INTEGRITY | PUBLIC INTEREST | AUDIT QUALITY

STAFF AUDIT PRACTICE ALERT 9

September 2023

Guidance on the IRBA Rule on Enhanced Auditor Reporting for the Audit of Financial Statements of Public Interest Entities

This publication has been prepared with the assistance of the Independent Regulatory Board for Auditors' (IRBA) Committee for Auditing Standards. It does not constitute an authoritative pronouncement from the IRBA; nor does it amend or override the International Standards on Auditing, the South African Auditing Practice Statements or the South African Guides or the IRBA Rule on Enhanced Auditor Reporting for the Audit of Financial Statements of Public Interest Entities (collectively called pronouncements).

Furthermore, this publication is not meant to be exhaustive. Reading it is not a substitute for reading the abovementioned pronouncements, as they are the authoritative texts.

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INTRODUCTION

1. The Independent Regulatory Board for Auditors' (IRBA) Board approved and prescribed an *IRBA Rule on Enhanced Auditor Reporting for the Audit of Financial Statements of Public Interest Entities* (EAR Rule) (refer to Appendix 1). The EAR Rule prescribes additional disclosures in the independent auditor's report on the audit of annual financial statements of public interest entities (PIEs), as defined in the IRBA Code of Professional Conduct for Registered Auditors (Revised April 2023) (IRBA Code), as amended.
2. Refer to Board Notice 475 of 2023 and Government Gazette No. 49309 of 15 September 2023, for the publication of the EAR Rule.
3. Emanating from the development of the EAR Rule, the CFAS then approved a project to develop and issue guidance on application of the EAR Rule, in the form of a Staff Audit Practice Alert (the Alert). This Alert contains guidance on how auditors may apply the EAR Rule in their independent auditor's report on the audit of financial statements of PIEs.
4. The table below provides an overview of the guidance contained in the Alert.

Aspect of the EAR Rule	Nature of the Guidance
(a) Final materiality	An explanation of the final materiality disclosed and how the auditor may describe the significant judgements applied in determining materiality, using language that is understandable to all users.
(b) Scope of the audit of group financial statements	This describes considerations in disclosing the scope of the audit in the context of group audits, as defined in the International Standard on Auditing (ISA) 600 (Revised), and the significant judgements applied by auditors in determining the group audit scope.
(c) A description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern, where a material uncertainty related to going concern exists	The Alert uses the existing guidance on Key Audit Matters (KAMs) contained in ISA 701 when describing how the auditor evaluated management's assessment.
(d) KAMs for public interest entities, as well as outcomes and observations for Key Audit Matters	A consideration of existing guidance on KAMs and guidance on avoiding discrete opinions on separate elements of the financial statements by giving examples of how outcomes and/or observations can be described in the KAMs, as well as the wording that can be avoided.
(e) Fee-related matters	The Alert applies the International Ethics Standards Board for Accountants' (IESBA) guidance on fee-related matters, including considerations of what defines "fees". It also describes the application of the EAR Rule on fees for group audit and joint audit situations.

SCOPE OF THE EAR RULE

5. The EAR Rule applies to the audit of annual financial statements of PIEs, as defined in the IRBA Code. The term "annual financial statements" refers to the financial statements prepared by the

entity on an annual basis, in accordance with either a general purpose framework or a special purpose framework (whichever may be applicable).

6. The corresponding figures[1] approach, as defined in ISA 710, *Comparative Information – Corresponding Figures and Comparative Financial Statements,* is generally applied in South Africa. Accordingly, the auditor's opinion on the financial statements only refers to the current period figures. The inclusion of the comparative information when making disclosures arising from the EAR Rule in the independent auditor's report is not required.

7. Examples of comparative information that may be included in an independent auditor's report, for the benefit of a user's understanding, include the:

   - Prior-period final materiality amounts;
   - Prior-period materiality benchmark applied, where there is a change in the benchmark; and
   - Number of components in the scope in a group audit in the prior-period.

   The above list is not exhaustive. Auditors may apply their professional judgement in determining which other comparative information would be of benefit to users.

ENHANCED AUDITOR REPORTING FOR ENTITIES THAT ARE NOT PUBLIC INTEREST ENTITIES

8. While the EAR Rule is not applicable to audits of entities that are not PIEs, auditors of non-PIEs may make voluntary additional disclosures in the independent auditor's report, as set out in the EAR Rule. In those circumstances, the guidance in this Alert may be applied without making reference to the EAR Rule.

PLACEMENT OF ADDITIONAL PARAGRAPHS IN THE INDEPENDENT AUDITOR'S REPORT

9. The additional disclosures required by the EAR Rule are other reporting responsibilities, as described in ISA 700.43-45. Also, ISA 700.43 allows for the other reporting responsibilities to be presented under the same section as the related report elements required by the ISAs, where the other reporting responsibilities address the same topics. Where the other reporting responsibilities do not address the same topics as those presented under the reporting responsibilities required by the ISAs, then the other reporting responsibilities are disclosed in the *Other Legal and Regulatory Requirements* section of the independent auditor's report. Additionally, ISA 700.44 allows for other reporting responsibilities to be presented in the same section as the related report elements required by the ISAs, provided the independent auditor's report clearly differentiates the other reporting responsibilities from the reporting required by the ISAs.

10. ISA 700.28(b) requires the *Basis for Opinion* section to refer to the section of the auditor's report that describes the auditor's responsibilities under the ISAs. Paragraphs 37-40 in ISA 700 contain

[1] ISA 710.6(b) defines corresponding figures as comparative information where amounts and other disclosures for the prior period are included as an integral part of the current period financial statements, and are intended to be read only in relation to the amounts and other disclosures relating to the current period (referred to as "current period figures"). The level of detail presented in the corresponding amounts and disclosures is dictated primarily by its relevance to the current period figures.

the requirements for the information to be included in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of the independent auditor's report.

11. Accordingly, the matters noted below may therefore be disclosed, as required by the EAR Rule, under the *Basis for Opinion* section or in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of the independent auditor's report:

    - The final materiality amount determined by the auditor for the financial statements as a whole and an explanation of significant judgements made by the auditor in determining this materiality. The related reporting elements would be those described in ISA 700.38(c). Application paragraph A53 further explains that an auditor may also consider it useful to provide additional information in the description of the auditor's responsibilities, beyond what is required by ISA700.38(c).
    - The scope of the audit of group financial statements, as defined in ISA 600 (Revised), and any significant judgements applied in this determination may be disclosed under the *Basis for Opinion* section. Where ISA 600 (Revised) applies, the related reporting elements would be those described in ISA 700.39(c), which requires the auditor to further describe their responsibilities in a group audit engagement by stating certain matters. Such matters include the auditor's responsibilities to plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the group as a basis for forming an opinion on the group financial statements.

12. Where the auditor has concluded that the going concern assumption is appropriate, but a material uncertainty related to going concern exists, the additional disclosure and the description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern can be disclosed with the related reporting elements required by ISA 570.22.

13. Additional disclosures about the outcome of audit procedures or key observations with respect to KAMs can be disclosed in the KAMs section in the independent auditor's report, as these are related reporting elements, and this is permissible per ISA 701.A46. The introductory paragraph in the KAMs section of the independent auditor's report should clearly indicate that the disclosure of the outcomes of audit procedures or key observations is prescribed through the EAR Rule.

14. The disclosure of certain fee-related matters is not a specific requirement of the ISAs or linked to other reporting elements required by the ISAs in the independent auditor's report. As such, the reporting of these fee-related matters would still be an "other reporting responsibility" and the requirements of ISA 700.43 and ISA 700.45 would then be applicable. Therefore, the additional disclosure in the independent auditor's report may be included under the "Report on Other Legal and Regulatory Requirements" section of the independent auditor's report.

IMPACT ON THE EAR RULE WHERE THE INDEPENDENT AUDITOR'S OPINION IS MODIFIED

15. Set out below are considerations of circumstances that are appropriate to make the disclosures required by the EAR Rule when a modified audit opinion is expressed.

EAR Rule	Qualified Opinion	Adverse Opinion	Disclaimer of Opinion
Final materiality	Yes	Yes	No*
Group audit scope	Yes	Yes	No*
Auditor's evaluation in response to a material uncertainty	Yes***	Yes***	No**
KAM outcomes and observations	Yes***	Yes***	No*
Fee-related matters	Yes	Yes	Yes

* ISA705.26 states that when an auditor disclaims an opinion, no reference is made to the section of the auditor's report where the auditor's responsibilities are described; thus, the disclosure of the EAR Rule in respect of final materiality and the group audit scope would not be appropriate. ISA 705.29, read together with ISA 705.A26, states that unless required by law or regulation, no KAMs are permitted to be included in the auditor's report when a disclaimer of opinion is expressed; therefore, the EAR Rule with regard to KAMs would not be applicable.

** The International Auditing and Assurance Standards Board commented, in paragraphs 88-89 of the ISA 570 (Revised) Exposure Draft, that, in its view, where a disclaimer of opinion is expressed, the auditor should not provide further information about going concern; thus, disclosures regarding the auditor's response to a material uncertainty in respect of the EAR Rule would not be appropriate.

*** ISA 701.12 states that the auditor shall not communicate a KAM where the basis for modifying the audit report is directly related to the matter that would be communicated as a KAM. ISA 701.15 expands further to state that although a matter giving rise to a modification or where a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, in accordance with ISA 570 (Revised), are by their nature KAMs, these shall not be described in the KAMs section of the independent auditor's report. Accordingly, only KAMs that are not linked to the modifications nor to a material uncertainty related to going concern are disclosed in the independent auditor's report to which the EAR Rule would apply.

(a) Final Materiality

16. The EAR Rule requires auditors of PIEs to disclose, in the independent auditor's report for audits of annual financial statements, the **final materiality amount** determined by the auditor for the financial statements as a whole. The auditor is also required to disclose an **explanation of significant judgements** made in determining this materiality.

17. Final materiality is the amount referred to in ISA 450.10, *Evaluation of Misstatements Identified During the Audit*. The ISAs require the auditor to reassess materiality for the financial statements determined in accordance with ISA 320, to confirm whether it remains appropriate in the context of the entity's actual financial results, so as to form an opinion on the financial statements. It is thus the final reassessed materiality that is disclosed in the independent auditor's report, as required by the EAR Rule.

18. In the context of final materiality disclosed, the auditor is required to disclose an explanation of the significant judgements made in determining final materiality. Examples of significant judgements may include:

    - The benchmark applied in determining materiality;
    - The rationale for the chosen benchmark; and
    - The percentage applied to the benchmark.

    The above list is not exhaustive. Auditors can apply their professional judgement in describing the significant judgements made.

19. Refer to Appendix 2 for examples of how the final materiality and the explanation of significant judgements may be disclosed in the independent auditor's report.

20. To avoid confusion, the EAR Rule does not require disclosure regarding performance materiality thresholds applied in audits of financial statements or group financial statements.

(b) Scope of the Audit of Group Financial Statements

21. The EAR Rule requires auditors of PIEs to disclose, in the independent auditor's report for audits of annual financial statements, the **scope of the audit** in the context of **group financial statements**[2] and **any significant judgements applied** in this determination**.**

22. The scope of the group audit is tailored to the particular circumstances of the group that is subject to an audit. Examples of disclosures about the scope of the group audit may include:

    - The number of components and the type of audit work performed on the financial information of those components, which may also include whether the group relies on shared service centres and the extent of testing performed by those centres.
    - The coverage of revenue, total assets and profit before tax or other relevant materiality benchmarks achieved.
    - Procedures performed over residual components not scoped in for group reporting.

    This list is not exhaustive. Auditors can apply their professional judgement in describing the scope of a group audit.

23. An explanation of significant judgements may also include the examples that are described in of ISA 600.A51 (Revised).

24. Refer to Appendix 2 for examples of how the scope of the group audit and the explanation of significant judgements may be disclosed in the independent auditor's report.

(c) Evaluation of Management's Assessment Where a Material Uncertainty related to Going Concern Exists

25. The EAR Rule requires auditors of PIEs to disclose, in the independent auditor's report for audits of annual financial statements, **a description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern**. This applies where the auditor, in accordance with ISA 570 (Revised), has concluded that the going concern assumption is appropriate, but a material uncertainty exists related to events or conditions that may cast significant doubt about the entity's ability to continue as a going concern and adequate disclosure about the material uncertainty is made in the financial statements.

26. A material uncertainty related to going concern is an uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern, where the magnitude of its potential impact and the likelihood of occurrence are such that appropriate disclosure of the nature and implications of the uncertainty is necessary for:

[2] Group financial statements are defined in ISA 600 (Revised).

- In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements; or
- In the case of a compliance framework, the financial statements not to be misleading[3].

27. Application material in ISA 570 (Revised) gives examples of events or conditions (financial, operating and other, such as legal) that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. These examples (which are not all-inclusive, while the existence of one or more does not always signify that a material uncertainty exists[4]) include the following:
    - Net liability or net current liability position;
    - Indications of withdrawal of financial support by creditors;
    - Negative operating cash flows indicated by historical or prospective financial statements;
    - Adverse key financial ratios;
    - Substantial operating losses or significant deterioration in the value of assets used to generate cash flows;
    - Management intentions to liquidate the entity or cease operations;
    - Loss of a major market, key customer(s), franchise, license or principal supplier(s);
    - Shortages of important supplies; and
    - Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that the entity is unlikely to be able to satisfy.
28. The following elements could be utilised in describing how management's assessment of the entity's ability to continue as a going concern[5] was evaluated by the auditor:
    - Reference to the related disclosure(s) about material uncertainty related to going concern.
    - An overview of the procedures performed.
    - An indication of the outcome of the auditor's procedures.
    - Aspects of the auditor's response or approach that were most relevant to the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
    - Key observations with respect to the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
29. The amount of detail to be provided in the independent auditor's report is a matter of professional judgement. Thus, the auditor may consider factors such as the nature and extent of the audit procedures performed, as well as the level of subjectivity, complexity and estimation uncertainty involved in management's assessment[6].

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[3] ISA (UK) 570 *Going Concern*, paragraph 9-2(b).

[4] ISA 570 *Going Concern*, paragraph A3.

[5] ISA 570 Exposure Draft: Proposed International Standard on Auditing 570 (Revised 202X) Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs, paragraph A73.

[6] ISA 570 Exposure Draft 2023, paragraph A74.

30. The auditor may describe how management's assessment of the entity's ability to continue as a going concern was evaluated by using language that is specific to the entity's circumstances, responsive to the related disclosure(s) in the financial statements, does not contain or imply discrete opinions on separate elements of the financial statements, and does not obscure that a material uncertainty exists[7].

31. Care may be necessary to avoid providing original information about the entity in the description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern. Original information is any information about the entity that has not otherwise been made publicly available by the entity (e.g. what has not been included in the financial statements or other information available at the date of the independent auditor's report or addressed in other oral/written communications by management or those charged with governance (TCWG), such as a preliminary announcement of financial information or investor briefings[8]). If additional information is considered necessary to enhance users' understanding, the auditor may encourage management or TCWG to disclose the information in the annual financial statements or make it publicly available, rather than the auditor providing it in the independent auditor's report.

32. Appendix 2 includes examples of how to describe the evaluation made by management in the assessment of the entity's ability to continue as a going concern. These examples of disclosures are not specifically in the context of a material uncertainty, as required by the EAR Rule, but can still be used as guidance on how to describe management's assessment.

(d) Communicating Key Audit Matters and the Outcome of Audit Procedures or Key Observations with respect to the Key Audit Matters

33. The EAR Rule requires auditors of PIEs to disclose, in the independent auditor's report for audits of annual financial statements, **Key Audit Matters**, as defined in and in accordance with ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report,* and the **outcome of audit procedures or key observations** with respect to the KAMs.

34. ISA 701 applies to audits of complete sets of general-purpose financial statements of listed entities and when the auditor otherwise decides to communicate KAMs in the independent auditor's report. This ISA also applies when the auditor is required by law or regulation to communicate KAMs in the independent auditor's report[9]. In communicating KAMs for public interest entities, the auditor can therefore apply the requirements of ISA 701.

35. Disclosure of the outcome of the audit procedures performed or key observations made in addressing the KAMs is permissible, but is not a requirement in ISA 701. The extent of detail that may be provided in the independent auditor's report to describe how a KAM was addressed in the audit is a matter of professional judgement. The auditor may describe the following:

    - Aspects of the auditor's response or approach that were most relevant to the matter or specific to the assessed risk of material misstatement.
    - A brief overview of the procedures performed.

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7 ISA 570 Exposure Draft 2023, paragraph A75.

8 ISA 701, paragraph A35.

9 ISA 701, paragraph 5.

- An indication of the outcome of the auditor's procedures.
- Key observations with respect to the matter[10].

36. KAMs that have key observations or outcomes of the audit procedures performed could be more useful than those without, as the user is then able to identify what the auditor found after responding to the matters that were of most significance in the audit. Examples of key observations that have been included in the KAMs section of independent auditor's reports are as follows:

    - No material differences were noted.
    - We found management's model to be consistent with industry practice.
    - We did not note any aspect requiring further consideration in this regard.
    - We accepted management's assumptions as falling within acceptable ranges of our independent calculation.
    - Based on our work performed, we accepted management's basis for determining the incremental borrowing rate.

37. ISA 701.A46 provides guidance on the extent of detail to be provided in the independent auditor's report in describing how a KAM was addressed. This paragraph also states that law, regulation or national standards may prescribe a specific form or content of the descriptions, which may include an indication or outcome of the auditor's procedures and key observations with respect to the matter.

38. The auditor may include key observations or outcomes in each KAM by using language that is specific to the entity's circumstances and responsive to the related disclosure(s) in the financial statements.

39. Professional judgement needs to be applied, to consider whether including outcomes and observations for certain audit procedures may not be appropriate, and that could entail:

    - Providing an outcome or observation in respect of controls tested where the auditor does not express an opinion on the entity's controls.
    - Including audit procedures in a KAM related to matters that have resulted in an adverse opinion.

40. In accordance with ISA 701.A47, care may be necessary so that the language used by the auditor does not contain or imply discrete opinions on separate elements of the financial statements; and does not imply that the matter has not been appropriately resolved by the auditor in forming an opinion.

41. Examples of the wording that might imply discrete opinions on separate elements of the financial statements or give a qualitative view on areas of the financial statements may include:

    - "As a result of all the above procedures, we agreed with management's assessment that no impairment of goodwill is required to be recognised at 30 June 20XX."

10 Paragraph A46 of ISA 701.

- "Based on our procedures performed, we concluded that revenue was recognised in accordance with the requirements of IFRS 15, *Revenue from Contracts with Customers*."

42. Whether an outcome or observation is to be included for every procedure or an overall outcome/observation is to be included for the KAM is a matter of professional judgement; and the outcome/observation should provide insight into the audit.

43. When the outcome or observation to be included relates to a specific procedure, it would be aligned to the related procedure. For example:

    - Where the auditor recomputes management's calculation for mathematical accuracy, an appropriate outcome or key observation may be articulated as follows: "We tested the mathematical accuracy of the calculation and found no material differences."
    - When testing a valuation, where the auditor has developed a range of acceptable discount rates, the auditor could give insight by stating the following: "We found that the discount rate used by the directors fell within our range of acceptable discount rates."
    - Care should be taken that in forming an opinion, the auditor does not imply that the matter has not appropriately been resolved. An example would be: "The earnings multiples used in the valuation were not reasonable when compared with those of comparable entities in the same industry, taking into account recent market transactions." In such an instance, the outcome of the auditor's procedures may need to describe how differences were resolved or how this impacted their audit approach, where relevant. That could then be expressed as follows: "The earnings multiples originally used in the valuation were not reasonable when compared with those of comparable entities in the same industry, taking into account recent market transactions. We discussed this with management, which subsequently revised the earnings multiples in its valuation."

44. When an overall outcome or observation is to be included for the KAMs, care should be taken not to conclude on any individual elements of the financial statements or the KAM, and to avoid giving qualitative views. Examples of an overall outcome or observation may be:

    - "Based on the procedures performed on the impairment assessment of goodwill arising from business combinations, as listed above, we did not identify any matters requiring further consideration."
    - "We found no material errors from our testing."

45. The auditor may avoid general conclusions such as "we concluded that revenue recognition was reasonable".

46. If the auditor identified material errors related to the KAMs that were not corrected in the financial statements, this would be considered in the modification of the audit report, in terms of ISA 705. If the errors found are not material, they may be included in the list of uncorrected audit misstatements.

47. Refer to Appendix 2 for examples of how the key observations and outcomes of procedures on KAMs may be disclosed in the independent auditor's report.

(e) Fee-Related Matters

48. The EAR Rule requires auditors of PIEs to disclose, in the independent auditor's report for audits of annual financial statements, specific fee-related matters, where the preparer has not disclosed these in the annual financial statements or the annual report.

49. The required disclosures are intended to operationalise the requirements of R410.31 of the IRBA Code.

50. In January 2022, the IESBA released guidance for professional accountants in public practice (*IESBA Staff Q&A: Revised Fee-Related Provisions of the Code*) that, explains aspects of the revised fee-related provisions in the IESBA Code.

51. Audit fees in relation to a joint audit include the total audit fees for the joint audit, as well as the fees charged by all the auditors involved in the audit. If these have not been disclosed in the financial statements, the auditor may disclose an aggregate of the fees and indicate their portion of the total fees in the independent auditor's report.

52. Fees for non-audit/assurance work (including work that is required by laws and regulations) form part of the required disclosure.

53. The Institute of Chartered Accountants in England and Wales published a technical release titled *Disclosure of Auditor Remuneration*. Although the document is aimed at giving guidance on how preparers would disclose auditor's remuneration in the financial statements, an appendix provides useful insights that the auditor may consider in disclosing fees in the independent auditor's report, where management has not disclosed the fees in the financial statements.

54. The auditor may consider the need to reconcile the "fees" disclosed in the independent auditor's report to the fees reported to the IRBA in the firm's annual declaration.

APPENDIX 1

Board Notice 475 of 2023 and Government Gazette No. 49309 of 15 September 2023

IRBA RULE ON ENHANCED AUDITOR REPORTING FOR THE AUDIT OF FINANCIAL STATEMENTS OF PUBLIC INTEREST ENTITIES

In accordance with Section 10 of the Auditing Profession Act No. 26 of 2005, as amended (the Act), the Independent Regulatory Board for Auditors (IRBA) may, by notice in the Government Gazette, prescribe rules with regard to any matter that is required or permitted to be prescribed in terms of the Act. The IRBA hereby prescribes the IRBA Rule on Enhanced Auditor Reporting for the Audit of Financial Statements of Public Interest Entities (The EAR Rule).

The EAR Rule[1]

For audits of annual financial statements of public interest entities, as defined in the IRBA Code of Professional Conduct for Registered Auditors (Revised April 2023), as amended (IRBA Code), the audit firm shall disclose in the independent auditor's report:

a. The final materiality amount determined by the auditor for the financial statements as a whole[2]. The auditor shall also disclose an explanation of significant judgements made by the auditor in determining this materiality.

b. The scope of the audit of group financial statements, as defined in the International Standard on Auditing (ISA) 600 (Revised) *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*, and any significant judgements applied in this determination.

c. A description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern, where the auditor, in accordance with ISA 570 (Revised) *Going Concern*, has concluded that the going concern assumption is appropriate, but a material uncertainty exists related to events or conditions that may cast significant doubt about the entity's ability to continue as a going concern and adequate disclosure about the material uncertainty is made in the financial statements.

d. Key Audit Matters (KAMs), as defined in and in accordance with ISA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*, and the outcome of audit procedures or key observations with respect to the KAMs.

e. Where the disclosure has not been made by the preparer in the annual financial statements or the annual report, the following fee-related matters[3]:

   i. Fees paid or payable to the firm and network firms for the audit of the financial statements on which the firm expresses an opinion.

   ii. Fees, other than those disclosed under (e)(i), charged to the client for the provision of services by the firm or a network firm during the period covered by the financial statements on which the firm expresses an opinion. For this purpose, such fees shall only include fees charged to the client and its related entities over which the client has direct or indirect control that are consolidated in the financial statements on which the firm will express an opinion.

iii. Any fees, other than those disclosed under (e)(i) and (ii), charged to any other related entities over which the audit client has direct or indirect control for the provision of services by the firm or a network firm, when the firm knows or has reason to believe that such fees are relevant to the evaluation of the firm's independence.

iv. If applicable, the fact that the total fees received by the firm from the audit client represent, or are likely to represent, more than 15% of the total fees received by the firm for two consecutive years, and the year that this situation first arose.

Effective Date

This IRBA Rule is effective for audits of financial statements for periods ending on or after 15 December 2024. Early adoption is permitted.

Notes

1 This IRBA Rule should be considered in the context of the ISAs.

2 Paragraph 10 of ISA 450, *Evaluation of Misstatements Identified During the Audit*, requires the auditor to reassess materiality for the financial statements determined in accordance with ISA 320, to confirm whether it remains appropriate in the context of the entity's actual financial results. The materiality to be disclosed should be the materiality for the financial statements as a whole.

3 This IRBA Rule is in alignment with R410.31 of the IRBA Code. The exception in R410.32 will apply, where applicable.

APPENDIX 2

EXAMPLES OF ADDITIONAL DISCLOSURES

The illustrations provided below have been included as guidance on how the additional disclosures required by the EAR Rule can be disclosed in the independent auditor's report. They, however, are not specific or limited to the EAR Rule; therefore, professional judgement would need to be applied, to ensure that only the disclosures applicable to the EAR Rule are included in the independent auditor's report. These illustrations will age, may be superseded with latest auditor's reports and may not be copied.

(a) Final Materiality

Materiality disclosures in the Rolls-Royce Plc Annual Report

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements - group	**Financial statements - company**
Overall materiality	£80m (2021: £80m).	£70m (2021: £76m).
How we determined it	Based on approximately 0.6% of five year average underlying revenues from continuing operations (2021: approximately 0.6% of four year average underlying revenues from continuing and discontinued operations)	Based on approximately 1.0% of five year average revenues (2021: Based on approximately 1.0% of four year average revenues)
Rationale for benchmark applied	We have consistently used underlying revenue to determine materiality as opposed to a profit based benchmark. This is because there is considerable volatility in profit before tax as a result of revenue recognition under IFRS 15 and from the fair value movement in the group's derivatives. Underlying revenue continues to be a key performance metric for the group and is more stable than the profit metric. However, from 2020 COVID-19 introduced additional volatility that impacted benchmarks. To mitigate this we have used a five year average underlying revenue measure to calculate materiality. ITP Aero, which was classified as a discontinued operation, has now been sold and therefore we have excluded its contribution to revenue over this five year period in determining our materiality.	We determined our materiality based on total assets, which is more applicable than a performance-related measure as the company is an investment holding company for the group. The higher company materiality level was used for the purposes of testing balances not relevant to the group audit, such as investments in subsidiary undertakings and intercompany balances.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £4m and £67m. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

Source: Rolls-Royce Plc Annual Report 2022, page 152.[11]

[11] https://www.rolls-royce.com/~/media/Files/R/Rolls-Royce/documents/annual-report/2022/rr-plc-annual-report-2022.pdf. Accessed 08/08/2023.

Materiality disclosures in the Harbour Energy Plc Annual Report

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

Our key criterion in determining materiality remains our perception of the needs of Harbour's stakeholders. We consider which earnings, activity or capital-based measure aligns best with the expectations of the users of Harbour's financial statements. In doing so, we apply a 'reasonable investor perspective', which reflects our understanding of the common financial information needs of the members of Harbour as a group. We consider EBITDA, adjusted for the impact of any non-recurring items, to be consistent with the type of measures that are the primary focus of Harbour's investors.

We determined that the basis of planning materiality should be earnings before interest tax, depreciation, impairments and amortisation, adjusted to exclude exploration cost write-off but including exploration and evaluation expenses and new ventures (adjusted EBITDA), normalised to reflect the price volatility seen in 2022 (normalised adjusted EBITDA). We believe that adjusted EBITDA provides us with a measure that is of particular focus to shareholders and is closely linked to both the metric used in the covenant included in the Group's major loan agreement and the key performance indicator for the Group, EBITDAX. Measures such as EBITDAX are a primary indicator of company valuation and cash flow generation across the upstream oil and gas sector.

In determining the use of a normalised measure, we recognised oil and gas prices have been at particularly high levels during 2022 as a result of high demand caused by the pandemic receding and the war in Ukraine. The views of economist and market participants are that

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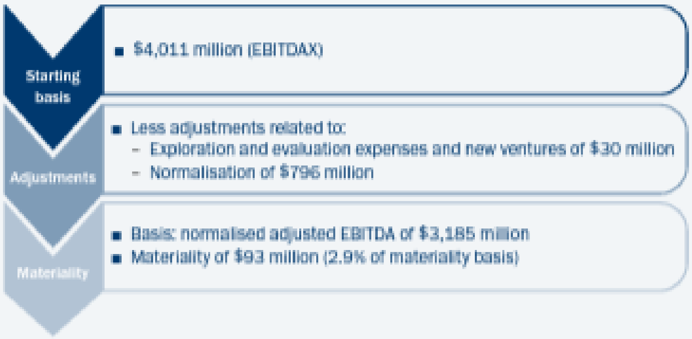
this short-term increase in oil prices is from the management of supply of oil and gas in the market which will be addressed over time. Given this, we believe a normalised measure is most appropriate to avoid setting our materiality at a level that is not representative of a more normal level of oil and gas pricing anticipated over the medium term.

Based on the above, we determined materiality for the Group to be \$93 million (2021: \$57 million), which is 2.9% of normalised adjusted EBITDA of \$3,185 million (2021: 2.4% of adjusted EBITDA of \$2,384 million). The reason for the increased materiality from last year relates to the increased profitability of the Group, even allowing for the impact of price normalisation.

We determined materiality for the parent company to be \$46.7 million (2021: \$37.9 million), which is 0.7% (2021: 0.5%) of total assets.



During the course of our audit, we reassessed initial materiality and found no reason to change from our original assessment at planning.

Source: Harbour Energy Plc Annual Report & Accounts 2022, pages 114-115.[12]

[12] https://www.harbourenergy.com/media/w4lcauvd/hbr-ara-22-new.pdf. Accessed 08/08/2023.

Materiality disclosures in the Marks and Spencer Group Plc Annual Report

6. OUR APPLICATION OF MATERIALITY
6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<table>
<tr><th></th><th>Group financial statements</th><th>Parent Company financial statements</th></tr>
<tr><td>Materiality</td><td>£24.0 million (2022: £25.0 million)</td><td>£21.6 million (2022: £22.5 million)</td></tr>
<tr><td>Basis for determining materiality</td><td>We consider the following metrics in the current and prior period:
– profit before tax and adjusting items;
– earnings before interest, tax, depreciation and amortisation ('EBITDA'); and
– revenue.
In the current period we also considered profit before tax.
Using professional judgement, we determined materiality to be £24.0m.</td><td>We have used 3% of net assets in both the current and the prior period, capped at 90% of Group materiality, as the basis for materiality.</td></tr>
<tr><td>Rationale for the benchmark applied</td><td>In determining our benchmark for materiality, we considered a number of different metrics used by investors and other readers of the financial statements.
<table>
<tr><td>Metric</td><td>%</td></tr>
<tr><td>Profit before tax</td><td>5.0</td></tr>
<tr><td>Profit before tax and adjusting items</td><td>5.0</td></tr>
<tr><td>EBITDA</td><td>2.3</td></tr>
<tr><td>Revenue</td><td>0.2</td></tr>
</table></td><td>Net assets is used as the benchmark as the Parent Company operates primarily as a holding company for the Group and we therefore consider this as the key metric for the Parent Company.
We capped materiality at 90% of Group materiality to reduce the risk of a material error arising as a result of the consolidation of the Parent Company's result in the Group financial statements.</td></tr>
</table>

Source: Marks and Spencer Group Plc Annual Report & Financial Statements 2023, page 140.[13]

13 https://corporate.marksandspencer.com/sites/marksandspencer/files/2023-06/M-and-S-2023-Annual-Report.pdf. Accessed 08/08/2023.

Materiality disclosures in the Barclays Plc Annual Report

Materiality

(Item 6 below)

The scope of our work is influenced by our view of materiality and our assessed risk of material misstatement.

We have determined overall materiality for the Barclays PLC Group to be £275m (FY21: £230m).

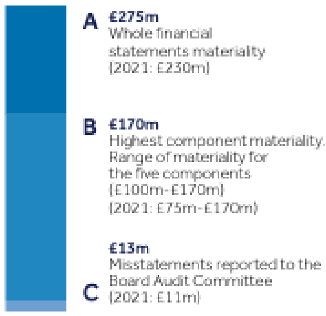
A key judgement in determining materiality (and performance materiality) is the appropriate benchmark to select, based on our perception of the needs of shareholders. We considered which benchmarks and key performance indicators have the greatest bearing on shareholder decisions.

We determined that profit before tax remains the key benchmark for the Barclays PLC Group. For FY21 we normalised profit before tax downward by £2.3bn to adjust for the fact that ECL charges were considered abnormally low as the economy recovered from the COVID-19 pandemic. For FY22 we did not normalise profit before tax. This is reflective of the impact of COVID-19 on ECL being less pronounced in the current period. This change is a driver of the increase in materiality in 2022. As such, for FY22 we based our materiality on profit before tax, of which it represents 3.9% (FY21: 3.8% of normalised PBT).

We have determined overall materiality for the Parent Company to be £260m (FY21: £225m). Materiality for the Parent Company financial statements was determined with reference to a benchmark of net assets of which it represents 0.5% (FY21: 0.4%).

Normalised profit before tax from continuing operations £7,012m

(2021: normalised PBT:£6,071m)



In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 65% (2021: 74%) of materiality for the financial statements as a whole, which equates to £179m (2021: £170m) for the group and £169m (2021: £169m) for the parent company. We applied this percentage in our determination of performance materiality based on the level of control deficiencies during the prior period.

Source: Barclays Plc Annual Report and Accounts 2022, page 400.[14]

14 https://home.barclays/content/dam/home-barclays/documents/investor-relations/reports-and-events/annual-reports/2022/AR/Barclays-PLC-Annual-Report-2022.pdf. Accessed 08/08/2023.

Materiality disclosures in the Barclays Plc Annual Report

6. Our determination of materiality

The scope of our audit was influenced by our application of materiality. We set quantitative thresholds and overlay qualitative considerations to help us determine the scope of our audit and the nature, timing and extent of our procedures, and in evaluating the effect of misstatements, both individually and in the aggregate, on the financial statements as a whole.

Materiality for the financial statements as a whole

2022: £275m 2021: £230m

What we mean

A quantitative reference for the purpose of planning and performing our audit

Basis for determining materiality and judgements applied

We have determined overall materiality for the Barclays PLC Group to be £275m (FY21: £230m).

A key judgement in determining materiality (and performance materiality) is the appropriate benchmark to select, based on our perception of the needs of shareholders. We considered which benchmarks and key performance indicators have the greatest bearing on shareholder decisions.

We determined that profit before tax remains the key benchmark for the Barclays PLC Group. For FY21 we normalised profit before tax downward by £2.3bn to adjust for the fact that ECL charges were considered abnormally low as the economy recovered from the COVID-19 pandemic. For FY22 we did not normalise profit before tax. This is reflective of the impact of COVID-19 on ECL being less pronounced in the current period. We determined that no adjustments to profit before tax were required for FY22. This change is a driver of the increase in materiality in 2022.

The overall materiality for the Group of £275m (2021: £230m) compares as follows to the other main financial statement elements amounts in the table below.

Our materiality of £275m (2021: £230m) was determined by applying a percentage to Profit Before Tax. When using a profit-related measure to determine overall materiality, KPMG's approach is to apply a percentage between 3% and 5% to the pre-tax measure. In setting overall materiality, we applied a rate of 3.9% (2021: 3.8%) which is lower than the top end of the allowable percentage range.

Materiality for the Parent Company financial statements was set at £260m (2021: £225m), determined with reference to a benchmark of Parent Company net assets (of which it represents 0.5% (2021: 0.4%)).

	Total Revenue		Total Assets		Net Assets	
	2022	2021	2022	2021	2022	2021
	£24,956m	£21,940m	**£1,513,699m**	£1,384,285m	**£69,260m**	£70,041m
Group Materiality as % of caption	**1.10%**	1.05%	**0.02%**	0.02%	**0.40%**	0.33%

Source: Barclays Plc Annual Report and Accounts 2022, page 412.[15]

15 https://home.barclays/content/dam/home-barclays/documents/investor-relations/reports-and-events/annual-reports/2022/AR/Barclays-PLC-Annual-Report-2022.pdf. Accessed 08/08/2023.

Materiality disclosures in the ABN AMRO Bank N.V. Integrated Annual Report

Materiality

We determined materiality and identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error in order to design audit procedures responsive to those risks and to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the supervisory board that misstatements in excess of EUR 8 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Materiality	EUR 160 million (2021: EUR 160 million)
Benchmark applied	0.7% of total equity (2021: 0.7% of total equity)
Explanation	Based on our professional judgment, a benchmark of 0.7% of total equity is an appropriate quantitative indicator of materiality as equity best reflects the financial position of ABN AMRO and is the basis for determining available regulatory capital. We determined materiality consistently with the previous financial year.

Source: ABN AMRO Bank N.V. Integrated Annual Report 2022, pages 351-352.[16]

Materiality disclosures in the ING Groep N.V Annual Report

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 250 million (2021: EUR 250 million). The materiality is determined with reference to profit before taxation from continuing operations and represents 4.5% (2021: 3.7%) of that balance. We consider profit before tax from continuing operations as the most appropriate benchmark based on our assessment of the general information needs of the users of the financial statements and given the fact that ING Group is a profit-oriented listed entity. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Audit Committee of the Supervisory Board that misstatements identified during our audit in excess of EUR 12.5 million (2021: EUR 12.5 million) would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Source: 2022 Annual Report ING Groep N.V., page 314.[17]

16 https://www.annreports.com/abn-amro/abn-amro-ar-2022.pdf. Accessed 08/08/2023.

17 https://www.ing.com/web/file?uuid=7b77643e-8ef1-49c0-b470-7af37fcf43c2&owner=b03bc017-e0db-4b5d-abbf-003b12934429&contentid=59254. Accessed 08/08/2023.

(b) Scope of the Audit of Group Financial Statements

Group Audit Scope disclosures in the Rolls-Royce plc Annual Report

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

Our scoping is based on the group's consolidation structure. We define a component as a single reporting unit which feeds into the group consolidation. Of the group's 422 reporting components, 33 individual components (including three joint ventures) were subject to full scope audits for group purposes, which following an element of sub-consolidation, equates to 16 group reporting opinions; and nine components performed targeted specified audit procedures.

In order to achieve audit coverage over the financial statements, under our audit methodology, we test both the design and operation of relevant business process controls and perform substantive testing over each financial statement line item.

The group operates Finance Service Centres (FSCs) to bulk process financial transactions in Derby (UK), Indianapolis (US) and Bengaluru (India). Based on our assessment it is not possible to fully test revenue and profit centrally as certain key processes, such as long-term contracting, remain within the business due to their nature and are not handled by the FSCs.

Our audit covered 98% of revenue, 79% of loss before tax from continuing operations and 90% of total assets. All entities that contribute in excess of 1% of the group's revenue were included in scope.

Further specific audit procedures over central functions, the group consolidation and areas of significant judgement (including corporate costs, taxation, certain goodwill balances, intangible assets, treasury and post-retirement benefits) were directly led by the group audit team.

Where work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements.

We issued formal written instructions to all component auditors setting out the audit work to be performed by each of them and maintained regular communication with the component auditors throughout the audit cycle. These interactions included attending certain component clearance meetings and holding regular conference calls, as well as reviewing and assessing any matters reported. The group engagement team also reviewed selected audit working papers for certain component teams to evaluate the sufficiency of audit evidence obtained and fully understand the matters arising from the component audits.

In addition, senior members of the group engagement team have visited component teams across all group segments in the UK, US and Germany. These visits were in-person for these locations. They included meetings with the component auditor and with local management.

Source: Rolls-Royce plc Annual Report 2022, pages 150-151.[18]

[18] https://www.rolls-royce.com/~/media/Files/R/Rolls-Royce/documents/annual-report/2022/rr-plc-annual-report-2022.pdf. Accessed 08/08/2023.

Group Audit Scope disclosures in the Vodafone Group Plc Annual Report

An overview of the scope of the Company and Group audits

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each component within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of group-wide controls, changes in the business environment and other factors such as recent internal audit results when assessing the level of work to be performed at each component.

In assessing the risk of material misstatement to the consolidated financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the consolidated financial statements, of the 311 reporting components of the Group, we selected 19 components covering entities within Germany, South Africa, Italy, United Kingdom, Spain, Turkey, Czech Republic, Hungary, Egypt, Luxembourg and corporate entities, which represent the principal business units within the Group.

Of the 19 components selected, we performed an audit of the complete financial information of 9 components ("full scope components") which were selected based on their size or risk characteristics.

For 4 components ("specific scope components"), we performed full audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the consolidated financial statements either because of the size of these accounts or their risk profile. For the remaining 6 components ("specified procedures components"), we performed certain audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements, either because of the size of these accounts or their risk profile. Depending on the component or type of procedures, these procedures were undertaken by the primary audit team or separate component audit team under the primary audit team's direction. The audit scope of these components may not have included testing of all significant accounts of the component, but will have contributed to the coverage of significant accounts tested for the Group.

For the 302 components where we did not perform full audit procedures, together these represent 25% of the Group's Adjusted EBITDAaL, and none are individually greater than 5% of the Group's Adjusted EBITDAaL. For the remaining 292 components which are not full scope, specific scope or specified procedures scope, we performed other procedures, including analytical review at both the Group and individual component levels and the use of customised data analytics tools over the purchase to pay process, fixed assets to profile trends and identify items for further investigation, inquiry of management, testing entity level controls, testing group-wide controls and testing of journals across the Group, including these remaining components, in order to respond to any potential risks of material misstatement to the consolidated financial statements.

The table below illustrates the coverage obtained from the work performed by our audit teams.

	2022				2021		
Reporting components	Number	% of Group Adjusted EBITDAaL*	% of Group Revenue	Note	Number	% of Group Adjusted EBITDA*	% of Group Revenue
Full scope	9	75%	71%	1, 2, 5	9	76%	71%
Specific scope	4	0%	0%	3			
Specified procedures	6	0%	7%	2, 4, 5	12	0%	8%
Full and specified procedures coverage	**19**	**75%**	**78%**		**21**	**76%**	**79%**
Remaining components	292	25%	22%	6, 7, 8	343	24%	21%
Total reporting components	**311**	**100%**	**100%**		**364**	**100%**	**100%**

Notes:

1. 2 of the 9 full scope components relate to the Company and another corporate entity whose activities include consolidation adjustments, which are audited by the primary audit team. Procedures on 3 of the other full scope locations are undertaken by component audit teams based in Germany and the remaining 4 full scope components are Italy, South Africa, Spain, and the UK.
2. The Group audit risks in relation to revenue recognition were subject to audit procedures at each of the full and specified procedures scope locations with significant revenue streams (being 7 full scope components and 3 specified procedures components).
3. The primary audit team performed full audit procedures on specific accounts in respect of 4 finance and corporate entities across a range of significant accounts. The audit procedures did not include testing of all significant accounts of the components but will have contributed to the coverage of significant accounts selected for testing by the primary audit team.
4. For the Turkey, Czech Republic and Hungary components, specified procedures were defined by the Group team in respect of Revenue, Cost of sales, Operating expenses, Intangible assets, Property, Plant and Equipment, Trade receivables, Trade and other payables and Cash. For the Egypt component, specified procedures were performed in respect of certain Intangible Assets and Cash. The primary audit team also performed specified procedures over a further 2 entities across a range of significant accounts. The audit procedures did not include testing of all significant accounts of the components but will have contributed to the coverage of significant accounts selected for testing by the primary audit team.
5. The Group audit risks in relation to 'Carrying value of cash generating units, including goodwill' and 'Recognition and recoverability of deferred tax assets on tax losses – Luxembourg' were subject to audit procedures by the primary audit team on the entire balance, with support from component audit teams on certain procedures.
6. The contribution of specified procedures components to Group Adjusted EBITDAaL is included within 'remaining components' as audit procedures were performed on certain, but not all, significant accounts of the specified procedures components contributing to Group Adjusted EBITDAaL.
7. Included within the 311 reporting components are the Group's joint venture investments in Vodafone Ziggo and INWIT, and Safaricom, an associate, which were subject to review procedures.
8. Changes in the number of remaining components compared to prior year reflect decreases in the number of entities within the Group's consolidation system.

* Adjusted EBITDAaL as defined in 'Our application of materiality' section of this report. Adjusted EBITDAaL was referred to as Adjusted EBITDA in prior years. The metrics have the same definition.

Source: Vodafone Group Plc Annual Report 2022, pages 120-121.[19]

19 https://investors.vodafone.com/sites/vodafone-ir/files/2022-05/vodafone-2022-annual-report.pdf. Accessed 08/08/2023

Group Audit Scope disclosures in the Marks and Spencer Group Plc Annual Report

7. AN OVERVIEW OF THE SCOPE OF OUR AUDIT

7.1. Identification and scoping of components

Our audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the Group level.

Components were selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified. Based on our assessment we have focused our audit on the UK and India businesses which were subject to full audit procedures and specified audit procedures on individual balance sheet accounts respectively. We have performed our full audit scope of the UK component using a materiality of £21.6 million (or 90% of Group materiality) (2022: £22.5 million), and our specified audit procedures in India using a materiality of £3.5 million (or 14.6% of Group materiality (2022: specified audit procedures were not performed).

The Group holds 50% of the ordinary shares of Ocado Retail Ltd ('ORL'). This interest is accounted for as an investment in associate in accordance with IAS 28 on the basis that the shareholders' agreement gives control over ORL to Ocado Group plc. In the current period the Group recorded a share of loss of associate from ORL of £43.5 million (2022: £18.6 million) and was subject to specified audit procedures.

At a Group level, we tested the consolidation and performed analytical review procedures over components not in scope.

REVENUE

- Full audit scope 93%
- Specified audit procedures 0%
- Review at group level 7%

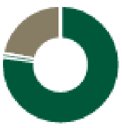
ADJUSTED PROFIT BEFORE TAX

- Full audit scope 90%
- Specified audit procedures 0%
- Review at group level 10%

PROFIT BEFORE TAX

- Full audit scope 81%
- Specified audit procedures 0%
- Review at group level 19%

TOTAL ASSETS



- Full audit scope 78%
- Specified audit procedures <1%
- Review at group level 22%

TOTAL LIABILITIES

- Full audit scope 84%
- Specified audit procedures 0%
- Review at group level 16%

7.2. Our consideration of the control environment

Our audit strategy is to rely on controls over certain processes within a number of business cycles. These included procurement within UK Clothing & Home and Food, inventory, and fixed assets including IFRS 16 Leases. As part of our controls testing, we obtained an understanding of the Group's processes and tested controls through a combination of tests of inquiry, observation, inspection and re-performance.

On certain business cycles, we obtained an understanding of, but did not rely on, controls. These included inventory provisions, food rebates and financial close and reporting.

Given the importance of information technology ("IT") to the recording of financial information and transactions, we have tested General IT controls relating to certain of the Group's IT systems where relevant to our audit work. We have been able to place IT controls reliance across these systems to support the audit of a number of business cycles, such as payables, procurement, lease accounting, property plant and equipment and inventory.

7.3. Our consideration of climate-related risks

The Group continues to develop its assessment of the potential impacts of climate change and set targets which management considers to be aligned with the Paris Agreement. Management has identified a number of milestones, including the target of net zero carbon emissions by 2040, as discussed in the Task Force on Climate-Related Financial Disclosures report on pages 44 to 55. This assessment focused on property, fleet and two of the Group's key resources: protein; and cotton.

Management considers that the most likely impact on the financial statements will be in relation to its three-year cash flow forecasts, including those described as part of our key audit matters in section 5, and has included the impact within these forecasts where appropriate. Whilst at this stage there is significant uncertainty regarding what the long-term impact of climate change initiatives may be, the forecasts reflect management's best estimate of the impact on the financial statements as explained in note 1.

As a part of our audit procedures, we have obtained management's climate-related risk assessment and held discussions with management to understand the process of identifying climate-related risks, the determination of mitigating actions and the impact on the Group's financial statements. We performed our own qualitative risk assessment of the potential impact of climate change on the Group's account balances and classes of transaction and did not identify any reasonably possible risks of material misstatement. Our procedures were performed with the involvement of our climate-change specialists and included reading disclosures included in the Strategic Report to consider whether they are materially consistent with the financial statements and our knowledge obtained in the audit.

We did not identify climate-related risk as a separate Key Audit Matter in our audit given the nature of the Group's operations and knowledge gained of its impact on critical accounting estimates and judgements during our risk assessment procedures and audit procedures.

We have not been engaged to provide assurance over the accuracy of these disclosures.

7.4. Working with other auditors

We have two component audit teams: ORL; and Deloitte India. We have issued detailed instructions to both component audit teams to perform specified audit procedures. Due to the non-co-terminus year-end of ORL, we have performed a review of the component auditor's files for the period ended 27 November 2022 and the reporting received from the component auditor for the period subsequent to 27 November 2022.

We have engaged regularly with the component auditors throughout the audit process, determining the nature, timing and extent of the specified audit procedures to be performed and to review their component reporting. A dedicated member of the Group audit team is assigned to facilitate an effective and consistent approach to component oversight.

8. OTHER INFORMATION

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

Source: Marks and Spencer Group Plc Annual Report & Financial Statements 2023, pages 140-141.[20]

[20] https://corporate.marksandspencer.com/sites/marksandspencer/files/2023-06/M-and-S-2023-Annual-Report.pdf. Accessed 08/08/2023.

Group Audit Scope disclosures in the Barclays Plc Annual Report

7. The scope of our audit

Group scope

What we mean

How the Group audit team determined the procedures to be performed across the Group

We have subjected four (2021: three) of the Group's five components to full scope audits for Group purposes. Our approach to scoping the four components was as follows: for two components, Barclays Bank UK PLC and Barclays Execution Services Limited Solus, we directly instructed the component audit teams to conduct and report to us on full scope audits; the third full scope component, Barclays PLC Solus was subject to a full scope audit by us (2021: audit of account balance), and the fourth component, Barclays Bank PLC Group, was subject to a full scope audit by us and for which we specified seven (2021: seven) components within that group.

We have subjected one (2021: two) of the Group's components, Barclays PLC Subsidiaries, to audits of certain account balances carried out by us, this component represents less than 1% of total Barclays PLC Group assets.

Within the Barclays Bank PLC Group we specified the components as follows; Barclays Bank Solus to be subject to a full scope audit carried out by us; Barclays Bank Delaware and Barclays Capital Inc to be subject to a full scope audit as instructed by us; and Barclays Bank Ireland PLC and Barclays Capital Securities Limited to be subject to an audit of certain account balances as instructed by us. We have subjected Barclays Bank Subsidiaries and Barclays Bank Intermediate Holding Companies ('IHC') Subsidiaries to an audit of certain account balances carried out by us, these components represent less than 2% of total Barclays Bank PLC Group assets.

The components within the scope of our work accounted for the percentages illustrated in section 2 – Group scope.

The materiality levels applied to the audits of the components of Barclays PLC are as follows:

Scope	Number of components	Range of materiality applied
Full scope audit	4	£100m - £170m
Audit of account balance	1	£100m

Barclays PLC has centralised certain Group-wide processes a shared service centre in India, the outputs of which are included in the financial information of the reporting components it services and therefore it is not a separate reporting component. This service centre is subject to specified audit procedures, predominantly the testing of transaction processing, reconciliations and review controls. Additional procedures are performed at certain reporting components to address the audit risks not covered by the work performed by the shared service centre.

The Group audit team has also performed audit procedures on the following areas on behalf of the components:

- Testing of IT systems and automated business controls; and
- Operating expenses and Group recharges.

The Group team communicated the results of these procedures to the component teams.

In addition, we have performed Group level analysis on the remaining components to determine whether further risks of material misstatement exist in those components.

We were able to rely upon the Group's internal control over financial reporting in all areas of our audit, and where our controls testing supported this approach, which enabled us to reduce the scope of our substantive audit work.

Group audit team oversight

What we mean

The extent of the Group audit team's involvement in component audits.

A hybrid communication and oversight strategy was implemented between the Group audit team and the components during the year as opposed to virtual oversight during the COVID 19 pandemic.

This included:

- A virtual global planning conference led by the Group audit team to discuss key audit risks and obtain input from component teams and other participating locations;
- The components in scope for Group reporting purposes were either visited by the Group audit team to assess the audit risk and strategy, or such review occurred remotely to assess the audit risk and strategy. Conference meetings and calls were also held with these component auditors throughout the conduct of the audit. At these visits and meetings, we reviewed the components' key working papers, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditors;
- Instructions issued by the Group audit team to component auditors setting out the significant areas to be covered, including the relevant key audit matters identified above and the information to be reported back to the Group audit team. For example, minimum criteria for high-risk journals were set by the Group team and applied consistently across the audit;
- Review and approval by the Group audit team of the component materiality for all components;
- Risk assessment and challenge sessions with each component audit team were held in the planning, interim and final phases of the audit, led by the Group engagement partner and audit quality partner;
- Fortnightly video conferences with the partners and directors of the Group and component audit teams along with regular ad-hoc contact in person and via video calls and email exchanges to challenge the component audit approach and findings;
- Stuart Crisp, the Group Lead Engagement Partner (and Senior Statutory Auditor), attended each Board Audit Committee for Barclays Bank PLC and at least one Board Audit Committee for each of Barclays Bank UK, the IHC covering Barclays Capital Inc. and Barclays Bank Delaware, and Barclays Bank Europe;
- Review of key working papers within component audit files (both in person and using remote technology capabilities) to understand and challenge the audit approach and audit findings of each component.

Source: Barclays Plc Annual Report and Accounts 2022, page 413.[21]

[21] https://home.barclays/content/dam/home-barclays/documents/investor-relations/reports-and-events/annual-reports/2022/AR/Barclays-PLC-Annual-Report-2022.pdf. Accessed 08/08/2023.

Group Audit Scope disclosures in the ABN AMRO Bank N.V. Integrated Annual Report

Scope of the group audit

ABN AMRO is at the head of a group of entities ('components'). The financial information of this group is included in the consolidated annual financial statements.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for components. Decisive were the size and/or the risk profile of the components. On this basis, we selected components for which an audit or review had to be carried out on the complete set of financial information or on specific items.

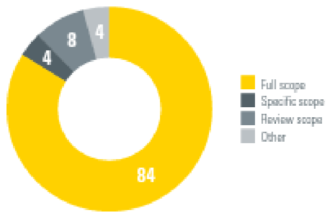
Our group audit mainly focused on significant components of ABN AMRO in the Netherlands, France, Germany and the United States. We have:

- performed audit procedures ourselves at the central group level and at the components in the Netherlands;
- used the work of other auditors within our EY network when auditing the components in France, Germany and the United States;
- performed review procedures or specific audit procedures at other components.

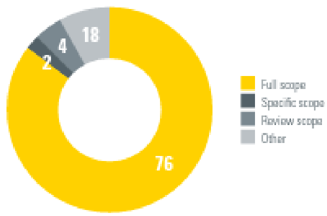
We sent instructions to component auditors, covering the significant areas and the information required to be reported to us. Based on our risk assessment, we determined the level of involvement in component audits. We have visited the component teams in France, Germany and the United States, reviewed key local working papers and conclusions, met with local management teams and obtained an understanding of key processes. We interacted regularly with the component teams during various stages of the audit, using videoconferencing facilities. Where deemed appropriate, we attended component closing meetings with management. We reviewed key working papers of component auditors using the EY electronic audit file platform, screen sharing or copies of work papers submitted to the group audit team.

Through these procedures we covered in total 96% of the group's total assets and 82% of operating income.

Total assets
(in %)



Operating income
(in %)



By performing the procedures mentioned above at components, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion on the consolidated financial statements.

Source: ABN AMRO Bank N.V. Integrated Annual Report 2022, page 352.[22]

[22] https://www.annreports.com/abn-amro/abn-amro-ar-2022.pdf. Accessed 08/08/2023.

Group Audit Scope disclosures in the ING Groep N.V. Annual Report

Scope of the group audit

ING Group is at the head of a group of components. The financial information of this group is included in the consolidated financial statements of ING Group.

ING Group is structured in 6 segments: Retail Netherlands, Retail Belgium, Retail Germany, Retail Other, Wholesale Banking and Corporate Line Banking, each comprising of multiple legal entities and/or covering different countries.

Because we are ultimately responsible for the group audit, we are responsible for directing, supervising and performing the group audit. In this respect, we have determined the nature and extent of audit procedures to be carried out for group entities or so-called components.

Our group audit mainly focused on significant components. These components are either individually financially significant due to their relative size in the group or because we identified a significant risk of material misstatement for one or more account balances of these entities. In addition, we included certain other non-significant components in the scope of our group audit in order to arrive at a sufficient coverage over all significant account balances.

This resulted in a full or specific scope audit for 41 components globally, in total covering 17 countries. This resulted in a coverage of 83% of profit before tax from continuing operations and 92% of total assets. For the remaining 17% of profit before tax from continuing operations and the remaining 8% of total assets, procedures were performed at the group level including analytical procedures in order to corroborate that our scoping remained appropriate throughout the audit.

The consolidation of components in the group, the disclosures in the financial statements and certain accounting topics that are performed on a group level were further covered by the group audit team. Procedures performed by the group audit team included, but were not limited to, substantive procedures with respect to equity and hyperinflation accounting, and certain elements of the expected credit loss provisioning process.

All components in scope for group reporting are audited by KPMG member firms. We sent detailed audit instructions to all component auditors, covering significant areas such as the identified risks of material misstatement on a group level and further set out the information that is required to be reported to the group audit team.

We performed site visits with local management and local audit teams, also to perform file reviews in The Netherlands, Belgium, Germany, Italy, Luxembourg, Poland, South Korea, and Turkey. We performed a remote file review for the USA and Australia. We visited Singapore and Australia during the year to meet local management and local audit teams to discuss the design and progress of their audit work.

For all components in scope of the group audit, we held our annual planning conference in The Netherlands. This was the first time after the COVID-19 period. Our component auditors were directly informed by the Group CFO, Group CRO, Global Head of Sustainability and Head of CSI on current developments. In addition, we had conference calls with these component audit teams and we attended closing meetings with management for components in The Netherlands, Belgium and Germany. During these meetings and calls, the planning, risk assessment, procedures performed, findings and observations reported to the group auditor were discussed in detail and any further work deemed necessary by the group audit team was then performed.

The group audit team set component materiality levels which ranged from EUR 20 million to EUR 95 million, based on the mix of relative size and financial statement risk profile of the components within the group in order to reduce the aggregation risk to an acceptable level.

By performing the procedures mentioned above together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the financial statements.

Our procedures as described above can be summarized as follows:

Profit before tax from continuing operations

83%	17%
Covered by audit procedures performed by component auditors	Covered by additional procedures performed at group level

Total assets

92%	8%
Covered by audit procedures performed by component auditors	Covered by additional procedures performed at group level

Source: 2022 Annual Report ING Groep N.V., pages 314-315.[23]

[23] https://www.ing.com/web/file?uuid=7b77643e-8ef1-49c0-b470-7af37fcf43c2&owner=b03bc017-e0db-4b5d-abbf-003b12934429&contentid=59254. Accessed 08/08/2023.

(c) Evaluation of Management's Assessment of the Entity's Ability to Continue as a Going Concern

The EAR Rule specifically requires disclosure where a material uncertainty exists in relation to events or conditions that may cast significant doubt about the entity's ability to continue as a going concern. The examples given below are not in the context of a material uncertainty but can still be utilised as guidance as they illustrate how the auditor performed audit procedures performed to evaluate the entity's ability to continue as a going concern .

Going Concern disclosures in the Rolls-Royce Plc Annual Report

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- Testing the model used for management's going concern assessment which is primarily a liquidity assessment given there are no significant financial covenants in its committed debt facilities. Management's assessment covered the 18 months to August 2024. We focussed on this period and also considered the subsequent four months to the end of 2024.
- Management's base case forecasts are based on its normal budget and forecasting process for each of its businesses for the next five years. We understood and assessed this process by business including the assumptions used for 2023 and 2024 and assessed whether there was adequate support for these assumptions. We also considered the reasonableness of the monthly phasing of cash flows. A similar assessment was performed of both downside and stressed downside cash flows, including understanding of the scenarios modelled by management, how they were quantified and the resultant monthly phasing of the downside and stressed downside cash flow forecasts.
- We have read and understood the key terms of all committed debt facilities to understand any terms, covenants or undertakings that may impact the availability of the facility.
- Using our knowledge from the audit and assessment of previous forecasting accuracy we calculated our own sensitivities to apply to management's cash flow forecasts. We overlaid these on management's forecasts to arrive at our own view of management's downside forecasts. This included consideration of management's assessment of the impact of climate change and the likelihood of any downside risks crystallising in the period to August 2024.
- We considered the potential mitigating actions that management may have available to it to reduce costs, manage cash flows or raise additional financing and assessed whether these were within the control of management and possible in the period of the assessment.
- We assessed the adequacy of disclosures in the Going Concern statement and statements in note 1 of the consolidated and company financial statements and found these appropriately reflect the key areas of uncertainty identified.

Source: Rolls-Royce Plc Annual Report 2022, pages 152-153.[24]

[24] https://www.rolls-royce.com/~/media/Files/R/Rolls-Royce/documents/annual-report/2022/rr-plc-annual-report-2022.pdf. Accessed 08/08/2023.

Going Concern disclosures in the Harbour Energy Plc Annual Report

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Group and parent company's ability to continue to adopt the going concern basis of accounting included:

- confirming our understanding of management's going concern assessment process in conjunction with our walkthrough of the Group's financial close process, and engaging with management to confirm all relevant assumptions were considered;
- obtaining the cash flow forecasts prepared by management for the Group, including the base case and downside scenarios;
- testing the integrity of management's going concern model by ensuring the forecasts were consistent with the budget approved by the Board and with other areas of the audit such as the impairment assessments;
- challenging the key assumptions included in the model, including management's oil and gas price assumptions. Our assessment of these price assumptions included a comparison of management's price assumptions with recent broker and consultant estimates together with estimates used by other market participants, including those estimates that reflect the potential impact of the climate transition risks;
- evaluating the reasonableness of all other key assumptions, such as production profiles and operating and capital expenditure forecasts, through assessing their consistency with other areas of the audit, including management's impairment assessments. We also ensured these assumptions were consistent with the budget approved by Harbour Energy's Board;
- inspecting the Group's loan agreements, ensuring that the cash outflows relating to interest and repayments are consistent with the agreements, verifying that no covenants have been breached and evaluating whether there is any forecast covenant breach in either the base case or downside case scenarios during the going concern period;
- verifying that the cash flow forecasts included estimated outflows in respect of the Energy Profits Levy (EPL) and ensuring such outflows were consistent with our work on management's impairment assessments;
- reviewing management's reverse stress test in order to identify what factors would lead to the Group not meeting the financial covenants during the going concern period, including the minimum liquidity requirement as set in the reserves-based lending loan agreement, and assessing the likelihood of occurrence of such a scenario;
- evaluating any impact of Russia's invasion of Ukraine on the Group's operations and on the going concern assessment; and
- evaluating the appropriateness of the going concern disclosures in the financial statements to determine whether they are accurate and in line with IAS 1 – Presentation of financial statements and our expectations given the procedures we have performed.

Source: Harbour Energy Plc Annual Report & Accounts 2022, pages 108-109.[25]

[25] https://www.harbourenergy.com/media/w4lcauvd/hbr-ara-22-new.pdf. Accessed 08/08/2023.

Going Concern disclosures in the Vodafone Group Plc Annual Report

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Group and Parent company's ability to continue to adopt the going concern basis of accounting included:

- confirming our understanding of the directors' going concern assessment process, including the controls over the review and approval of the budget and long-range plan;
- assessing the appropriateness of the duration of the going concern assessment period to 30 June 2023 and considering the existence of any significant events or conditions beyond this period based on our procedures on the Group's long-range plan and knowledge arising from other areas of the audit;
- verifying inputs against board-approved forecasts and debt facility terms and reconciling the opening liquidity position to the prior year end and half year interim going concern assessments;
- reviewing borrowing facilities to confirm both their availability to the Group and the forecast debt repayments through the going concern assessment period and to validate that there is no financial covenant in relation to any of loan arrangements;
- evaluating management's historical forecasting accuracy and the consistency of the going concern assessment with information obtained from other areas of the audit, such as our audit procedures on the long-range plans, which underpin management's goodwill impairment assessments;
- testing the assessment, including forecast liquidity, for clerical accuracy;
- assessing whether assumptions made were reasonable and appropriately severe, in light of the Group's relevant principal risks and uncertainties and our own independent assessment of those risks;
- evaluating the amount and timing of identified mitigating actions available to respond to a severe downside scenario, and whether those actions are feasible and within the Group's control;
- considering the appropriateness of management's 'reverse stress test' downside scenario, to understand how severe conditions would have to be to breach liquidity and whether the reduction in EBITDAaL required has no more than a remote possibility of occurring;
- performing independent sensitivity analysis on management's assumptions including applying incremental adverse cashflow sensitivities. These sensitivities included the impact of certain severe but plausible scenarios, evaluated as part of management's work on the Group's long term viability including the war in Ukraine, materialising within the going concern assessment period; and
- assessing the appropriateness of the going concern disclosure on page 118.

Source: Vodafone Group Plc Annual Report 2022, page 119.[26]

[26] https://investors.vodafone.com/sites/vodafone-ir/files/2022-05/vodafone-2022-annual-report.pdf. Accessed 08/08/2023.

(d) Communicating Key Audit Matters and the Outcome of Audit Procedures or Key Observations with Respect to the Key Audit Matters

Key Observations and Outcomes of Procedures in the Vodafone Group Plc Annual Report

Risk

Revenue recognition

As more fully described in Note 2, Note 14 and Note 15 to the consolidated financial statements, the Group reported revenue of €45,580 million (FY21: €43,809 million), contract assets of €3,551 million (FY21: €3,566 million) and contract liabilities of €2,521 million (FY21: €2,490million) for the year ended and as at 31 March 2022. Management records revenue according to the principles of IFRS 15, Revenue from Contracts with Customers, including following the 5-step model therein. Under IFRS 15, management must determine if there are separate performance obligations for the services and goods it provides to customers and assign values thereto, based on the selling prices of goods or services in separate transactions under similar conditions to similar customers (the "stand-alone selling price").

Auditing the revenue recorded by the Group is complex due to the multiple IT systems and tools utilised in the initiation, processing and recording of transactions, which includes a high volume of individually low monetary value transactions. Furthermore, judgement and the involvement of IT professionals was required to determine the audit approach to test and evaluate the relevant data that was captured and aggregated, and to assess the sufficiency of the audit evidence obtained. In addition, determining the stand-alone selling price and therefore the allocation of revenue to the different performance obligations, which impacts timing of the related revenue recognition, is complex and judgemental, particularly on new product offerings and non-standard enterprise contracts.

We have also identified a risk of management override through inappropriate manual topside revenue journal entries, given revenue is a key performance indicator, both in external communication and for management incentives.

Our response to the risk

We performed full or specified audit procedures over this risk area in 7 full scope and 3 specified procedure components with significant revenue streams, which covered 78% of the Group's revenue.

Our audit procedures at full scope component locations included, among others, obtaining an understanding of, evaluating the design and testing the operating effectiveness of controls over the Group's revenue recognition process, which includes management's review of contracts, their identification of performance obligations, the estimation of the relative standalone selling price for each performance obligation, and the determination of the timing of revenue recorded. With the support of our IT professionals, we also evaluated the design and tested the operating effectiveness of controls over the appropriate flow of transactional data through the IT systems and tools and the reconciliation of the transactional data to the accounting records. For specified procedures components, we obtained an understanding of the design of controls over the revenue recognition process.

We evaluated management's accounting policies and the methodology used by management to determine the standalone selling price, where relevant to the requirements of IFRS 15.

For significant revenue streams, our audit procedures included the following, on a sample basis:

- We obtained a list of new propositions/tariff plans introduced during the period and tested the completeness of the listing. We evaluated management's assessment of the accounting treatment for new propositions/tariff plans for compliance with IFRS 15.
- For each significant revenue IT system, we obtained the billing data to general ledger reconciliation which included the relevant adjustments to deferred and accrued revenue balances. We reperformed these end-to-end reconciliations, including assessing the accuracy of the data inputs to underlying source documentation including contractual agreements where applicable. In addition, we tested the mathematical accuracy and completeness of the reconciliations and any material reconciling items including significant revenue postings outside of the billing systems.
- We recalculated the revenue recognised to evaluate whether the processing of the revenue recognition by the Group's IT systems was materially correct.
- We corroborated the standalone selling price allocated to individual elements of bundled contracts, including to observable market pricing where available.
- We used data analytic tools to identify revenue related manual journals posted to the general ledger and traced these back to source systems. This included analytical procedures to consider the completeness of journal postings. We obtained and evaluated underlying source documentation to test the completeness and accuracy of the postings, including those journals we considered unusual in nature.

We also assessed the adequacy of the Group's disclosures in respect to the accounting policies on revenue recognition.

Key observations communicated to the Audit and Risk Committee

Based on the procedures performed, including those in respect of manual adjustments to revenue, we did not identify any evidence of material misstatement in the revenue recognised in the year nor in amounts capitalised or deferred as at 31 March 2022.

Source: Vodafone Group Plc Annual Report 2022, page 123.[27]

[27] https://investors.vodafone.com/sites/vodafone-ir/files/2022-05/vodafone-2022-annual-report.pdf. Accessed 08/08/2023.

Key Observations and Outcomes of Procedures in the Harbour Energy Plc Annual Report

Impairment of tangible oil and gas properties and associated goodwill

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Refer to the Audit and Risk Committee Report (page 69); Accounting policies (pages 129 and 130); Notes 10 and 12 of the Consolidated Financial Statements (page 143 and page 146, respectively). In the current period, management noted impairment and impairment reversal indicators for certain of the Group's assets and recorded a net pre-tax impairment reversal of \$169.6 million (2021: impairment charge of \$117.2 million). Management prepares the tangible asset impairment tests under the Fair Value Less Cost to Sell methodology. The impairment models include a number of estimates including: future oil and gas prices; discount rates; inflation rates; production forecasts; operating expenditures; and capital expenditures for each CGU. Changes to any of these key inputs could lead to a material change in an impairment or a reversal of impairment, hence this is considered a key audit matter. Following the identification of indicators of impairment for two of the Group's CGUs and indicators of impairment reversal for certain of the Group's gas-producing assets, these were tested accordingly.	Our audit response was executed by the primary audit team and Indonesia and Vietnam component audit teams, covering all assets at risk of material impairment. We performed the following audit procedures with respect to management's impairment assessment: ▪ confirmed our understanding of Harbour's impairment assessment process, as well as the controls implemented by management; ▪ considered the internal and external sources of information included in IAS 36 to identify any potential indicators of impairment loss and/or reversal, including any downgrades in oil and gas reserve estimates or sustained increase / decrease in oil and gas prices compared to the prior year; ▪ following management's identification of impairment indicators and impairment reversal indicators, we obtained the discounted cash flow model for each of these CGUs and tested the models for integrity which included the use of EY technology tools to evaluate spreadsheet integrity; ▪ in conjunction with our EY valuations specialists, we assessed the appropriateness of management's oil and gas price assumptions through comparison with the estimates of market participants. Reflective of a narrowing of the range of long-term oil price forecasts, management elected to revise its NBP gas price estimates to 65p/therm (real) from 2026 (2021: 60p/therm (real) from 2025) during the current period; ▪ in conjunction with our EY valuations specialists, we assessed the appropriateness of management's impairment discount rates based on an independent re-calculation of the Group's weighted average cost of capital; ▪ we evaluated management's production profiles through reconciliation to the results of our audit work in respect of oil and gas reserves estimation; ▪ we tested the appropriateness of other cashflow assumptions such as opex, capex and decommissioning spend by comparing against Board approved plans and actual costs incurred. We compared inflation and FX rates to recent market forecasts to assess their reasonableness; ▪ where there were indicators of impairment reversal, we assessed the robustness of the headroom for the relevant CGUs by performing a sensitivity analysis incorporating plausible reductions in both prices and production; and ▪ we performed headroom analysis for the material profit making CGUs as part of our assessment of the recoverability of the goodwill recognised in the Group financial statements. We also evaluated the accuracy and completeness of the impairment disclosures included in the notes to the financial statements. In assessing the impact of climate transition risk on impairment, we performed the following procedures: ▪ comparison of Harbour's long-term oil and gas price assumption to International Energy Association (IEA) Announced Pledges Scenario (APS) and Net Zero Emissions (NZE) Scenario; ▪ reasonableness assessment of carbon prices and sensitivity of future carbon costs in the cash flow models, including comparison of prices to IEA APS and NZE scenarios; ▪ understood how management intend to achieve their planned Scope 1 and 2 emissions reductions and whether these actions have been reflected in the cash flow forecasts; ▪ analysed the emissions, reserves and production data to understand the current and future carbon intensity of assets to identify higher risk assets; ▪ evaluated the stranded asset risk arising from useful economic lives of assets post 2035; and ▪ checked the appropriateness of the climate change sensitivity in note 2 of the financial statements.	We reported to the Audit and Risk Committee in its March 2023 meeting that the key assumptions used within the impairment models were within a reasonable range and, based on our testing performed, we considered the recognition and valuation of the current period net impairment reversal to be reasonable. Specifically related to our procedures on climate change, we reported that Harbour's oil and gas price assumptions are in line with commodity prices in the IEA APS scenario from 2023 onwards. We concur with management, that carbon costs are not a material assumption in the cash flow forecasts; the results of our independent sensitivity analysis indicated that applying the IEA NZE50 would not lead to a material impact on the valuation of oil and gas assets. For assets with a higher risk of impact from climate change, we assessed the headroom in the most recent impairment models and also checked the reasonableness of the costed plans in place to decarbonise the assets. Overall, we concluded there was no impairment trigger arising from the impact of climate change in the 2022 financial statements.

Source: Harbour Energy Plc Annual Report & Accounts 2022, page 113.[28]

[28] https://www.harbourenergy.com/media/w4lcauvd/hbr-ara-22-new.pdf. Accessed 08/08/2023.

Key Observations and Outcomes of Procedures in the ING Groep N.V. Annual Report

Assessment of expected credit losses on loans and advances to customers and loans and advances to banks

Description

As discussed in the Credit Risk section on pages 117-148 and in Note 3 and Note 7 in the consolidated financial statements, the loans and advances to customers amount to EUR 636 billion and loans and advances to banks amount to EUR 35 billion as at 31 December 2022. These loans and advances are measured at amortized cost, less expected credit losses ('ECL') of EUR 6.0 billion.

Management estimated ECL using three components: probability of default ('PD'), loss given default ('LGD') and exposure at default ('EAD'). Management applied forward looking economic scenarios with associated weights. Relevant macroeconomic factors include the gross domestic product ('GDP'), house price index ('HPI') and unemployment rate. The recent economic conditions are outside the bounds of historical experience used to develop ECL model methodologies and result in greater uncertainties to estimate ECLs. These uncertainties are addressed by judgmental overlays by management.

Our response

We identified the assessment of ECL on loans and advances to customers and loans and advances to banks as a key audit matter because of the significant and complex auditor judgment and specialised skills and knowledge required to evaluate the following elements of the overall ECL estimate:

- The judgements used to develop the PD, LGD, EAD, including model or manually determined expected future recovery cash flow assessments of individual loan provisions for impaired loans.
- Use of forward-looking macroeconomic forecasts in ECL, including GDP, HPI and unemployment rate.
- The consistent identification and application of criteria for significant increase in credit risk ('SICR') in an increased uncertain and worsened macroeconomic environment and geopolitical situation.
- Calculation of management overlays to the modelled ECL due to the increased uncertainty in the macroeconomic outlook in the global economy. These management overlays included economic sector-based adjustments in the Netherlands, second order impact adjustments for both wholesale bank and retail bank, and overlays to residential mortgages.

The following are the primary procedures we performed to address this key audit matter.

- We evaluated the design and tested the operating effectiveness of certain internal controls related to the ECL process for loans and advances to customers and loans and advances to banks. This included controls related to the assumptions (including PD, LGD, EAD and macroeconomic forecasts), review of model outputs, the application of the definition of default, the update of data history, governance and monitoring of the ECL, reconciliations, determination of credit risk ratings, the estimated future recovery cash flows of individual loan provisions and management overlays to the modelled ECL.
- We involved credit risk professionals with specialised skills and knowledge who assisted in evaluating the assumptions to determine the PD, LGD, and EAD parameters in models used by the Company to determine the collective provisions including the evaluation of the recalibrated and redeveloped credit risk models. This included reperforming back-testing of certain models to evaluate the current model performance. In addition, we tested management overlays recorded to the ECL, including economic sector-based adjustments in the Netherlands, second order impact adjustments for both wholesale bank and retail bank, and overlays to residential mortgages. We considered the impact these overlays have on model calculations and results when reaching our conclusions.
- We involved economic professionals with specialised skills and knowledge, who assisted in assessing the Company's methodology to determine the macroeconomic forecasts used in the ECL. We tested the reasonableness of management's forecasts against other external benchmarks and our own internal forecasts.
- We involved corporate finance professionals with specialised skills and knowledge, who assisted in examining the methodologies, cash flows and collateral values used in expected future recovery cash flow assessments of individual loan provisions for impaired loans. We challenged management's use of recovery scenarios and expected cash flows considering industry trends and comparable benchmarks, recalculated recovery amounts and performed reconciliations.
- We evaluated the identification of SICR in loans by challenging the scope of management's criteria used in staging assessments, consistent application of the thresholds applied within each criterion, and the ability of staging criteria to identify SICR prior to loans being credit impaired.
- We assessed whether the credit risk management disclosures appropriately reflect and address the uncertainties which exist in determining the ECL.

Our observation

Based on our procedures performed, we found management's overall assessment relating to the valuation of loans and advances to customers and banks within an acceptable range and adequately disclosed in Note 3 and Note 7 of the financial statements.

Source: 2022 Annual Report ING Groep N.V., pages 317-318.[29]

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[29] https://www.ing.com/web/file?uuid=7b77643e-8ef1-49c0-b470-7af37fcf43c2&owner=b03bc017-e0db-4b5d-abbf-003b12934429&contentid=59254. Accessed 08/08/2023.