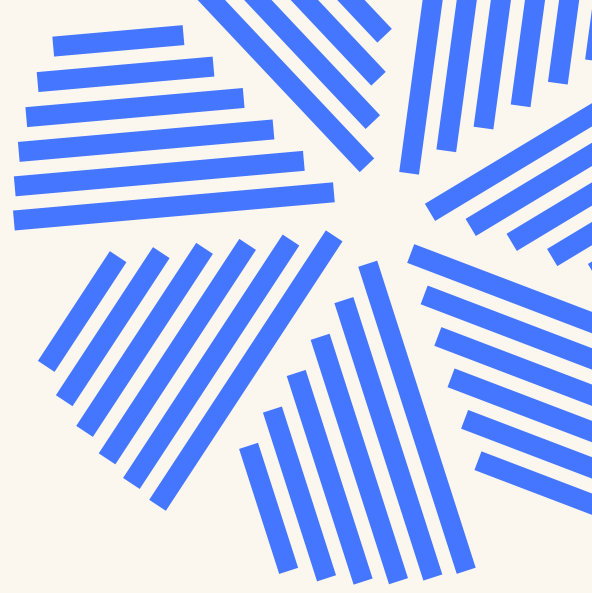




CFA Society
Germany



AUDIT QUALITY WORKING GROUP

Survey on Audit Reports

Experiences from Analyses and Evaluation

January 2025





Survey on Audit Reports

Experiences from Analyses and Evaluation

Preamble

In recent years, the evolving landscape of financial markets has placed increasing emphasis on transparency, accountability, and effective risk management of companies. Along with reports on financial statements, audit reports play an increasingly crucial role in this ecosystem by providing certain stakeholders with vital insights into a company's financial health, governance practices, and compliance with regulatory standards. However, in public discussions audit reports, the related legal requirements and the quality of any information provided, are still a rather neglected topic. This may be partly due to the fact that audit reports mainly serve as a reporting instrument provided by the external auditor to the subject company as board level information and - depending on the industry - to supervisory authorities. Nonetheless, our survey revealed that many companies share the information with other stakeholders to make it more widely accessible to facilitate different assessments. The research project "Survey on Audit Reports", led by Kirsten Baumbach, CFA with insights from Dr. Jacob Justus Leidner, CFA, both members of the German Advocacy Committee (GAC) of CFA Society Germany, aims at increasing the awareness of this topic by shedding fresh light on the practical challenges and expectations surrounding audit reports. The survey-based study reveals the diverse perspectives of stakeholders, from investors and analysts to internal audit teams and management boards, underscoring the audit report's utility as more than just a regulatory formality. Instead, it is seen as a comprehensive tool for informed decision-making. However, the research study also highlights areas where improvements are needed.

The present research paper - where core results of the research project are summarized - is not only an interesting read for investment decision makers. By identifying key areas for enhancement, this paper also serves as a call to action for auditors and regulatory bodies to collaborate towards enhancing the credibility and usefulness of information disclosure of companies. In this sense, this "Survey on Audit Reports" study is a strong contribution to the ongoing international discussions on audit and reporting quality.

I hope you find the insights presented in this paper both engaging and thought-provoking, encouraging further discussion on the importance of audit reports.



Prof. Dr. Matthias Meitner, CFA
Chair of the German Advocacy Committee



Executive Summary

The results of the survey clearly show that there are many stakeholders – internal and external to the audited company – that consider audit reports a valuable source of information for a wide range of differing purposes. Besides the Confirmation Note on the financial statements, areas of increased specific interest are those that relate to the auditor’s assessments in relation to the financial situation, such as the analysis of the financial position and earnings or the summarizing auditors’ statements on the financial statements overall. Other more specific topics such as reporting on regulatory requirements, or the audit approach seem relevant to a smaller part of users.

Certain parts of the audit reports can be improved in terms of comprehensibility and level of detail to adequately convey the information users as intended by the preparer and required by users. Especially the analysis of the financial position and earnings but also the risk early detection system and risk bearing capacity could benefit from providing more information to be of use for readers. While generally the auditor’s judgement seems to adequately reflect the company’s situation for the areas covered, the severity assigned based on that judgement is often considered too mild. Furthermore, the auditor’s findings are an area many readers struggle to fully comprehend.

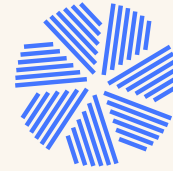
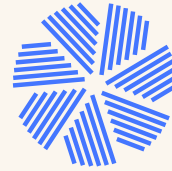
Generally, critical aspects impacting the perceived added value of audit reports relate to the soundness of the audit approach, the independence and scrutiny of the auditor’s judgement as well as a risk-oriented focus while drafting the report.

Background and Purpose

Most investors are familiar with the audit opinion published alongside the financial statements and related notes. Due to the auditor’s duty of confidentiality, audit opinions – as presented in the Confirmation Note of audit reports – do not, however, publicly disclose deeper insights on the auditor’s approach, special considerations and uncertainties, or concerns related to business, governance, or accounting. The same holds true for information on the auditor’s findings on regulatory compliance. Such information is included in the audit report (“Prüfungsbericht”), which is accessible only to specific stakeholders, such as management, supervisory board, and competent supervisory authorities.

CFA Society Germany conducted a survey among its members at the beginning of 2024 to understand stakeholders’ current views regarding the usefulness and comprehensibility of audit reports. The survey explicitly aimed to incorporate different stakeholders’ perspectives and their view on how these reports address their respective information needs, based on their experiences during analysis and evaluation.

During a 6-week period in January and February 2024, the survey was conducted with the participation of 56 volunteers. Our working group **‘Audit Quality’** seeks to enrich the public discussion and regulatory developments on audit matters by providing valuable insights from various practitioners’ perspectives and technical views.



Respondents' Use of Audit Reports in Light of Differing Roles and Functions

As the survey aimed to assess views based on factual experiences, further questions were only collected from the 52 members who had previously evaluated information from audit reports.

Of the 50 people who provided more details about their respective roles, the majority (**60%**) worked in financial services, while a small portion (**6%**) were in the insurance sector. One-fifth of the respondents were employed in industrial companies. The relevant experience was primarily related to expert-level roles (**80%**), while one-fifth held management positions.

Respondents mainly identified themselves with the stakeholder group of external companies (**83%**) such as investors, investment banks and debt providers. The remaining respondents were stakeholders from the audited companies themselves, including internal audit (**9%**), supervisory board members (**7%**), and management board members (**2%**).

Approximately two-thirds represented views from market-facing positions, while the rest worked in non-market-facing roles. About a quarter of respondents evaluated audit reports as part of their committee work (e.g., business-, steering-, or risk-related committees¹).

The survey reveals that while the majority (**65%**) of respondents evaluated audit reports after they have been finalized and formally delivered, almost a third (**28%**) are involved in assessing not only the final audit report, but also have an evaluative role during the drafting phase.

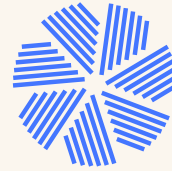
This indicates that these stakeholders are engaged in common procedures during the drafting phase, which include clarifying content, reviewing the auditors' (preliminary) evaluation of compliance with relevant requirements, addressing potential findings, and discussing overarching conclusions. This level of involvement indicates that audit reports are still regarded as an important tool for communicating insights gained from the auditors' work.

When asked about the context of their respective evaluation, almost one-third (**31%**) of the participants disclosed that they were involved in clarification procedures within the company based on the content of the audit reports. Additionally, **26%** required the information to fulfill formal duties within the organisation.

Only a small number of respondents (**5%**) indicated a formal duty as the sole reason for reading (parts of) the audit report. Many respondents (**38%**) had other motivations to use the audit report in their work, including external assessments. These motivations ranged from general information needs, financial and corporate due diligence (such as company valuation, identification of different key ratios, analysis by credit or other analysts, investors, investment bankers and advisors) to work related to drafting of audit reports, including benchmarking.

Participants who provided more details about their role confirmed that audit reports, besides informing the supervisory and management bodies of the company, also contain relevant insights for functions related to capital providers (such as investment controllers, investors, fund managers, or advisors) as well as internal functions like risk management, risk control, and compliance.

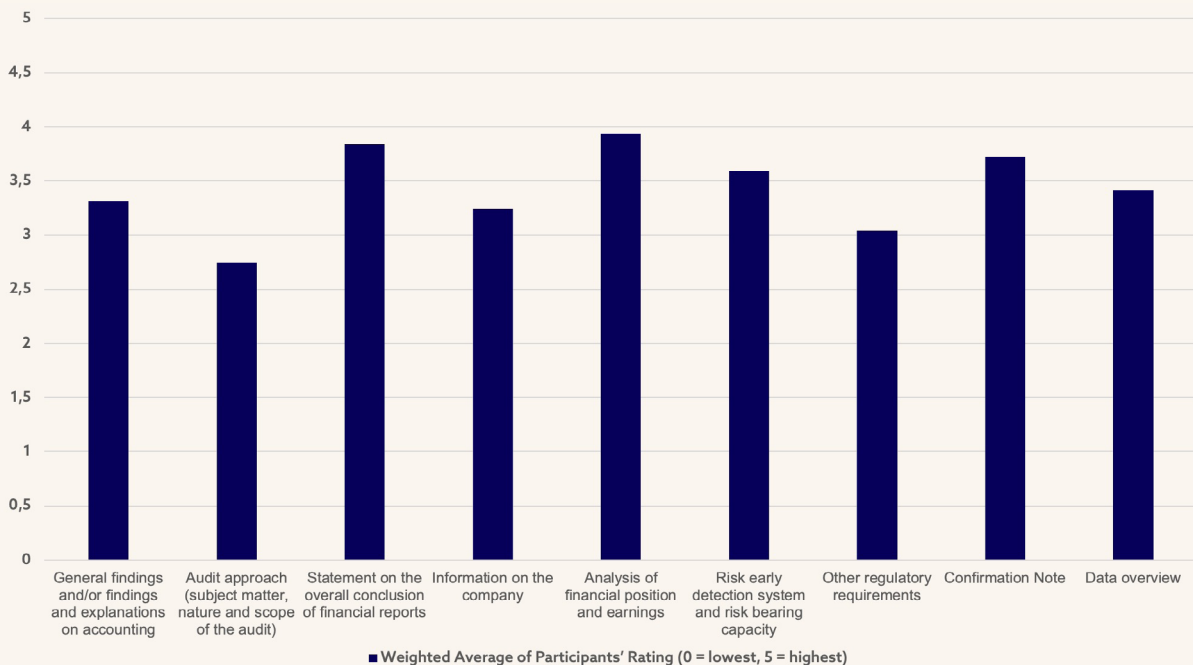
¹ Given specifications revealed a wide variety of committees, such as Credit Rating Agency Committee, Verwaltungsrat, New Business Committee, Credit Committee, Prüfungsausschuss, Eigenanlagen- und Steuerungsausschuss, and Credit Risk Committee.



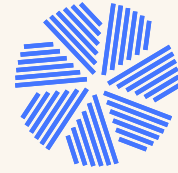
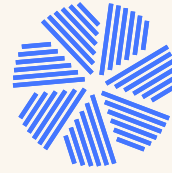
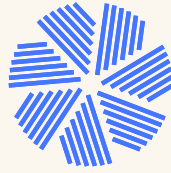
Major Insights on Participants' Views on the Quality and Relevance of Audit Reports

Use of Audit Reports

Usefulness of Various Sections of the Audit Report Was Rated by Respondents Based on Their Professional Roles and Functions

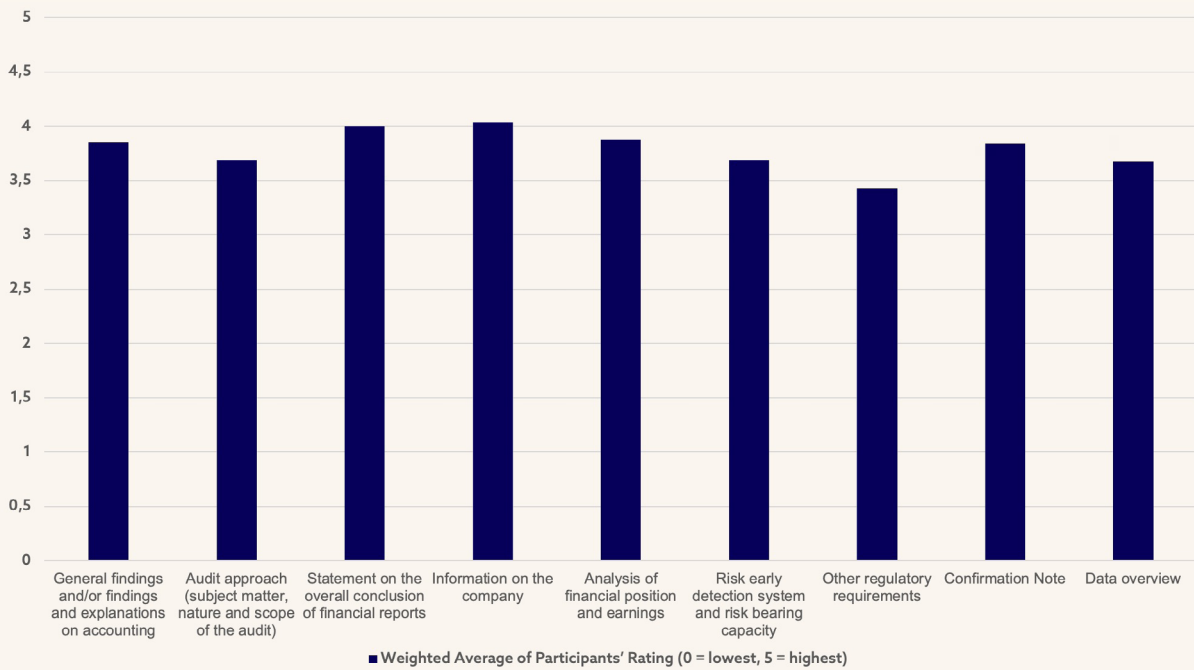


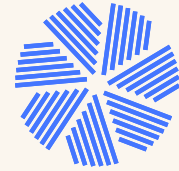
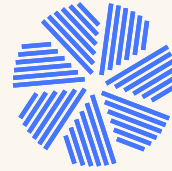
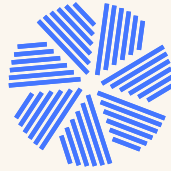
The usefulness of information ranks highest for the analysis of the financial position and earnings, the auditor's statement on the overall conclusion of the financial statements, the Confirmation Note and the risk-related early detection and risk bearing capacity. Explanations on the audit approach seem to matter the least, followed by the auditor's reporting on other regulatory requirements and data overviews. The focus is clear: financial insights and risk-related information are critical for decision-making, while technical audit details hold less importance.



**Comprehensibility of
Audit Reports**

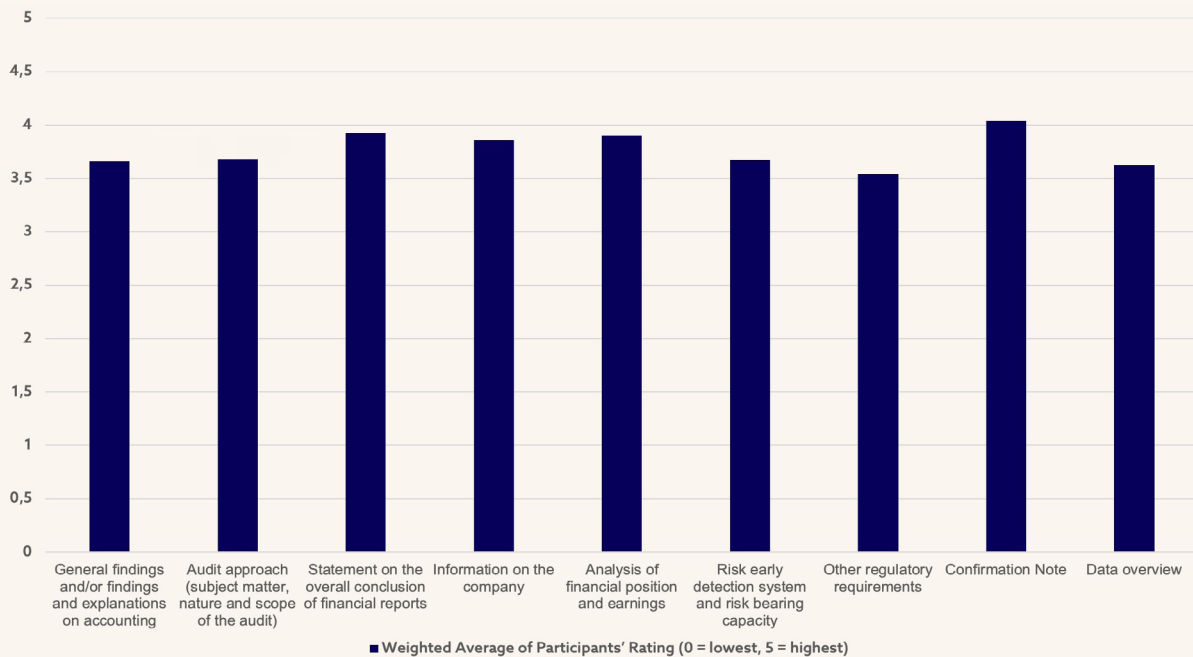
Degree of Comprehensibility (Traceability for Knowledgeable Third Parties) Was Assessed for the Following Sections of the Audit Report



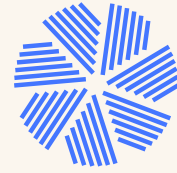


**Structure and Clarity of
Key Audit Sections**

Evaluation of Structure and Explanation (Outline and Clarity) in Key Sections of the Audit Report

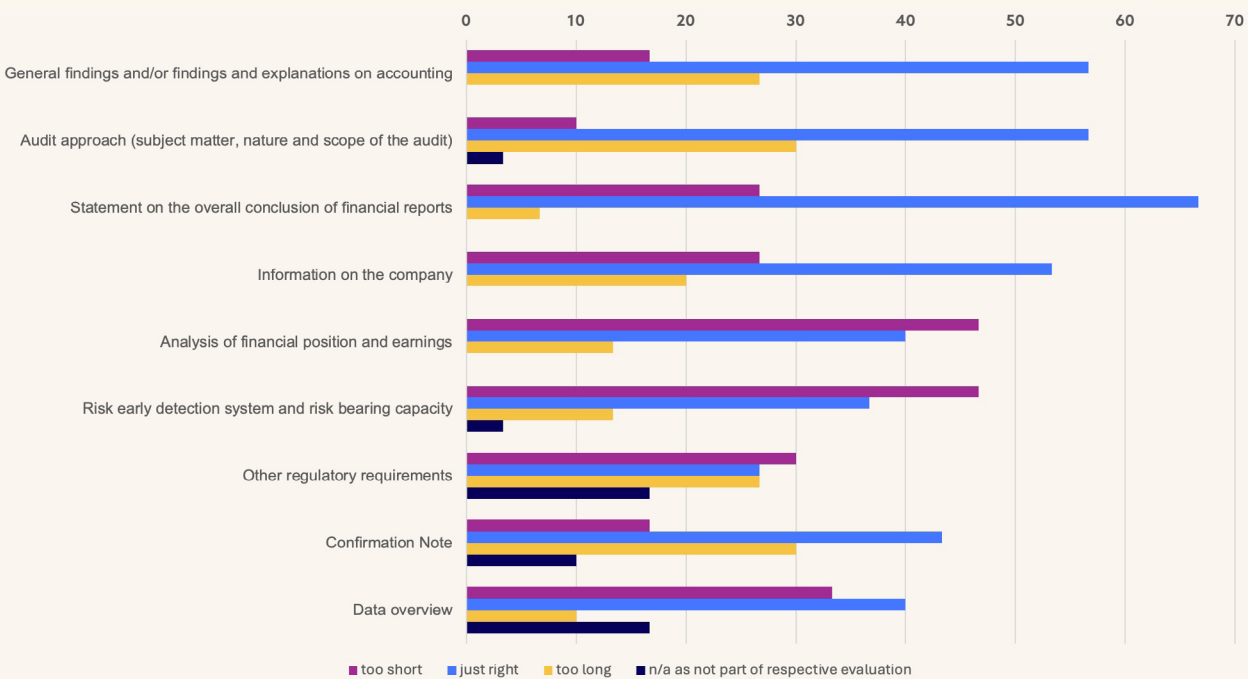


Major components of the audit report, such as general information about the audited company, the overall statement of the financial statements, the analysis of the financial situation, and the confirmation note, appear clear and well understood, while interpreting specific information on regulatory requirements seems relatively less intuitive. This highlights the need for better explanation and structure in the more technical sections of the audit report.

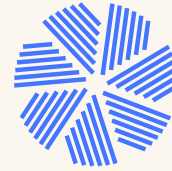
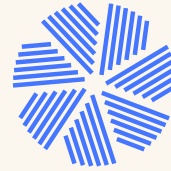


**Length of Audit Report
Sections**

Survey Participants Gave Mixed Feedback on the Level of Detail Provided in Audit Reports

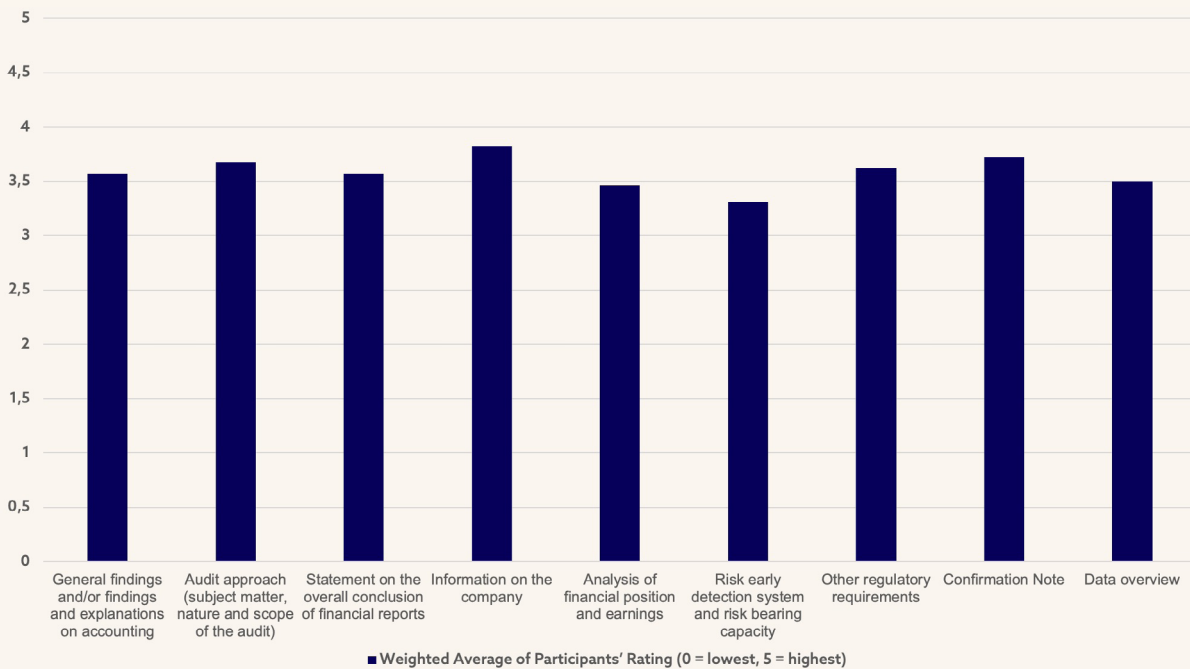


Regarding the different components of audit reports, survey results show a heterogeneous perception of their respective length. While sections on the overall statement of the financial statements, findings and accounting practices, the audit approach, and the company itself tend to be mostly adequately covered in the audit report. The analysis of the financial position and earnings, as well as information on the early detection and risk-bearing capacity should clearly be enhanced. Information on data overviews and regulatory requirements are often perceived as too brief, whereas more formal components, such as the Confirmation Note, are frequently considered too long. This suggests a need for more detailed content in key financial and risk areas, while overly formal sections should be streamlined to provide a clearer, more concise report.

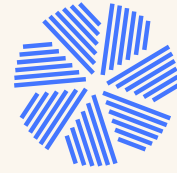


**Consistency and
Judgement**

Assessment of the Alignment (in Terms of Consistency) of the Auditor’s Presentations with Respondents’ Knowledge of the Company

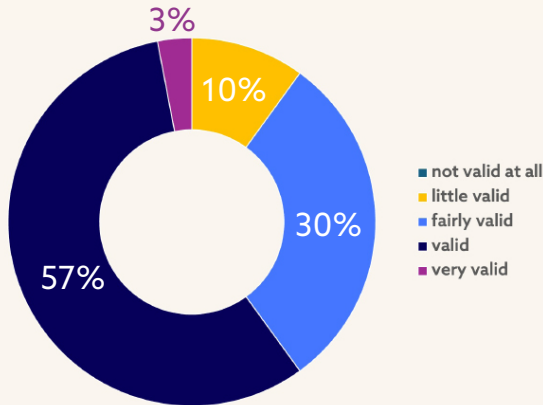


In terms of adequacy of the auditor’s report, as assessed based on participants’ knowledge, most alignment seems to prevail – as could be reasonably expected – for information on the company and the Confirmation Note, closely followed by explanations on the audit approach. Participants considered views on information regarding other regulatory requirements, findings and accounting practices, as well as the overall statement of the financial statements mainly consistent with their judgement insights. The least consistency in judgements appears to be given for information on the risk-related early detection system and risk-bearing capacity. This suggests that while the report is generally aligned with stakeholder expectations, areas related to risk detection and bearing capacity may benefit from further clarification.



**Consistency and
Judgement**

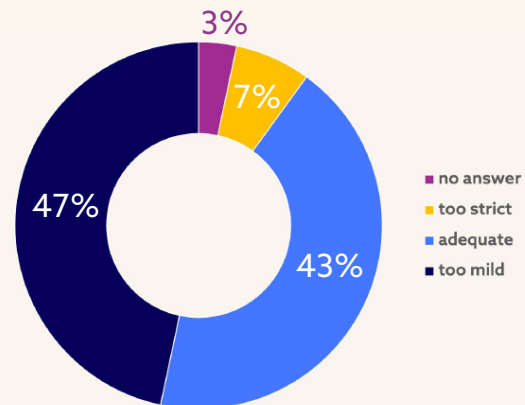
Assessment of the Validity of the Auditor’s Judgements Based on Knowledge of the Company’s Circumstances



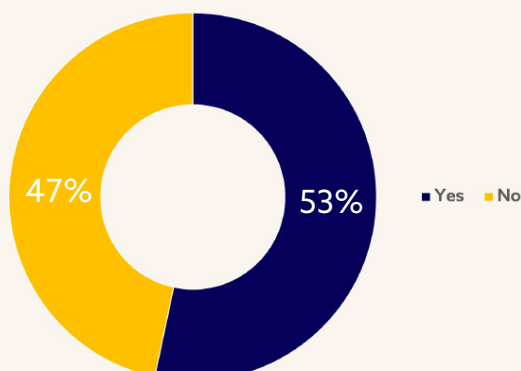
The perceived validity of the auditors’ judgement suggests that the respective reports provide credible information based on insights from audit procedures that would otherwise not be readily accessible and cover a wider scope than just financial information.

Respondents offered Mixed Opinions on the Severity of the Auditor’s Judgements on Findings

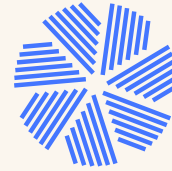
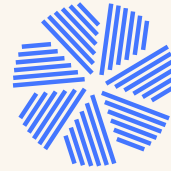
Results regarding the classification of findings reveal a mixed picture, suggesting that there is headroom for auditors to apply more rigor in their judgement on shortcomings. While over 40% consider judgement on severity to be adequate, more than 45% of participants consider the statements on severity as too mild.



Consideration of the Linguistic Understandability and Traceability of Audit Judgements and Findings

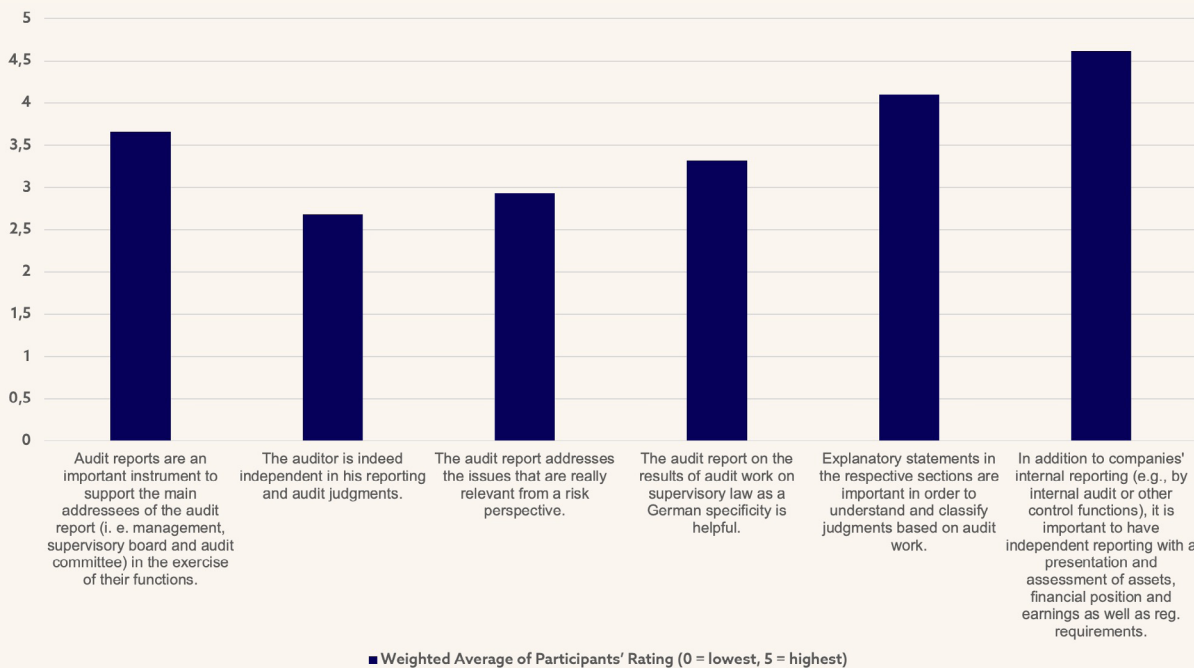


Although half of the participants understand the auditors’ judgement and findings well, the survey results reveal that a significant part still struggles to fully grasp the information and conclusions drawn from the audit, with 53% facing challenges in understanding.



Relevance and Independence of Audit Reports

Degree on Alignment of Stakeholder Perspectives with Suggested Statements on Independent Reporting, Clarity in Audit Judgements, and Explanatory Statements in Supporting Recipients in risk-based Analyses



Most participants in the survey fully agree that, in addition to companies' internal reporting, it is important to have independent reporting that includes a presentation and assessment of assets, financial position and earnings as well as regulatory requirements. Respondents also agree that explanatory statements in the respective sections are important for understanding and classifying judgements based on audit work, and that audit reports are a key instrument to support the primary recipients in carrying out their functions.

However, there is less consensus regarding the usefulness of the content and the reliability of the information in the audit report. While, on average, respondents still show slight agreement that the audit report on the results of audit work related to supervisory law, a German specificity, is helpful, there is a tendency to disagree that the audit report addresses the issues that are truly relevant from a risk perspective. The tendency of disagreement is even stronger regarding whether the auditor is genuinely independent in their reporting and audit judgements. In conclusion, while the value of independent reporting and explanatory statements is recognized, significant concerns remain regarding the report's relevance to key risks and the perceived independence of the auditor, indicating areas for improvement.



Respondents' Additional Comments

Beyond the survey questions, respondents had the opportunity to provide additional remarks.

Some noted a perceived lack of focus on the most important issues and excessive adherence to formalities by auditors. Others emphasized the need to increase the quality of the audit work itself through ongoing training, improved skills, and a greater independence, as also highlighted by the [2022 German Audit Quality Survey conducted by CFA Society Germany](#). One respondent pointed out the need for auditors to conduct more forensic examinations. Concerns were also raised about the timelines of consolidated financial statements and related audit reports for non-listed companies, as these delays impair the relevance of assessing a company's creditworthiness.

Conclusion

Overall, the survey clearly shows that there is significant added value in audit reports to a wide range of users beyond just the formal addressees. It is an important reporting instrument prepared by knowledgeable experts that provides independent information on the company, its position and associated risks that go far beyond the Confirmation Note on the financial statements itself. On the other hand, the results show significant room for improvement to increase meaningfulness and reliability of the reports and improve comprehensibility. Besides the credibility of the auditor's work and judgement itself, which is not based on the regulation on the audit report and its content itself, areas for improvement would need to be addressed in parts by the regulatory requirements relevant for the preparation of audit reports and in other parts by the auditors themselves.



About the Working Group

CFA Society Germany represents the largest and foremost association of professional financial experts in Germany, with nearly 2,900 members. As the local chapter of the global non-profit organization CFA Institute, it advocates for high standards in capital markets and regulatory practices in the German investment landscape. Central to its mission is the German Advocacy Committee (GAC), an interdisciplinary forum where experts from CFA Society Germany address key issues in capital markets and regulatory frameworks.

A key part of GAC's mandate are specialized working groups, such as the '**Audit Quality**' group. This group focuses on analyzing developments in auditing, evaluating the effectiveness and compliance of audit procedures and reports. It assesses whether current reporting requirements meet stakeholder needs, providing independent, practice-driven assessments to enhance professional discourse and elevate audit reporting standards and quality.

About the Author

Kirsten Baumbach, CFA currently implements the ECB Guide on climate risks at the European Central Bank. Previously, as Director at Deutsche Bundesbank, she specialized in ESG regulatory policies. She has been a CFA Charterholder since 2015 and actively contributes to CFA Society Germany's Advocacy Committee, with over 11 years of experience in audit banking.

We extend our special thanks to Dr. Jacob Justus Leidner, CFA and Prof. Dr. Matthias Meitner, CFA for their insights and contributions, which significantly enriched the quality and depth of this paper.

We invite feedback and inquiries related to this research. For further discussion or clarification on any aspects of this study, please contact Setara Feroozi at setara.feroozi@cfa-germany.de.

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