pursuant to § 317 (4) has been made, the result thereof shall be presented in a special part of the audit report. It shall be mentioned whether measures are necessary to improve the internal control system.

(4a) The auditor has to confirm his independence in the long form report.

(5) The auditor shall sign the report and present it to the legal representatives of the company. Where the supervisory board has issued the auditing mandate, the report shall be presented to the supervisory board; the management board shall have an opportunity to comment on the report before it is presented to the supervisory board.

# Annex 2: Sample Content

## Sample Content of a Long Form Audit Report (Group Audit)

1. Audit Engagement and Confirmation of Independence
2. General Findings
  - 2.1. Opinion on the management's assessment of the group's position
  - 2.2. Factors potentially affecting the Going Concern assumption or the future development of the company
  - 2.3. Accounting errors and other violations of laws or the articles of incorporation
  - 2.4. Significant business transactions and accounting policy decisions
  - 2.5. Other findings significant for the governance of the group
  - 2.6. Copy of the auditor's opinion
3. Subject, nature and scope of the audit
4. Findings regarding group accounting records and commentary on the group financial statement
  - 4.1. Appropriateness of group accounting records
    - 4.1.1. Legal Basis
    - 4.1.2. Consolidated group and financial year end of the consolidated financial statements
    - 4.1.3. Principles of consolidation
    - 4.1.4. Group accounting system
    - 4.1.5. Financial statements included in the consolidated financial statements
    - 4.1.6. Consolidated financial statement
    - 4.1.7. Group management report
  - 4.2. Overall impression given by the consolidated financial statement
  - 4.3. Further comments on the group's net assets, financial position and results of operation
5. Findings regarding the risk management and internal control system
6. Findings regarding extensions to the scope of the audit engagement
7. Conclusion