IDW Assurance Standard:

Assurance on the management report as part of the audit of the financial statements

(IDW AuS 350 (Revised))

(Status as of 12.12.2017)

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Overview

IDW Assurance Standard: Assurance on the management report as part of the audit of the financial statements

Introduction

This paper provides an overview of the recently revised German assurance standard dealing with the assurance an auditor is required to obtain in respect of the management report as a required part of the financial statement audit (IDW AsS 350 (Revised)). It does not constitute a direct translation of the standard since a convenience translation of the entire text is now available.

IDW AsS 350 follows a similar risk-based approach to that of an ISA audit, but is tailored to the German management report.

German Management Report

Pursuant to German law, certain entities are required to publish a Management Report. The German Management Report is named "Lagebericht" and a literal translation would be "Report on (the entity's) Position". Management reports constitute stand-alone reports that are published together with the financial statements. Their content, which includes prospective information relevant to the entity's commercial and economical position is intended to complement the information provided by the historical financial statements and, when taken as a whole to provide an appropriate view of the entity's position. Much of the information reported in a Management Report does not originate from the entity's accounting system.

The German standard (GAS 20 Group Management Report) issued by the Accounting Standards Committee of Germany (ASCG) deals with the content of the management report for groups. An English language summary of this standard is available from the ASCG's website (https://www.drsc.de/en/pronouncements/drs-20-konzernlagebericht/), according to which "The objective of group management reporting under this Standard is to report on the use of the group's resources by management during the reporting period and to provide information that enables a knowledgeable user to obtain a suitable understanding of the course of business, the position and the expected development of the group, and of the opportunities and risks associated with this development."

Thus, under German law, a more complete picture of an entity can be provided to stakeholders reading the financial statements and management report together, than financial statements alone can deliver.

Although the content of the German management report is governed by specific criteria as outlined above, there are instances where additional information is placed in a management report, and there are specific cases where information that forms part of the management report may be placed elsewhere or even excluded from the assurance requirement applicable to the remainder of the content of the management report. The IDW used a special construct to deal with the complexities involved, by denoting information as either "typical" to management reports (management report-typical) or "foreign" to management reports (management report-atypical). The terms included here in brackets are used in the convenience translation.

Assurance Procedures on the German Management Report

The German legislator specifically requires the auditor to include the information contained in management report (with certain specified exceptions) in the annual statutory audit. Thus, the auditor is tasked with obtaining reasonable assurance and expressing an opinion specifically on the management report. This opinion (unmodified) is typically worded as follows:

The accompanying (group) management report as a whole provides an appropriate view of the Entity's (Group's) position. In all material respects, this (group) management report is consistent with the (consolidated) financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our [audit] opinion on the (group) management report does not cover the content of the parts of the (group) management report listed in the appendix.

The German Assurance Standard, IDW AsS 350 „Assurance on the Management Report as part of the Financial Statement Audit", sets forth the assurance approach in respect of management reports that are dealt with during the audit of financial statements.

IDW AsS 350 is applicable to management reports for periods commencing on or after 15.12.2018, except in the case of shorter reporting periods ending before 31.12.2019 and applies equally to assurance engagements in respect of management reports that are performed on a voluntary basis.

IDW AsS 350 is a stand-alone standard that, in general, uses an equivalent risk-based approach to that required for the audit of financial statements. Where relevant, aspects of and principles underlying certain other German auditing standards may also apply. IDW AsS 350 establishes requirements particular to the various categories of information set forth in GAS 20, following this risk-based approach, in particular for prognostic information reported and information reported concerning the opportunities and risks associated with the entity's expected development.

IDW AsS 350 does not deal with the specialties of specific industries such as financial institutions or insurance companies, which may be subject to additional requirements.

Responsibilities of the Executive Directors

The executive directors are responsible the preparation of a management report that:

- as a whole, provides an appropriate view of the entity's position,
- is, in all material respects, consistent with the entity's financial statements,
- complies with German legal requirements, and
- appropriately presents the opportunities and risks of future development.

In addition, the executive directors are responsible for such internal control arrangements and measures (systems) as they have considered necessary for the preparation of a management report, and to be able to provide sufficient appropriate evidence for the assertions they make in the management report.

German law also specifically requires the executive directors to present the management report to the auditor and, to the best of their ability, supply the auditor with explanations and evidence that are complete.

Auditor's Responsibilities

As explained above, German law requires the auditor to include the management report in the financial statement audit (or, when not, it may be included by voluntary agreement). This involves planning and performing procedures in accordance with the prevailing German auditing and assurance standards in order to obtain reasonable assurance:

- as to whether the management report:
- as a whole provides an appropriate view of the entity's position,
- is consistent with the financial statements and the knowledge obtained in the audit,
- in all material respects complies with the German legal requirements
- appropriately presents the opportunities and risks of future development
- in order to issue an auditor's report that includes the [audit] opinion on the management report.

Because the assurance work on the management report forms part of the financial statement audit, the auditor is also required to consider the knowledge obtained in the audit of the financial statements in performing procedures on the management report.

Establishing the Scope of Management Report Content Subject to Assurance

There are various complexities that impact the scope of the auditor's assurance work in regard to the management report. As explained below, establishing the exact scope of management report content subject to audit may not always be straightforward.

ISA-DE 720 applies to unaudited management-report-atypical information included in the management report.

Management report-typical information that is not subject to an assurance requirement

Although German law establishes the required content of the management report subject to audit, further content may be included due to the specificity of GAS 20., I.e., GAS 20 denotes additional information that can be considered as "management report-typical", but not required to be subject to audit.

German law currently specifically scopes out assurance on both so-called non-financial information (NFI) as required to be reported under national law following transposition of European law (which, at the discretion of the executive directors, may, or may not, be included within the management report) and the corporate governance statement required pursuant to the German Commercial Code. However, German law does require the auditor to perform a so-called existence check in regard to both of these reporting obligations.

Since such information constitutes required content of management reports it is classified as management report-typical. Information not within the required scope of the auditor's assurance work, is excluded, provided it is clearly delineated and identified as unaudited. Such delineation may be achieved in the management report, or by the auditor in the auditor's report. Without appropriate and clear delineation, it would have to be covered by the auditor.

Management report-atypical information

All other information included in management reports is, in contrast, considered to be atypical (or extraneous, or foreign) to management reports – hereinafter "management-report-atypical".

When the management report does not clearly delineate such content (i.e., also information denoted as management-report-atypical), the auditor may also decide to include it within the audit and obtain assurance thereon. The auditor's decision takes into account the entity having engaged the auditor to do so, but also the relative volume and impact of the information disclosed vis-a-vis the remainder of the management report.

When the management report does not clearly delineate management-report-atypical information that is not subject to assurance, and the auditor has decided not to include it within the audit, the auditor is required to clarify, in an appropriate manner within the auditor's report, the fact that this information was not subject to audit. IDW AsS 350 permits the auditor to identify such information not subject to audit in an appendix to the auditor's report, provided the auditor's report includes an appropriate reference thereto.

Management reports are intended as standalone reports, which implies that information provided outside the management report is not subject to the audit unless explicitly required by German law; including information denoted as management-report-typical and cross-references to information outside the financial statements and management report. Such cross-references shall be identified in the auditor's report as unaudited.

Overview of the Requirements of IDW AsS 350 (Revised)

The approach follows that of international standards in regard to matters such as obtaining sufficient appropriate evidence, evaluation of misstatements, post balance sheet events, going concern aspects, written representations, concluding, reporting and documentation.

A few selected specialties particular to assurance procedures on management reports are outlined below. Reference is made to the text of the convenience translation of IDW AsS 350 (Revised) for further details.

Planning

The auditor in Germany is required to plan the assurance work on the management report so that it is performed in an effective manner. Planning has to be integrated into the audit plan for the whole audit engagement.

In planning the engagement, the auditor is required to establish whether the management report includes information that cannot be audited (un-assurable information), and if, so, inform management of the consequences for the auditor's report. (For example, the auditor might suggest management consider revising the wording of a particular sentence: A statement such as "In January 2020, our product Y was awarded first place for innovation in a survey published in the renowned consumer research magazine xxxx" can be verified by recourse to that magazine, whereas there are no criteria against which to measure a statement such as "Our products are highly innovative".)

Materiality considerations

Similar to the consideration of materiality for the financial statement audit, misstatements in the management report, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the management report.

For matters relating to historical financial information the same quantitative materiality considerations apply as for the audit relating to the financial statements. For other matters, the auditor is required to develop materiality considerations according to the various categories of reported information. In considering whether in all material respects the management report appropriately presents the opportunities and risks of future development, is consistent with the annual financial statements and complies with German legal requirements, the auditor would consider whether there are significant differences between internal budgets and the audited financial statements.

Risks of material misstatement in the management report

Risk assessment

The auditor is required to perform specific assurance procedures to form a basis for the identification and assessment risks of material misstatement at both the level of the management *report as a whole and at the assertion level, including consideration of the risk of qualitatively material misstatements.*

Risk assessment at assertion level must be performed – at a minimum – for each information category. However, if the auditor's materiality considerations relate to specific groups of disclosures or one or more individual disclosures within an information category, the risk assessment must be performed at this corresponding lower level.

When a particular risk of material misstatement relates to both the financial statements and the management report, the auditor is required to consider the risk assessment related to the financial statements for the management report too.

Risk assessment requirements otherwise mirror those applicable to the financial statement audit.

The auditor is also required to use the understanding of the entity and its legal and economic environment obtained in regard to the audit of the financial statements as a basis for the assurance engagement in regard to the management report, but also to obtain the necessary further understanding of the entity and its legal and economic environment, when the aforementioned understanding is insufficient as regards the assurance engagement on the management report.

The auditor must also consider the preparation process for the management report including obtaining an understanding of the arrangements and measures (systems) relevant to the preparation of the management report sufficient for the identification and assessment of risks of material misstatement of the management report and to design responses to address the assessed risks. This includes:

- methods used in determining prospective disclosures, including methods for capturing and preparing data and, where available, the prognosis model
- assumptions underlying the prospective disclosures
- whether management has had recourse to an expert
- whether there has been, or should have been, any change in the method for determining prospective disclosures and the reasons therefor
- whether and – when applicable – how management has considered the impact of the uncertainty connected with prognosis.
- In addition, the auditor is required to compare prospective information reported in the previous year with the actual outcome.

The auditor must identify and assess the risk of material misstatement at both the level of the management report as a whole and at the assertion level (including consideration of qualitative and quantitative aspects) to form a basis for planning and performing further assurance procedures.in so doing, the auditor must also take account of uncertainties associated with projections.

Risk Responses

The auditor is required to design and implement overall responses to address the assessed risks of material misstatement at the management report level and at the assertion level, when these exceed an acceptably low level.

Some procedures apply to all information categories, whilst others are specific to a particular category, for specific groups of disclosures or individual disclosures. This mirrors the ISA approach for a particular class of transaction, element or disclosure to be subject to specific procedures.

The auditor shall consider on a case-by case basis whether it is necessary to obtain third party confirmations as a substantive procedure. Further substantive procedures must include comparison or reconciliation of disclosures in the management report with the entity's records upon which they are based and an evaluation of whether disclosures in the management report are consistent to those in with the annual financial statements in all material respects. For disclosures of historical information, the auditor is also required to obtain sufficient appropriate evidence to assess whether the disclosures reflect the actual circumstances.

The auditor must evaluate whether in accordance with the principle of degree of detail the disclosures in the management report are provided sufficiently and appropriately for the addressees' understanding and are consistent with the auditor's knowledge obtained in the audit of the financial statements, in particular the auditor's understanding of the business operations and legal and economic environment obtained in the audit.

IDW AsS 350 specifies specific responses for the various d information categories of the management report in detail. Here the convenience translation supplies further details per category.

Assurance procedures may, for example, typically involve:

- reconciliation of management report disclosures to the entity's internal reports, minutes and committee resolutions as well as legal and contractual provisions.
- evaluating the appropriateness of disclosures on the entity's the goals and strategies on the basis of specific measures taken to implement them
- evaluating whether KPIs used in management accounting and directing the entity are disclosed, including checking whether calculation methods are also disclosed and properly applied and their consistency with other reporting and forecasts
- evaluating whether the information on the overall economic and industry-related conditions is necessary for understanding the analysis of the course of business and the economic situation and is aligned to specific sources that are relevant and reliable
- evaluating whether analyses are balanced and comprehensive, appropriately reflecting the scope and complexity of the business activities

- consistency of KPIs etc. with the financial statements, the forecast report and evidence by internal reporting etc.
- obtaining explanations of assumptions underlying forecast disclosures, including why alternative assumptions were discounted and how uncertainties have been dealt with and obtaining sufficient appropriate evidence to evaluate their reasonableness, including consistency with the knowledge gained during the audit.
- determining whether the work of an expert is needed
- evaluating the entity's plans and ability to implement them
- determining whether the forecasts differ from internal expectations or forecasts used for valuation decisions
- determining whether presentation is appropriate: e.g., whether forecasts are clearly identified as forecasts, the choice of words used may give a false impression etc.

Overall assessment of the management report

The auditor must evaluate whether the management report is consistent in all material respects with the financial statements and the findings of the audit.

The auditor must evaluate whether the information in the management report is, as a whole, appropriate and balanced, including whether the presentation and choice of words give a misleading impression overall despite the factually correct individual disclosures.

Based on the assurance procedures performed, the auditor must conclude on whether the management report contains all the information required by law that is material, and is commensurate with the scope and complexity of the business activities.

IDW Assurance Standard: Assurance on the management report as part of the audit of the financial statements (IDW AuS 350 (Revised))

(Status as of 12.12.2017)[1]

[1] Adopted by the Main Technical Committee (HFA) on 6 September 2006. amendments resulting from the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz - BilMoG) by the HFA on 9 September 2009 in Paragraphs 9a, 10, 12, 19a, 19b and 36. revised version to take account of German Accounting Standard No. 20: Group Management Report (DRS 20), the German Accounting Directive Implementation Act (BilRUG), the German CSR Directive Implementation Act, the German Remuneration Transparency Act (EntgTranspG) and the German Accounting Amendment Standard No. 8: Amendments to DRS 20 Group Management Report (DRS 8) and to clarify the risk-oriented assurance procedure for the audit of the management report as part of the audit of the financial statements, prepared by the "Management Report Audit" working group and adopted by the HFA on 12 December 2017.

Introduction

1. Preliminary remarks

1 The Institute of Auditors in Germany e.V. (IDW) sets out in this *IDW Assurance Standard* the professional view according to which auditors, when auditing the annual financial statements, carry out assurance procedures on management reports on individual annual financial statements and group management reports (both are referred to uniformly in the following as "management report") without prejudice to their own responsibility. In addition to objective (Section 5.), definitions (Section 6.) and requirements (Sections 7.-17.), this *IDW Auditing Standard* contains application and other explanatory material (No. A1 et seq. and appendices).[2]

2 Assurance of the management report is required by law for

[2] The application and other explanatory material (including appendices) provide further guidance on the requirements of this standard and how to implement them. In particular, they may
a) explain in more detail what a requirement is intended to mean or cover,
b) provide examples of assurance procedures that may be appropriate in the circumstances.
Although such explanatory notes are not a requirement, they are relevant to the correct application of the requirements of this *IDW Assurance Standard.*

- Corporations and commercial partnerships within the meaning of § [Article] 264a German Commercial Code (Handelsgesetzbuch – HGB) that are not small companies within the meaning of § 267 HGB (§ 264 (1) Sentences 1 and 4 Half-Sentence 1, 264a (1), 316 (1) Sentence 1 HGB);
- certain companies covered by the Publicity Act (cf. § 5, Para. 2 PublG, § 5, Para. 6 PublG in connection with § 264, Subsection 3, HGB, § 6, Subsection 1, Clause 1, PublG);
- Credit and financial services institutions as well as insurance companies - regardless of their size and legal form - (cf. § 340a (1) half-Sentence 2, 340k HGB and § 341a (1), 341k HGB);
- Parent companies that are obliged to prepare consolidated financial statements (§§ 290, 316 (2) Sentence 1 HGB, § 11 PublG, §§ 340i, 341i HGB).

The *IDW Assurance Standard* also applies to assurance for a voluntarily prepared management report as part of an audit of financial statements (cf. Para. A1).

Insofar as there are any particularities in regard to assurance for the group management report, these are dealt with in section 11.5.

3 The management report is an independent instrument of accounting under commercial law, which stands alongside the financial statements and supplements them with additional, primarily qualitative and prognostic information. It serves to provide information on the economic situation of the entity based on the past period, the balance sheet date and the future. The management report must present the course of business including the business results and the position of the entity in such a way that an appropriate view of the entity's position is conveyed (§§ 289 (1) Sentence 1, 315 (1) Sentence 1, HGB). The information relevant to the preparation of the management report is largely derived from other systems and sources within the entity rather than from the accounting records.

4 § 315 to 315d HGB regulate the legal requirements for a management report on the consolidated financial statements. German Accounting Standard No. 20: Group Management Report (Deutscher Rechnungslegungs Standard Nr. 20: Konzernlagebericht - DRS 20) specifies the legal requirements for group management reporting.[3] It is presumed that the principles of proper accounting relating to the consolidated financial statements have been observed insofar as these recommendations of the DRSC have been complied with (§ 342 (2) HGB).

5 §§ 289 to 289f HGB regulate the legal requirements for a management report accompanying the annual financial statements. The auditor is obliged to plan the assurance procedures and to evaluate in each individual case whether, in particular against the background of the information requirements of the respective addressees, the statutory provisions governing the preparation of the management report pursuant to §§ 289 et seq. HGB have been observed in all material respects and the management report as a whole provides an appropriate view of the Entity position and appropriately presents the opportunities and risks of future development in all material respects. In DRS 20.2, the DRSC recommends that DRS 20 be applied accordingly to the management report in accordance with § 289 HGB. If legal requirements for the management report pursuant to §§ 289 to 289f HGB are substantiated by DRS 20 and these are

[3] See DRS 20.1.

interpretations of the general legal principles of management reporting, they are also relevant to the management report (cf. Para. A2).[4] This applies in particular to the principle of information gradation set out in DRS 20.34, according to which the comprehensiveness and level of detail in the management report depend on the specific circumstances of the entity. If the auditor comes to the conclusion that interpretations of statutory principles of management reporting have not been observed, the auditor is obliged to evaluate, in accordance with these general principles, whether there are any consequences for the reporting up to and including the auditor's report (cf. Para. A114).[5]

6 This *IDW Assurance Standard* contains special assurance requirements for selected information categories in accordance with DRS 20, which concretize the requirement in Paragraph 46 to plan and perform assurance procedures in response to the assessed risks of material misstatement at a statement level, in particular for the assessment of forecast data and information in the risk and opportunity report.

7 Industry-specific (e.g. in the audit of credit institutions, insurance companies) and other special features that must be taken into account additionally in individual cases are not considered in this *IDW Assurance Standard.*

8 This *IDW Assurance Standard* replaces the *IDW Assurance Standard*: *Assurance on the management report (IDW AuS 350* (*Revised))* on 09.09.2009.

2. Responsibility of the Executive Directors

9 The executive directors are responsible for the preparation of a management report that complies with the applicable legal requirements (cf. Para. A3). To this end, they must establish and maintain the arrangements and measures (systems) necessary for the preparation of a proper management report (cf. Para. A4).

10 The executive directors are responsible for ensuring that the statements contained in the management report are supported by sufficient and appropriate evidence. The executive directors must submit the management report to the auditor and provide him with all requested explanations and evidence completely and to the best of their knowledge and belief (cf. § 320 (1) to (3) HGB) (cf. Paragraph A5).

3. Auditor's Responsibility

11 The auditor is obliged to perform assurance procedures in respect of a management report prepared in accordance with statutory provisions as part of the audit. In the case of a management report prepared voluntarily, the auditor is only obliged to perform assurance procedures if he is commissioned to do so (cf. Paragraphs A6-A7).

12 The auditor is obliged to plan and perform assurance procedures in respect of the management report in accordance with § 317 (2) HGB and in compliance with this *IDW Assurance Standard.* Those standards require that we plan and perform the assurance work on the management report to obtain reasonable assurance about whether

[4] Cf. *IDW Auditing Standard: Accounting and Auditing Principles for the Audit of Financial Statements (IDW AuS 201)* (Status: 05.03.2015), Para. 12.

[5] Cf. *IDW AuS 201*, Para. 12.

a) the management report is consistent in all material respects with the financial statements and, if applicable, the separate financial statements in accordance with § 325 (2a) HGB and the findings of the audit,

b) the management report complies with German legal requirements in all material respects,

c) the management report as a whole provides an appropriate view of the Entity's position and

d) accurately presents the opportunities and risks of future development in all material respects.

The audit of the management report is an integral part of the audit of the financial statements. Accordingly, the findings of the audit of the financial statements are taken into account in the assurance work on the management report.

13 The assurance procedures in respect of the content of the management report do not extend to the non-financial reporting in accordance with §§ 289b to 289e, 315b to 315c HGB and the (group) corporate governance statement in accordance with §§ 289f, 315d HGB; however, the auditor is obliged to determine within the scope of the audit whether the non-financial reporting has been submitted or the information on the (group) corporate governance statement has been provided (cf. § 317 (2) sentences 4 and 6 HGB).

14 The mandatory disclosures in the management report are based on §§ 289 to 289f and 315 to 315d HGB. Requirements for disclosures of management report-typical information (cf. para. 20l)) also result from DRS 20. In addition, the management report may contain disclosures that are management report-atypical (cf. Para. 20k)).

15 Management report-atypical information contained in the management report are not a mandatory part of the audit in accordance with § 317 HGB (cf. Para. 12) provided the entity clearly distinguishes management report-atypical disclosures from the management report disclosures whose content is subject assurance procedures (cf. Para. 20g)). The auditor may decide not to include the management report-atypical disclosures in the audit if the entity has not clearly delimited them. The decisive factors for this decision are:

- a contract agreement concluded with the entity, if applicable, for dealing with management report-atypical information in the annual audit, and
- the scope of the management report-atypical information and the scope of the disclosures contained in this information.

It can be useful to conclude an agreement with the entity on the inclusion of management report-atypical information in the audit of the financial statements when accepting the engagement.

16 If the entity does not clearly distinguish management report-atypical disclosures from those management report disclosures whose content is subject to assurance procedures and the auditor decides not to perform assurance procedures on the content of these management report-atypical disclosures, the auditor is obliged to specify these management report-atypical disclosures in the description of the management report subject to audit subject in the section of the auditor’s report headed "Audit opinions" and to state that they have not been subject to the audit in terms of their content. In addition, the auditor is obliged to state in the auditor’s report that the audit opinion on the management report does not extend to the content of these

non-audited management report disclosures. The auditor may include this information in an appendix to the auditor's report, provided that he refers to the appendix in the description of the audit subject matter and in the audit opinion.

The same applies to disclosures that are not clearly delineated but are typical for management reports and for which there is no legal obligation for their content to be subject to assurance procedures (non-financial reporting and (group) corporate governance statement).

Even if non-audited (auditable and non-verifiable) management report information is clearly distinguished from the audited management report information, the auditor may, in order to avoid misunderstandings, consider it necessary to include the information referred to in Paragraph 1 in the auditor's report.

The auditor will apply *ISA 720 (Revised) (Draft-DE)* [6] to unaudited management report information.

17 The management report is a self-contained reporting instrument of the executive directors. Unless expressly required by law, information outside the financial statements and management report, even if it is management report-typical, is not part of the management report. This also applies to information provided by the entity outside the financial statements and management report, which is referred to by a cross-reference within the management report. If the management report contains cross-references to information provided by the entity which are not prescribed by law, the auditor can work towards ensuring that the executive directors omit such cross-references from the management report (cf. Para. A8-A9). If the management report nevertheless contains such cross-references, the auditor shall name these cross-references in the description of the management report as audit subject matter in the section of the auditor's report headed "Audit Opinions" and state that the information to which the cross-references refer has not been audited and therefore the [audit] opinion on the management report does not extend to it. The [audit] opinion shall refer to this limitation of the audit subject matter. The auditor may include this information in an appendix to the auditor's report, provided that he refers to the appendix in the description of the subject matter and in the audit opinion.

4. Date of application

18 The *IDW Assurance Standard* applies to the assurance in respect of management reports for reporting periods beginning on or after 15 December 2018, with the exception of short financial years ending before 31 December 2019.[7]

Objective and definitions

5. Objective

19 The auditor's objective is to obtain sufficient appropriate evidence to form the required opinion on the management report and to express this opinion in the auditor's report.

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[6] Cf. *draft German version of International Standard on Auditing 720 (Revised): Auditor's Responsibilities in Relation to Other Information (ISA 720 (Revised) (draft-EN))*.

[7] For earlier application, see *IDW AuS 201*, Para. 31a Sentence 2.

6. Definitions

20 The following terms have the following meaning for the purposes of this *IDW Assurance Standard:*

a) *Statements*: Statements expressly made or implicitly contained by the executive directors on matters presented in the management report (cf. Paragraphs A10-A14).

b) *Evaluation of the appropriateness of the arrangements and measures (systems) used for the preparation of the management report*: Evaluation of whether the arrangements and measures (systems) are designed in such a way that the executive directors are able to prepare a management report that complies with the legal requirements in all material respects with reasonable assurance, as well as the evaluation of whether these arrangements and measures (systems) have been implemented.

c) *Evaluation of the effectiveness of the arrangements and measures (systems) used for the preparation of the management report*: Evaluation of whether the arrangements and measures (systems) implemented during the reporting period function in such a way that the executive directors prepare a management report with reasonable assurance that the management report complies with the legal requirements in all material respects.

d) *Evaluation of the appropriateness of arrangements and measures (systems) for recording and assessing the material opportunities and risks of future development*: Evaluation of whether the arrangements and measures (systems) are designed in such a way that they are able to record and assess the opportunities and risks of future development with reasonable assurance, and evaluation of whether these arrangements and measures (systems) have been implemented.

e) *Evaluation of the effectiveness of arrangements and measures (systems) for recording and evaluating the material opportunities and risks of future development*: Evaluation of whether the arrangements and measures (systems) record and evaluate the opportunities and risks of future development with reasonable assurance.

f) *Opportunity*: Possible future developments or events that could lead to a positive deviation from forecasts or targets of the entity.[8]

g) *Clearly delineated management report-atypical information*: Management report-*atypical* disclosures are clearly delineated from the audited management report disclosures if they

   i. are physically separate from the audited management report disclosures and are identified beyond doubt as unaudited, or

   ii. without being physically separated from the audited management report disclosures, are clearly marked as unaudited, without this significantly impairing the clarity and transparency of the management report.

h) *Misstatement*: A discrepancy between the amount, presentation or disclosure in the management report of an item and the amount, presentation or disclosure required for

[8] Cf. DRS 20.11Revised by DRS 8, where DRS 20.11 speaks of "forecasts or targets of the Group" instead of "forecasts or targets of the entity".

that item in accordance with the applicable accounting principles[9]. Misstatements include omissions. Misstatements may result from error or fraud.

i) *Category of information*: A category of management report information determined in accordance with DRS 20 including DRS 17; this includes Group business model, objectives and strategies, management system, research and development, macroeconomic and industry-related conditions, business performance, results of operations, financial position and net assets, financial and non-financial performance indicators, report on expected developments, report on opportunities and risks, basic features of the remuneration system, internal control system and risk management system relating to the Group accounting process, risk reporting with regard to the use of financial instruments, disclosures relevant to acquisitions, and responsibility statement by the executive directors In this *IDW Assurance Standard,* the internal control system and the risk management system relating to the Group accounting process is referred to as the accounting-related internal control system (cf. Para. A15).

j) *Management report*: Management report in accordance with §§ 289 to 289f HGB and Group management report in accordance with §§ 315 to 315d HGB.

k) *Disclosures of management report-atypical information*: Disclosures that are neither required under §§ 289 to 289f, 315 to 315d HGB nor required by DRS 20. Disclosures that are required by law or by DRS 20 only for entities of certain size categories or only for capital market-oriented entities, and which are voluntarily included in the management report in corresponding application of such regulations, are not included in the disclosures outside the management report (cf. Para. A16).

l) *Disclosures of management report-typical information*: Disclosures that are either required under §§ 289 to 289f, 315 to 315d HGB or required by DRS 20, irrespective of whether the law or DRS 20 stipulates that such disclosures be made only for entities of certain size classes or only for capital market-oriented entities (cf. Para. A17).

m) *Non-assurable Data*: Information that cannot be evaluated due to the nature of the information or due to the absence of suitable criteria (cf. Para. A18-A22).

n) *Risk*: Possible future developments or events that could lead to a negative deviation from forecasts or targets of the entity.[10]

21 For the purposes of this *IDW Assurance Standard,* the term "entity" includes not only entities in the legal sense, but also groups and other entities (cf. Paragraph A23).

Requirements

7. Compliance with certain requirements for the audit of financial statements

22 When performing assurance procedures on the management report as part of the audit of the financial statements, the auditor must observe the statements in *IDW AuS 200*[11] and *IDW AuS 201,* if relevant. In addition to the requirements contained in this *IDW Auditing Standard,*

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[9] Cf. Paragraph 112.

[10] Cf. DRS 20.11 Revised by DRS 8, where DRS 20.11 speaks of "forecasts or targets of the Group" instead of "forecasts or targets of the entity".

[11] Cf. *IDW Auditing Standard: Goals and general principles for the performance of audits (IDW AuS 200)* (Status: 03.06.2015).

the auditor has to comply with the relevant principles of *IDW AuS 210*[12], *IDW AuS 300 (Revised),* for the audit of the Management Report.[13]*IDW AuS 321*[14], *IDW AuS 322 (Revised)*[15] and *IDW AuS 470 (Revised)*[16] (cf. Paragraph A24). *IDW AuS 250 (Revised)*[17] is not applicable to the audit of the management report.

8. Planning the assurance procedures on the management report

23 The auditor must plan the assurance procedures on the management report in such a way that it is carried out effectively. To this end, he must integrate the planning activities for the assurance procedures on the management report into the planning of the audit of the financial statements in accordance with *IDW AuS 240*[18] (cf. Paragraph A25).

24 The auditor is not required to examine the contents of the management report-atypical information contained in the management report if the entity clearly distinguishes the management report-atypical information from the audited management report information.

Similarly, the contents of the management report-atypical information are not to be subject to assurance if they are not clearly delineated and the auditor decides not to perform assurance procedures on this information. In making this decision, the auditor must take the following into account:

a) any engagement agreement concluded with the entity for dealing with management report-atypical information in the annual audit; and

b) the extent of the management report-atypical information and the scope of the statements contained in this information (cf. Paragraph A26).

25 If the auditor decides to perform assurance procedures on the content of management report-atypical information, he must take this into account in the engagement planning and include the information in the further performance of the audit. The auditor must apply *ISA 720 (Revised) (Draft-EN)* to any non-audited management report-atypical information.

26 Para. 24 and Para. 25 Sentence 1 apply mutatis mutandis to management report-typical information for which there is no legal obligation to perform assurance procedures on the content (non-financial reporting and (group) corporate governance statement).

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[12] Cf. *IDW Auditing Standard: For the detection of irregularities in the course of the audit of financial statements (IDW AuS 210)* (Status: 12.12.2012).

[13] Cf. *IDW Auditing Standard: Audit evidence within the framework of the final audit (IDW AuS 300 n.F.)* (Status: 14.06.2016).

[14] Cf. *IDW Auditing Standard: Internal Auditing and Auditing of Financial Statements (IDW AuS 321)* (Status: 09.09.2010).

[15] Cf. *IDW Auditing Standard: Utilisation of the work of an expert working for the auditor (IDW AuS 322 n.F.)* (Status: 15.09.2017).

[16] Cf. *IDW Auditing standard: Principles for communication with those responsible for monitoring (IDW AuS 470 n.F.)* (Status: 10.10.2017).

[17] Cf. *IDW Auditing Standard: Materiality in the context of the audit of financial statements (IDW AuS 250 n.F.)* (Status: 12.12.2012).

[18] Cf. *IDW Auditing Standard: Principles for the Planning of Audits of Financial Statements (IDW AuS 240)* (Status: 09.09.2010).

27 As part of the audit planning, the auditor must determine whether the management report contains non-assurable information (cf. Para. A27). If the management report contains non-assurable information, the auditor must draw the attention of the executive directors to the possible consequences for the auditor's report (cf. Para. A28).

9. Materiality in the planning and execution of the assurance procedures on of the management report

28 Misstatements in the management report, including missing representations, must be regarded by the auditor as material if it can reasonably be expected that they can influence economic decisions of addressees made individually or in their entirety on the basis of the management report as a whole (cf. Paragraphs A29-A30 and A37).

29 The auditor shall determine and apply materiality in the planning and execution of the assurance procedures regarding the quantitative, historically oriented financial information on the assets, financial and earnings situation presented in the management report on the basis of the materiality of the financial statements (cf. Paragraph A31).

30 Otherwise, materiality considerations in planning and conducting the assurance procedures on the management report must be made at least at the level of the information categories. (cf. Paragraphs A32-A36).

31 In order to obtain assurance about whether the management report accurately presents the opportunities and risks of future development in all material respects and whether the statutory provisions governing the preparation of the management report have been observed in all material respects in this context, the auditor must determine, in the event of serious differences between the budgeted accounts and the audited financial statements, whether the materiality considerations need to be adjusted taking into account the budgeted accounts (cf. Paragraphs A38-A39).

10. Risks of material misstatements in the management report

10.1. Assurance procedures for risk assessment

32 The auditor must perform assurance procedures to assess risks[19] in order to create a basis for identifying and assessing the risks of material misstatements at the management report level overall and at the statement level (cf. Paragraph A40 and Paragraph A49). The auditor must also take into account the risk of material misstatements of a qualitative nature.

33 The assessment of the risks of material misstatements at the assertion level must be made at least at the level of information categories. If, in individual cases, the auditor has made materiality considerations at the level of specific disclosure groups or at the level of individual disclosures within an information category, the auditor must assess the risks of material misstatements at the level of specific disclosure groups or at the level of individual disclosures within an information category (cf. Paragraph A41).

Insofar as the risks of material misstatements in the financial statements and the management report overlap, the auditor must take into account the results of the risk assessment of the

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[19] Cf. *IDW AuS 300 (Revised)* Para. 7 in conjunction with Para. A10 et seq.

financial statements when performing assurance procedures on the management report (cf. Paragraph A42).

34 These assurance procedures for risk assessment shall include

a) questioning the executive directors and other persons within the entity who, in the opinion of the auditor, may have information that is likely to assist in identifying risks of material misstatement

b) inspections/inspections

c) analytical audit procedures and observations (cf. Paragraph A43).

35 The auditor must consider whether the information obtained in accepting the engagement is relevant to identifying risks of material misstatement. If the members of the audit team have performed other engagements for the enterprise, the auditor must consider information obtained in the process that is relevant to identifying risks of material misstatement.

36 The auditor must draw on knowledge and experience gained from previous years' audits and update the state of knowledge. Within the framework of the discussion of the audit team in accordance with *IDW AuS 261 (Revised),*[20]Paragraph 17, the susceptibility of the management report to material misstatements must be discussed. The auditor in charge must determine which facts are to be communicated to the members of the audit team not involved in the meeting.

10.2. Gaining an understanding of the entity and its environment

37 The understanding of the entity and its legal and economic environment to be obtained from the audit of the financial statements must also be taken as a basis for the assurance procedures on the management report.

38 If the understanding obtained in accordance with Paragraph 37 not sufficient for the assurance procedures on the management report, the auditor must obtain the necessary understanding of the entity and its legal and economic environment (cf. Paragraph A44).

10.3. Acquiring an understanding of the relevant arrangements and measures (systems) for preparing the management report and determining forecast data

39 The auditor shall deal with the process of preparing the management report and thereby obtain an understanding of the arrangements and measures (systems) used for the preparation of the management report that is sufficient to identify and assess the risks of material misstatement in the management report and to determine the reactions to these assessed risks (cf. Paragraphs A45-A46).

This understanding also refers to the entity's arrangements and measures (systems) for recording and assessing the opportunities and risks of future development and, insofar as the management report contains statements on measures to take advantage of opportunities and manage the risks of future development, to deal with these opportunities and risks (cf. Paragraph A47).

[20] *IDW Auditing Standard: Identification and assessment of risks of error and reactions of the auditor to the assessed risks of error (IDW AuS 261 (Revised))* (Status: 15.09.2017).

40 The understanding of the arrangements and measures (systems) for preparing the management report includes an evaluation of their appropriateness.

41 In addition, for material forecast disclosures, the auditor shall obtain an understanding of the policies and procedures (systems), including the process used by management to identify and determine forecast disclosures, including

a) the method used in determining forecast data, together with data collection and processing and, where available, the forecast model used

b) the assumptions underlying the forecast data;

c) the question of whether the executive directors have consulted an expert

d) whether, compared with the immediately preceding period, the methods used to determine the forecast data have been changed or should have been changed, and the reasons for such changes

e) the question of whether and, if so, how the executive directors have evaluated the effect of a forecast uncertainty

42 The auditor must compare the forecasts reported for previous financial years with the actual results (cf. Paragraph A48).

10.4. Identification and assessment of the risks of material misstatements in the management report

43 The auditor must identify and assess the risks of material misstatements at the level of the management report and assertion level (including the quantitative or qualitative aspects of these assertions (cf. Paragraph A49)) in order to provide a basis for the design and performance of further assurance procedures.

44 In the identification and assessment required under Paragraph 43 the auditor must take into account the forecast uncertainty associated with forecast data.

11. Reactions to the assessed risks of material misstatements in the management report

11.1. General responses at the level of the management report as a whole

45 The auditor must plan and implement general responses in order to counteract the assessed risks of material misstatements at the management report level (cf. Paragraph A50).

11.2. Reactions at assertion level

11.2.1. Reactions at assertion level in relation to all categories of information

46 The auditor must plan and perform further assurance procedures, the nature, scope and timing of which are based on and directed towards the assessed risks of material misstatement at the assertion level. It is not necessary to respond to assessed risks of material misstatement at the assertion level if those assessed risks do not exceed a reasonably low level. This applies not only to the requirements of Paragraphs 47-52, but also to the special reactions at statement level for selected information categories of the management report pursuant to Paragraphs 53-81. In planning and performing these further audit procedures for specific information categories and, in individual cases, for specific groups of information or individual items of information, the principles of *IDW AuS 300 (Revised)* and thus also Paragraph 11 et seq. contained therein

for the selection of the elements to be audited apply pursuant to Paragraph 22 (cf. Paragraph A51).

47 The auditor must evaluate the effectiveness of the arrangements and measures (systems) relevant for the preparation of the management report if, on the basis of the risk assessment the auditor (cf. Paragraph A52)

a) concludes that substantive procedures alone do not provide sufficient appropriate evidence; or

b) in determining the nature, scope and timing of the evidence-based assurance procedures, the auditor expects to rely on the effectiveness of the arrangements and actions (systems).

48 In each individual case, the auditor must consider whether it is necessary to obtain third party confirmations as a substantive assurance procedure. If third-party confirmations are obtained, the principles of *IDW AuS 302, (Revised),* must be observed.[21]

49 The substantive assurance procedures also include the comparison or reconciliation of management report information with the underlying documents of the entity.

50 The auditor must perform assurance procedures relating to the assertions in order to determine whether the assertions in the management report are consistent in all material respects with those in the financial statements and, if applicable, with those in the individual financial statements in accordance with § 325 (2a) HGB (cf. Paragraph A53).

51 For information relating to the past, with the exception of those already adequately dealt with in Paragraph 49, the auditor must evaluate, on the basis of sufficient appropriate evidence, whether this information corresponds to the actual circumstances.

52 The auditor shall evaluate whether the information contained in the management report is sufficient and appropriate for the understanding of the addressees in accordance with the principle of graded information and is consistent with the knowledge gained during the audit, in particular the understanding of the business activities and the legal and economic environment gained during the audit (cf. Paragraphs 37-38).

11.2.2. Special reactions at assertion level for selected information categories of the management report

Goals and strategies

53 If the management report contains statements on the goals and strategies of the entity, the auditor must reconstruct this information on the basis of internal reports, minutes and committee resolutions as well as legal and contractual provisions. The auditor must also evaluate the appropriateness of the reporting on the extent, timing and implementation of the goals and strategies on the basis of specific measures taken within the entity (cf. Paragraph A54).

Management system

54 If the management report contains a description of the management system used in the entity, the auditor must determine whether the key figures used by the entity for managing the entity

[21] Cf. *IDW Auditing Standard: Confirmations of third parties (IDW AuS 302 n.F.)* (Status: 10.07.2014).

(i.e. the most significant financial and non-financial performance indicators) have been disclosed here (cf. Paragraphs A55-A58). In addition, the auditor must evaluate whether their method of calculation - unless it is obvious to the knowledgeable addressee - is adequately presented (cf. Paragraph A59). Furthermore, the auditor must determine whether the most significant financial and non-financial performance indicators included in the presentation of the management system are consistent with those in the economic report and the forecast report.

Macroeconomic and industry-related conditions

55 The auditor must evaluate whether the information on the overall economic and industry-related conditions is necessary for understanding the analysis of the course of business and the economic situation.

56 In addition, the auditor must compare the information on the overall economic and industry-related conditions using specific sources and evaluate whether these sources are relevant and reliable (cf. Paragraphs A60-A62).

Business performance

57 The auditor must evaluate whether the presentation and analysis of the course of business is consistent with the financial position and financial performance presented in the financial statements. The auditor must also evaluate whether the analysis of the course of business is balanced and comprehensive and whether it is commensurate with the scope and complexity of the business activities (Paragraph A63).

Net assets, financial position and performance with financial and non-financial performance indicators

58 The auditor must compare the information on the asset, financial and earnings situation using specific sources and evaluate whether these sources are relevant and reliable. Furthermore, he must determine whether the information is relevant to the presentation of the net assets, financial position and financial performance (cf. Paragraph A64).

59 The auditor must evaluate whether the analysis and assessment of the net assets, financial position and financial performance in the management report is consistent with the net assets, financial position financial performance presented in the financial statements. The auditor must also evaluate whether the analysis of the net assets, financial position and financial performance is balanced and comprehensive and whether it reflects the scope and complexity of the business activities.

60 With regard to the financial and non-financial performance indicators included and explained in the analysis, the auditor must evaluate whether these are the most significant figures used for internal management purposes and whether they are identifiable, comprehensible and can be reconciled from the financial statements to the extent that such reconciliation is reasonably possible (cf. Paragraphs A65-A66). The auditor must determine whether the most significant financial and non-financial performance indicators included in the financial report are consistent with those in the forecast report and, if applicable, in the presentation of the management system (cf. Paragraph A67).

61 In order to evaluate the relevance and completeness of the most significant performance indicators, internal reporting should be used as evidence (cf. Paragraph A68).

62 The auditor must evaluate whether significant changes in financial and non-financial performance indicators compared with the previous year are adequately presented and explained.

Forecast report

63 The auditor must determine whether the management report contains, for the required forecasting period, forward-looking information on the most significant financial and non-financial performance indicators for the management of the entity. The following assurance requirements relate to the forecasting information on the most significant performance indicators for the management of the entity and other significant forecasting information.

64 The auditor must have the assumptions on which the forecast data are based explained by the entity (cf. Paragraph A69). This includes information on why alternative assumptions were discarded or how forecast uncertainties were dealt with in other ways.

65 The auditor must evaluate which of the assumptions underlying the respective forecast are significant (cf. Paragraph A70) and whether the material assumptions are adequately and completely presented in the management report.

66 To this end, the auditor must understand the significant assumptions on the basis of sufficient appropriate evidence and evaluate the justifiability of these assumptions (cf. Paragraphs A71-A72). Furthermore, the auditor must determine whether these assumptions are consistent with the knowledge gained during the audit. If special expertise is required to evaluate these assumptions in order to obtain sufficient appropriate evidence, the auditor must determine whether the work of an expert is to be taken into account. [22] In making those significant assumptions, the auditor should evaluate whether the executive directors have concrete plans and are able to implement the measures implicit in the assumptions and that the assumptions as a whole are not based on a unilateral exercise of judgement [bias] that would result in material misstatements of the forecast. If the occurrence of significant assumptions is not expected with a high degree of probability, the auditor must determine whether the management report contains alternative presentations and their effects in order to adequately present and explain the range of fluctuation of the developments expected by the entity (cf. Paragraphs A73-A75).

67 The auditor must evaluate whether the forecast data have been properly derived from the assumptions on which they are based. Where the forecast data are based on an integrated planning calculation, the auditor must also understand their logical consistency and how they are calculated (cf. Paragraphs A76-A77).

68 In order to evaluate the forecast reliability of the entity's planning, a comparison of the corporate planning of the previous years or the previous year's management reports with the actual development (cf. Paragraph A78) must be made. If the entity's forecasts in the past differ significantly from the actual development, the auditor must gain an understanding of the reasons for the deviations and evaluate whether the entity's current forecasts are justifiable against this background.

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[22] Cf. *IDW AuS 322 (Revised)*, Para. 10.

69 The auditor has to determine whether the forecasts in the management report differ from internal expectations of the entity or from forecasts that were used for valuation decisions in the context of accounting.

70 The auditor must also determine whether forecasts are unmistakably identified as such by the entity and evaluate the extent to which the form of presentation and choice of words used, especially in the case of evaluative statements by the entity, may convey a false impression of the actual circumstances expected by the entity (cf. Paragraph A79).

Report on opportunities and risks

71 The auditor must comply with the following requirements in order to evaluate whether the material opportunities and risks of future development are fully disclosed in the management report (cf. Paragraph A80).

72 The auditor shall evaluate the effectiveness of the arrangements and measures (systems) for recording and evaluating the material opportunities and risks of future development (cf. Paragraphs A81-A84) if, based on the risk assessment, the auditor

a) comes to the conclusion that substantive procedures alone do not provide sufficient appropriate evidence to enable an assessment to be made of the significant opportunities and risks of future development; or

b) assumes the effectiveness of the arrangements and measures (systems) and therefore wishes to adjust the nature, scope and timing of the substantive assurance procedures.

The auditor must compare the opportunities and risks presented in the management report with the risks identified and assessed by the arrangements and measures (systems) (cf. Paragraph A85).

73 In evaluating whether the material opportunities and risks of future development are fully disclosed in the management report, the auditor must evaluate whether the opportunities and risks presented are consistent with other relevant information that has come to his attention (cf. Paragraph A86).

74 The auditor must understand the scope (probability of occurrence and potential effects) of the opportunities and risks of future development known to him on the basis of suitable information (cf. Paragraph A87). Taking the scope into account, the auditor must evaluate whether the material opportunities and risks of future development are accurately presented and assessed in the management report (cf. Paragraph A88). To this end, the auditor must evaluate whether these opportunities and risks are sufficiently analysed and assessed in the management report by clarifying their scope.

75 With regard to material risks of future development, the auditor must also conclude, on the basis of the principles for auditing financial statements according to *IDW E-AuS 270 (Revised)* [23], whether there is any material uncertainty (risk threatening the entity's existence) and determine whether this is adequately stated and described as such in the management report[24]. If the assumption that the entity will continue as a going concern is reasonable, but there is

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[23] Cf. *draft of a new version of the IDW Auditing Standard: The evaluation of the continuation of the entity's operations as part of the audit of the financial statements (IDW E-AuS 270 (Revised))* (Status: 19.10.2017).

[24] See DRS 20.148.

nevertheless a material uncertainty regarding the continuation of the entity's activities, the auditor must evaluate whether in the management report

a) the most important events or circumstances that could cast significant doubt on the ability of the entity to continue as a going concern and the plans of the executive directors to deal with these events or circumstances are adequately disclosed, and

b) it is clearly stated that a material uncertainty exists in relation to events or conditions that may cast significant doubt upon the ability of the entity to continue as a going concern, and the entity may therefore not be able to realise its assets and settle its liabilities in the normal course of business

or

with clear reference to the existence of a material uncertainty, reference is made to the disclosures under a) and b) in the financial statements.[25]

76 If the management report contains statements on measures to take advantage of opportunities or to cope with risks of future development[26], the auditor must evaluate whether

a) the executive directors are likely to be able to implement the measures

b) the measures are likely to be appropriate to take advantage of the relevant opportunities or to address the relevant risks; and

c) the measures and their expected effects are properly presented in the management report.

77 The auditor must evaluate whether the presentation of the opportunities and risks of future development is balanced and whether the management report adequately reflects the opportunity and risk situation (cf. Paragraph A89).

Main features of the remuneration system

78 When auditing the management report of listed stock corporations, the auditor must evaluate the description of the main features of the compensation system to determine whether this description is consistent with the documentation of the compensation system in place at the entity and corresponds to the compensation principles actually applied.

Information relevant to takeovers and information on treasury shares

79 When examining takeover-relevant information resulting from provisions of the Articles of Association or from resolutions of the Annual General Meeting (§§ 289a (1) Sentence 1 Nos. 1, 4 and 7, 315a (1) Sentence 1 Nos. 1, 4 and 7 HGB) or based on notifications to the Entity (§ 289a (1) Sentence 1 No. 2 and 3, 315a Para. 1 Sentence 1 nos. 2 and 3 HGB), the auditor is required to make an appropriate evaluation. The auditor must evaluate whether the relevant provisions of the Articles of Association or resolutions of the Annual General Meeting or the present notifications are stated completely and accurately in the management report. When auditing disclosures pursuant to §§ 289a (1) Sentence 1 No. 6, 315a (1) Sentence 1 No. 6 HGB, the auditor must evaluate whether the relevant provisions of the Articles of Association have been fully and accurately reproduced in the management report, or determine whether

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[25] See *IDW EPS 270 (Revised)* Paragraph 24 f. and A28.

[26] See DRS 20.157.

the management report refers to the statutory provisions governing the appointment and dismissal of the Management Board (§§ 84, 85 AktG) and amendments to the Articles of Association (§§ 133, 179 AktG).

80 With regard to takeover-relevant disclosures on material agreements subject to a change of control as a result of a takeover bid (§§ 289a (1) Sentence 1 No. 8, 315a (1) Sentence 1 No. 8 HGB) and compensation agreements in the event of a takeover bid (§§ 289a (1) Sentence 1 No. 9, 315a (1) Sentence 1 No. 9 HGB), the auditor must determine whether any such agreements exist and evaluate whether they are fully and accurately reflected in the management report. In the event that the safeguard clause is invoked with regard to the disclosures pursuant to §§ 289a (1) Sentence 1 No. 8 in conjunction with Sentence 4, 315a (1) Sentence 1 no. 8 in conjunction with Sentence 4 HGB, the auditor must evaluate whether the present reasons justify the use of the safeguard clause.

81 Insofar as information pursuant to §§ 289a (2) Sentence 2, 315a (2) Sentence 2 HGB or §§ 289a (1) Sentence 1 Nos. 1, 3 and 9, 315a (1) Sentence 1 Nos. 1, 3 and 9 HGB must be disclosed in the (consolidated) notes, the auditor must determine whether the management report contains the necessary reference to the information in the (consolidated) notes.

11.3. Non-financial reporting and (Group) corporate governance statement

Non-financial reporting (§§ 289b to 289e, 315b to 315c HGB)

82 With regard to the requirements under §§ 289b to 289e, 315b to 315c HGB, the auditors are only required to examine whether the non-financial (Group) declaration or the separate non-financial (Group) report has been submitted, pursuant to § 317 (2) Sentence 4 HGB.

83 If the entity prepares a separate non-financial (consolidated) report and makes it publicly accessible by publishing it on its website (§§ 289b (3) Sentence 1 No. 2 b, 315b (3) Sentence 1 No. 2 b HGB), the auditor shall

a) determine whether the management report refers to this publication by reference to the Internet site, and

b) conduct a supplementary audit four months after the balance sheet date to determine whether the separate non-financial (consolidated) report has been presented (§ 317 (2) Sentence 5 half-Sentence1 HGB). § 316 (3) Sentence 2 HGB, according to which the results of the audit are to be reported on and the audit opinion is to be supplemented accordingly, applies accordingly with the proviso that the audit opinion is only to be supplemented if the separate non-financial (group) report has not been submitted within four months of the balance sheet date (§ 317 (2) Sentence 5 half-Sentence 2 HGB).

(Group) Declaration on Corporate Governance (§§ 289f, 315d HGB)

84 The auditor must determine whether the management report contains the (group) declaration on corporate governance in accordance with §§ 289f, 315d HGB or a reference to the relevant website. If the (group) corporate governance declaration is included in the management report, the auditor must determine whether the (group) declaration was made in a separate section and limit the audit of the disclosures pursuant to §§ 289f (2) and (5), 315d HGB to whether the disclosures were made in accordance with § 317 (2) Sentence 6 HGB. If the management

report states that the declaration is published on the entity's website, the auditor must determine whether the website exists and is publicly accessible and must restrict the audit of the information pursuant to §§ 289f (2) and (5), 315d HGB to whether the information has been provided in accordance with § 317 (2) Sentence 6 HGB (cf. Paragraph A90).

85 In the course of the audit in accordance with Paragraph 84 whether the information has been provided, the auditor must also determine whether the (group) corporate governance statement contains the information on the proportion of women pursuant to §§ 289f (4), 315d HGB.

Treatment of the disclosures pursuant to §§ 289b to 289f, 315b to 315d HGB in the context of the audit

86 In addition to Paragraphs 82-85 the auditor must also take into account *IDW D-AsS 351*[27]when dealing with the information on non-financial reporting and the (Group) Corporate Governance Statement*.*

Assurance procedures on the content of the disclosures pursuant to §§ 289b to 289f, 315b to 315d HGB

87 If, in the course of the audit of the financial statements, the content of information on non-financial reporting or the (group) corporate governance declaration (§§ 289b to 289f, 315b to 315d HGB) is examined beyond the statutory requirements, the auditor must observe *IDW D-AsS 352.*[28]

11.4. Report on equality and equal pay

88 The report on equal treatment and equal pay, which certain companies are required to attach to their management report in accordance with § 22 (4) of the German EntgTranspG, is not the subject of the audit.[29]

89 Paragraph 87 apply accordingly.

11.5. Special features of the assurance procedures on the Group management report

90 When applying the requirements of *IDW AuS 320 (Revised)*[30] for audits of consolidated financial statements, the auditor must take into account that the consolidated management report may contain information that originates from components as defined by *IDW AuS 320* (*Revised)* (cf. Paragraphs A91-A92).

91 If the Group management report and the management report of the parent entity are combined (§ 315 (5) in conjunction with § 298 (2) HGB), the auditor must also evaluate whether this combined management report contains all the material information necessary to provide an overall accurate picture of both the parent entity's and the Group's situation. In doing so, the auditor

[27] Cf. *draft of an IDW Assurance Standard: The treatment of non-financial reporting disclosures and the (group) corporate governance statement by the auditor (IDW D AsS 351)* (currently being developed).

[28] Cf. *draft of an IDW Assurance Standard: Content review of the information on non-financial reporting, the (group) corporate governance statement and the remuneration report as part of the audit (IDW D AsS 352)* (currently being developed).

[29] Cf. explanatory memorandum to the government draft of a law to promote the transparency of pay structures, BT-Drs. 18/11133, p. 74.

[30] Cf. *IDW Auditing Standard: Special principles for the performance of audits of consolidated financial statements (including the utilization of the activities of sub-auditors) (IDW AuS 320 (Revised))* (Status: 10.07.2014)

must evaluate whether the aggregation has resulted in a material loss of information (cf. Paragraph A93).

11.6. Overall Evaluation of the Management Report

92 Within the scope of the overall evaluation of the management report, the auditor must evaluate whether the management report disclosures are appropriate and balanced (cf. Paragraph A94). The auditor has to evaluate whether the selected form of presentation and choice of words give a misleading impression overall despite the factually correct individual disclosures (cf. Paragraphs A95-A96).

93 Furthermore, the auditor must also evaluate whether the management report is consistent in all material respects with the financial statements and, if applicable, the individual financial statements pursuant to § 325 (2a) HGB and the findings of the audit.

94 In addition, the auditor must conclusively evaluate, on the basis of the assurance procedures performed, whether the management report contains all the information required by law that is material. Furthermore, the auditor must also evaluate whether the management report is commensurate with the scope and complexity of the entity's business activities (cf. Paragraph A97).

95 The auditor also has to evaluate whether the management report as a whole provides a appropriate view of the entity's position and appropriately presents the opportunities and risks of future development (cf. Paragraph A98).

11.7. Evaluation of whether the evidence obtained is sufficient and appropriate

96 On the basis of the audit procedures performed and the evidence obtained, the auditor must evaluate before the end of the audit whether the assessment of the risks of material misstatement at the assertion level is still appropriate.

97 The auditor must conclusively evaluate whether sufficient appropriate evidence has been obtained. In forming an opinion, the auditor must consider all relevant audit evidence, whether or not it appears to confirm or contradict the statements in the management report.

98 If the auditor has not obtained sufficient appropriate evidence for the risks of material misstatement in the management report addressed during the assurance procedures, the auditor must attempt to obtain further audit evidence. If it is not possible to obtain sufficient appropriate evidence, there is a scope limitation which the auditor must take into account in the auditor's report in compliance with *IDW AuS 405.*

12. Evaluation of the identified, uncorrected misstatements in the management report

99 The auditor shall evaluate the misstatements in the management report discovered during the audit and their effects on the performance of the audit, the management report and, if applicable, the financial statements as well as the related audit opinions. The auditor shall request the entity to correct the misstatements identified.

100 In order to evaluate the identified uncorrected misstatements in the management report, the auditor must also observe the following principles in addition to the requirements set out in Paragraphs 101-103.

a) The evaluation of the materiality of identified misstatements shall be made at least at the level of categories of information.

b) If the auditor has evaluated materiality on a case-by-case basis at the level of specific disclosure groups or at the level of individual disclosures within an information category, the auditor shall evaluate the materiality of any misstatements identified at the level of the relevant disclosure groups or at the level of the relevant individual disclosures within an information category.

c) In the event of omissions or misrepresentations in a category of information that provides an insight into the position of the entity or concerns the opportunities and risks of future development, materiality must be evaluated taking into account the relevance of the decision for the addressees (cf. Paragraph A99).

d) A failure to provide legally required disclosures that serve other informational purposes is generally material, unless the auditor concludes in individual cases that a management report disclosure required by law is not relevant to the decisions of the accounting addressees. In the case of incorrect presentations of legally required disclosures, materiality is to be evaluated taking into account the relevance of the decisions for the addressees.

101 A material misstatement in the management report exists if

a) one or more of the assumptions underlying the forecast are outside the range of the assumptions evaluated as reasonable by the auditor and these deviations result in the forecast being significantly outside the range of the forecast as determined by the auditor for the purposes of Paragraphs 28-31 (cf. Paragraphs A100-A103), or

b) in the opinion of the auditor, the forecast was not properly derived from the assumptions on which it is based and the forecast differs significantly (cf. Paragraphs 28-31) from a properly derived forecast.

102 The auditor must evaluate whether the clarity and transparency of the management report is materially impaired by management report-atypical disclosures (cf. Paragraph A104).

103 The information contained in the management report, in particular the qualitative information, the auditor must finally evaluate whether the uncorrected misstatements identified are material overall.

13. Events after the balance sheet date

104 When considering the effects of events after the balance sheet date on the management report, the auditor must observe the principles of *IDW AuS 203 (Revised)* [31]concerning the audit of the management report.

14. Written representations

105 The auditor has to determine whether the representation of completeness to be obtained from the executive directors in accordance with *IDW AuS 303 (Revised)* [32]*as* part of the audit of the financial statements and the proof of overall responsibility for the accounting also includes the

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[31] Cf. *new version of the IDW Auditing Standard: Events after the balance sheet date (IDW AuS 203 (Revised))* (Status: 09.09.2009).

[32] Cf. *new version of the IDW audit standard: Declarations of the executive directors to the auditor (IDW AuS 303 (Revised))* (Status: 09.09.2009).

information in the management report. If the auditor has significant doubts about the integrity of the executive directors and therefore concludes that the representation of completeness or proof of overall responsibility for the financial statements is not reliable, or if the executive directors do not provide such declarations, the audit report must be non-affirmative.[33]

106 If the auditor determines that, in addition to the letter of representation, it is necessary to obtain one or more written statements from the executive directors or other parties in support of the evidence obtained for certain information in the management report, the auditor must request such statements (cf. Paragraph A105). The auditor shall evaluate whether such statements are reasonable and consistent with other audit evidence obtained (including other oral or written statements) and whether the persons making the statements can be expected to have reasonable knowledge of the relevant facts. Written statements should be dated near to, but not after, the date of the auditor's report.

107 If any of the requested written statements have not been provided, or if the auditor considers that there are substantiated doubts as to the competence, integrity and ethical values of the persons providing the statements, or as to their diligence in providing the statements, or that the written statements are otherwise unreliable, he

a) discuss the matter with the appropriate hierarchical level in the entity or, where appropriate, with those responsible for supervision

b) reevaluate the integrity of the person making the statement and evaluate the possible impact on the reliability of statements (oral or written) and evidence as a whole; and

c) take appropriate measures and decide whether there is any impact on the long-form audit report and auditor's report.

15. Documentation

108 In order to fulfil the documentation duties, the auditor must prepare the documentation in such a way that it is sufficient to enable an experienced auditor who has not previously been involved in the assurance on the management report to understand the following (cf. Paragraphs A106-A108):

a) Type, timing and scope of the assurance procedures that were carried out to comply with this *IDW Assurance Standard* and the relevant statutory provisions,

b) the results of the assurance work performed and the evidence obtained; and

c) the significant matters arising during the audit, the findings thereon and any significant judgements made in the course of the audit in order to arrive at those findings.

109 If the auditor obtains information that conflicts with a final determination he has made about a material matter, he must document how that conflict has been dealt with.

110 Pursuant to § 51b (5) WPO, the audit file for statutory audits of financial statements pursuant to § 316 HGB must be completed no later than 60 days after the date of the auditor's report. The audit file must also include the documentation commissioned for the assurance on the management report (cf. Paragraph A109). The same applies to voluntary audits of financial statements conducted in accordance with this *IDW Assurance Standard.* After completion of

[33] Cf. *IDW AuS 303 (Revised)*, Para. 27.

the engagement documentation, the auditor may not remove or delete parts of the documentation for the assurance procedures on the management report during the retention period. If, in exceptional cases, the auditor deems it necessary to change or supplement the documentation for the assurance procedures on the management report after completion of the engagement documentation, he must document the following, irrespective of the type of change or supplement:

a) by whom and on what date the amendment or addition was made and reviewed; and

b) the reason for the amendment or addition.

111 If an audit of the consolidated financial statements is involved and the group management report contains information based on information obtained from components and the group auditor uses the work of component auditors in this regard, the auditor must also document the review of the work of component auditors.

16. Formation of an [audit] opinion on the management report

112 In compliance with this *IDW Assurance Standard,* the auditor must form an opinion on whether the management report has been prepared in all material respects in accordance with the applicable accounting principles; that is, whether

a) the management report as a whole provides an appropriate view of the Entity's position and

b) the management report in all material respects:

   i. is consistent with the financial statements and, if applicable, with the individual financial statements in accordance with § 325 (2a) HGB

   ii. complies with the German legal requirements and

   iii. appropriately presents the opportunities and risks of future development.

17. Long-form audit report and auditor's report

17.1. Long-from audit report

113 *IDW AuS 450 (Revised)* applies to the reporting in the long-from audit report on the assurance on the management report.[34]

114 If the group management report does not meet individual relevant requirements of DRS 20,

a) which are material according to DRS 20.32 and

b) which do not constitute a concretisation of the HGB or which do not otherwise meet the legal requirements,

the auditor must only report on the non-compliance with the requirements of DRS 20 in the long-form audit report, taking into account the reasons given by the executive directors for the deviation from DRS 20 (cf. Paragraph A110).

[34] Cf. *IDW Auditing Standard: Principles of proper preparation of audit reports (IDW AuS 450 n.F.)* (Status: 15.09.2017).

17.2. Auditor‘s report

115 *IDW AuS 400 (Revised)* [35]applies to the reporting in the auditor's report on the assurance of the management report. *IDW AuS 405*[36] and *IDW AuS 406*[37] (cf. Paragraphs A111-A112).

116 In the event of non-compliance with DRS 20 requirements in the group management report, the auditor shall express a qualified or non-affirmative opinion on the group management report in the auditor's report if

a) the DRS 20 requirements are relevant

b) the DRS 20 requirements represent concretisations of the HGB,

c) the legal requirements are not otherwise met; and

d) there are misstatements in the group management report which are material within the meaning of this *IDW Assurance Standard* (cf. Paragraphs A113-A114 and Appendix 1).

117 If the entity declares its compliance with DRS 20 in its group management report, although

- relevant DRS 20 requirements were not observed and
- the group management report contains one or more misstatements which are material within the meaning of DRS 20.32,

the auditor must include an additional [audit] opinion on compliance with DRS 20 in all material respects in the auditor's report and must either qualify this opinion or express a non-affirmative opinion in accordance with *IDW AuS 405* (cf. Paragraph A115).

17.2.1. Risks threatening the existence of the entity

118 *IDW D-AuS 270 (Revised)* applies for the reporting in the auditor's report on the risks to the entity's continued existence as a going concern as described in the management report.

17.2.2. Management report-atypical Information, that is management report-typical information, for which there is no legal obligation for assurance on the content, cross-references and non-assurable disclosures

119 If the auditor has determined that the clarity and transparency of the management report is materially impaired by management report-atypical disclosures, the auditor must qualify the [audit] opinion or express a non-affirmative opinion on the management report in the auditor' report.

120 If the entity does not clearly distinguish management report-atypical information from the management report-typical information subject to assurance and the auditor decides not to cover the content of this management report-atypical information, the auditor must name this management report-atypical information in the description of the management report as an audit subject matter in the section headed "Audit opinions" of the auditor's report and state that it has not been subject to assurance in terms of content. It must be stated in the audit opinion,

[35] Cf. *IDW Auditing standard: Formation of an audit opinion and issuing of an audit certificate (IDW AuS 400 n.F.)* (as of 30 November 2017).

[36] Cf. *IDW Auditing Standard: Modifications of the audit opinion in the auditor's report (IDW AuS 405)* (Status: 30.11.2017).

[37] Cf. *IDW Auditing standard: Notes in the auditor's report (IDW AuS 406)* (Status: 30.11.2017).

that the audit opinion on the management report does not extend to the content of these management report-atypical disclosures, that these disclosures have not been subject to assurance procedures and they must be named (cf. Paragraphs A116-A117 and Appendix 2).

121 Paragraphs 119 and 120 apply mutatis mutandis to management report-typical disclosures for which there is no legal obligation to perform assurance procedures on the content (non-financial reporting and (group) corporate governance statement) (cf. Paragraphs A116-A117 and Appendix 2).

122 If the management report contains cross-references not required by law to information provided by the entity outside the financial statements and the management report which are not clearly marked as unaudited, the auditor must name these cross-references in the description of the management report and identify them as audit subject matter in the section headed "Audit Opinions" of the auditor’s report and state that the information to which the cross-references refer has not been subject to assurance procedures . It must be stated in the auditor's opinion, that the audit opinion on the management report does not extend to them and they must be named (cf. Paragraphs A118-A120).

123 If the management report contains material non-assurable information which is management report-typical and whose content is to be subject to assurance procedures, the auditor must qualify his opinion or express a non-affirmative opinion on the management report in accordance with the principles of *IDW AuS 405* due to scope limitation (cf. Paragraph A121). If the management report contains material non-assurable information which is not subject to assurance (non-financial reporting, (group) corporate governance statement and information not related to the management report) and is not clearly delineated, the auditor must name this information in the description of the management report as an audit subject matter in the section headed "Audit Opinions" of the auditor’s report and state that it has not been subject to assurance. The auditor's opinion must state that the audit opinion on the management report does not extend to the content of the management report-typical information, that these disclosures have not been subject to assurance procedures and they must be named (cf. Paragraphs A117 and A122 and Appendix 3).

Application and other explanatory material

Preliminary remarks [Paragraphs 1-8]

Review of voluntarily prepared management reports (cf. Para. 2)

A1 Management reports prepared voluntarily within the meaning of this *IDW Assurance Standard* are management reports whose preparation is not required by law. This includes management reports prepared in accordance with statutory provisions, which are prepared solely on the basis of a provision of the partnership agreement or the Articles of Association.

Application of DRS 20 to the management report in accordance with § § 289 to 289f HGB (cf. Para. 5)

A2 Pursuant to § 342 HGB, the DRSC is not authorized to set (German) principles of proper accounting (Grundsätze ordnungsmäßiger Buchführung (GoB)) for the annual financial statements and the management report pursuant to §§ 289 to 289f HGB. Irrespective of this, in view of the identical legal requirements of §§ 289 to 289f and 315 to 315d HGB, DRS 20 provides useful information for proper management reporting within the meaning of §§ 289 to 289f HGB.

Responsibility of the executive directors [Paragraphs 9-10]

Preparation of the management report in accordance with the legal requirements (cf. Paragraph 9 Sentence 1)

A3 Pursuant to §§ 289 (1) Sentence 2 and 315 (1) Sentence 2 HGB, the management report must contain a balanced and comprehensive analysis of the course of business and the position of the Entity, which is commensurate with the scope and complexity of its business activities. The scope and level of detail of the statements in the management report depend on the specific circumstances of the entity, in particular the nature of its business activities, its size and the use of the capital market. However, the principle of information gradation does not justify completely omitting reporting on individual reporting matters. On the contrary, the principle requires that higher demands be placed on the comprehensiveness and level of detail of reporting for diversified, larger or capital market-oriented entities than for less diversified, smaller or non-capital market-oriented entities.[38]

Arrangements and measures (systems) for the preparation of the management report (cf. Paragraph 9 Sentence 2)

A4 Depending on the size and complexity of an entity, the arrangements and measures (systems) required to prepare a proper management report can be formalised to varying degrees. In the case of smaller, less complex entities, even a few specific individual measures taken by the executive directors may be sufficient to generate the required information. For example, the executive directors can draw on internal information (e.g. sales, production, personnel statistics) and use external sources of information (e.g. market and competition studies by industry associations).

Rough draft of the management report (cf. Paragraph 10)

A5 For integrated audit planning for the financial statements and management report, it may be necessary to have a rough draft of the management report at the beginning of the audit. On the basis of a rough draft of the management report submitted at an early stage, a coordination meeting with the client can take place to determine whether changes in the structure of the management report are planned, whether significant business transactions are present that affect the management report or how the advice of the German Financial Reporting Enforcement Panel (FREP) was dealt with.

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[38] See DRS 20.34 and 20.35.

Auditor's responsibility [Paragraphs 11-17]

Prerequisites for the assurance procedures on the management report (cf. Paragraph 11)

A6 There are three basic requirements for conducting assurance procedures on a management report:

- the application of appropriate criteria in the preparation (accounting principles) in order to be able to select an appropriate expectation of its content,
- adequate and effective arrangements and measures (systems) to enable a report on the entity's situation to be properly drawn up, and
- the provision of sufficient appropriate evidence by the executive directors for the assertions made in the management report.

A7 The legal requirements for the preparation of the management report in conjunction with DRS 20 represent suitable criteria. The necessity of appropriate and effective arrangements and measures (systems) as well as the existence of sufficient appropriate evidence is the responsibility of the executive directors (cf. Paragraphs 9-10).

Cross-references (cf. Paragraph 17)

A8 Examples of cross-references that are not required by law are references to websites or to separate corporate publications (e.g. sustainability reports, studies or analyst presentations). In contrast, references to external sources are not cross-references within the meaning of this *IDW Assurance Standard*.

A9 Cross-references provided for by law are the references to the Entity's website on which the (Group) Corporate Governance Statement or the separate non-financial (Group) report is made publicly available, as permitted under §§ 289f (1) Sentence 3, 315d HGB or §§ 289b (3) Sentence 1 no. 2b, 315b (3) Sentence 1 no. 2b HGB.

Definitions [Paragraphs 20-21]

Statements (cf. Paragraph 20 a))

A10 The executive directors make explicit or implicit assertions about the facts and circumstances presented in the management report in accordance with the accounting principles applicable to the preparation of the management report. In evaluating various types of possible misstatements that may occur, the auditor bases his evaluation on these explanations - which are referred to as assertions.

A11 Within the scope of this assurance work, the auditor may use certain types of assertions as defined in Para. A12, but may choose a different categorisation provided that all the aspects described in Paragraph A12 are covered.

A12 Types of assertions used by the auditor in evaluating the occurrence of possible misstatements can be categorised as follows:

a) Completeness - all matters requiring disclosure in the management report are disclosed.

b) Accuracy - The description of the facts and figures are available and correct.

c) Presentation - Information on matters is presented in the appropriate place in the management report, aggregated or disaggregated in an appropriate manner, and is relevant and understandable.

A13 In accordance with the requirements of Paragraph 30 on materiality and Paragraph 33 on risk assessment at the assertion level, the auditor is obliged to apply the assertion concept at least at the level of information categories. In addition, it may be necessary in individual cases to apply the assertion concept to certain groups of information (e.g. information on liquidity in the context of the presentation of the financial position) or at the level of individual information (in particular if they are individually material, e.g. the most significant non-financial performance indicators).

A14 In addition, for risks of material misstatement of certain types of assertions, which obviously do not exceed an acceptably low level, it is not necessary to make an explicit assessment of these risks; this means that no further assurance procedures are necessary. For example, when the risk of material misstatement due to misstatement of an event does not appear to exceed an acceptably low level, no further assurance procedures are necessary to assess that risk.

Categories of information (cf. Paragraph 20 i))

A15 The categories of information provided for under DRS 20 may also be designated differently in management reports pursuant to §§ 289 to 289f HGB.

Management report-atypical information (cf. Paragraph 20 k))

A16 Examples of management report-atypical information are assertions about the appropriateness or effectiveness of the management system, the risk management system or the accounting-related internal control system, as well as non-financial information in the form of comprehensive sustainability reports or information on social or cultural engagement, insofar as these are not material for understanding the course of business or the situation and, , exceed non-financial reporting, where applicable, as required pursuant to §§ 289b to 289e and 315b to 315c HGB. A further example of a management report-atypical disclosure is if the confirmation of the executive directors is included in the management report in accordance with §§ 264 (2) Sentence 3 and 289 (1) Sentence 5 HGB or in the Group management report in accordance with §§ 297 (2) Sentence 4 and 315 (1) Sentence 5 HGB. By contrast, voluntary disclosures in the management report of a medium-sized corporation, which are only required by law for large corporations (e.g. disclosures on non-financial performance indicators) are not management report-atypical disclosures, but disclosures that are typical of the management report.

Information typical of the management report (cf. Paragraph 20 l))

A17 Although they are typical of management reports, there is no legal obligation to perform assurance procedures relating to the content of the disclosures on non-financial reporting in accordance with §§ 289b to 289e, 315b to 315c HGB and the (Group) corporate governance declaration in accordance with §§ 289f, 315d HGB.

Non-verifiable information (cf. Paragraph 20 m))

A18 Information is verifiable if

a) the facts on which the disclosure is based are appropriate

b) the criteria used to measure or evaluate the underlying facts leading to the disclosure are suitable; and

c) the necessary audit evidence exists and is normally accessible, given the nature of the disclosure.

A19 An underlying fact is appropriate, i.e. clearly identifiable and amenable to consistent (using appropriate criteria) measurement or evaluation, so that the resulting information can be subjected to assurance procedures to obtain sufficient appropriate assurance evidence.

A20 Appropriate criteria have the following characteristics:

a) Relevance: Relevant criteria result in information that is useful to the addressees in their decisions;

b) Completeness: criteria are complete if the information provided in accordance with those criteria does not omit any relevant factors which can reasonably be expected to influence the decisions of the addressees on the basis of that information. Complete criteria include, where relevant, standards of presentation and further explanation;

c) Reliability: reliable criteria provide a reasonably consistent measurement or evaluation of the underlying facts including, where relevant, their presentation and further explanation when applied by different auditors in similar situations;

d) Neutrality: Neutral criteria result in information that is free from bias, if appropriate under the circumstances of the engagement;

e) Comprehensibility: Comprehensible criteria lead to information that can be understood by the addressees.

The criteria must be accessible to the users of the management report.

A21 Unsubstantiated, vague descriptions of expectations or estimates based on the experience of a particular person do not constitute appropriate criteria.

A22 Non-verifiable information often relates to self-praising, non-verifiable marketing statements. However, non-verifiable statements may be reformulated as verifiable statements. An example of a non-verifiable statement is the statement in the management report that the entity's products are of the highest quality. This statement is not verifiable because this statement is not based on suitable criteria and therefore no sufficient appropriate evidence can be obtained. A reformulated verifiable statement would be, for example, the truthful statement that products A and B achieved first place in a test by a stated independent consumer body in the year under review. Another example of a non-verifiable claim is a statement that a entity is a leader in research and development, without specifying the criteria for this evaluation. On the other hand, a statement that research and development expenditures are above the industry average would be objectively verifiable, if necessary, on the basis of corresponding industry data.

Entities (cf. Paragraph 21)

A23 "Other entities" within the meaning of this *IDW Assurance Standard* can be civil law companies, partnership companies, associations with or without legal capacity, foundations, pension funds, local authorities, other corporations, own companies, public law institutions, communities, special funds, natural persons or other economically distinct business activities (e.g. locations, independent branches, divisions) or groups of such entities.

Compliance with certain requirements for the audit of financial statements [Paragraph 22]

Observance of relevant requirements of the IDW Auditing Standards (cf. Paragraph 22)

A24 The aforementioned *IDW Auditing Standards* may contain requirements that are not relevant due to the subject matter of the assurance procedures on the management report.

Planning the assurance procedures on the management report [Paragraphs 23-27]

Integrated audit planning of the financial statements and management report (cf. Para. 23)

A25 The assurance procedures on the management report is closely related to the audit of the financial statements. Audit evidence that the auditor uses in the course of the audit to evaluate the economic situation of an entity is also a direct basis for planning the assurance procedures of the management report.

Decision on the handling of management report-atypical information (cf. Para. 24)

A26 Management report-atypical information contained in the management report may include individual or limited information, e.g. on certain sustainability aspects, but also complete sustainability reports. Individual management report-atypical disclosures can also have a significant impact on the users of the financial statements, for example, the assertion that the entity's management system was effective in the reporting period. Management report-atypical information that is either extensive or of great significance can lead to a considerable increase in the associated assurance workload, which can influence the auditor's decision to include it in the audit.

Delimitation of the terms "ascertain", "evaluate" and "appreciate" (cf. Para. 27)

A27 In this *IDW Assurance Standard,* the terms "determine", "evaluate" and "appreciate" are distinguished from each other as follows:

- determine: the determination or decision on the basis of audit evidence obtained;
- evaluate: Identifying and analysing the relevant facts and circumstances, including performing additional assurance procedures in order to reach a conclusion;
- appreciate: to appraise something on the basis of existing information in order to make a statement.

Averting a scope limitation in the case of non-verifiable information (cf. Para. 27)

A28 In the case of information typical of management reports that is not assurable, a scope limitation can be averted by the executive directors reformulating the information so that it is assurable. Otherwise, the scope limitation can have an impact on the auditor's opinion on the management report.

Materiality in planning and conducting the assurance procedures on the management report [Paragraphs 28-31]

Addressee orientation of the materiality concept (cf. Paragraph 28)

A29 As a general rule, judgements about materiality are made in the light of the surrounding circumstances and are influenced by the extent or nature of misstatement or a combination of both. The judgements about matters that are material to users of the management report are based on an evaluation of the users' common needs for information as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

A30 The determination of materiality by the auditors is at their professional judgement and is influenced by their perception of the information needs of the addressees of the management report. In this context, it is reasonable for the auditor to assume that addressees

a) have a reasonable knowledge of business and economic activities and of accounting and willingness to study the information in the management report with due diligence,

b) understand that the management report is prepared, presented and subject to assurance procedures to levels of materiality,

c) recognising the uncertainties inherent in the measurement of amounts based on estimates, forecasts, judgments and projections of future events; and

d) make reasonable economic decisions on the basis of the information in the management report.

Materiality in the planning and performance of the assurance procedures on the management report (cf. Paragraphs 29-30)

A31 Insofar as the management report contains quantitative, historical financial information on the net assets, financial position and results of operations presented in the financial statements, this information serves the addressees in gaining an insight into the view of the net assets, financial position and results of operations conveyed by the financial statements. Therefore, the materiality on which the audit of the financial statements is based (materiality to the financial statements as a whole and any specific materiality) should be considered in the assurance procedures on that information.

A32 According to *IDW AuS 400 (Revised)* Paragraph 19, the auditor issues the following opinion on the management report in the audit certificate:

- whether the management report as a whole provides an appropriate view of the Entity's position and
- whether the management report is consistent in all material respects with the financial statements, complies with the legal requirements and appropriately presents the opportunities and risks of future development

A33 As described in *IDW AuS 400 (Revised)* Paragraph 19 a), an [audit] opinion is expressed on the management report as a whole and therefore no audit opinion is given on the individual disclosures in the management report. The materiality considerations underlying the planning and performance of the assurance procedures therefore relate to the management report as a whole.

A34 As the legislator assumes that the legally prescribed quantitative and qualitative disclosure requirements in the management report are relevant to the decision-making process of the users of the financial statements, such omitted disclosures are generally material for the management report as a whole. The information required by law for the management report, which relates to the view of the entity's situation, is generally reflected in the information categories of DRS 20. For this reason, materiality considerations in the planning and performance of the assurance procedures on the management report must be made at least at the level of the information categories. In individual cases, it may be necessary to make materiality considerations for certain groups of disclosures (e.g. disclosures on liquidity in the context of the presentation of the financial position) or for individual disclosures (particularly if they are individually material, e.g. the most significant non-financial performance indicators) within an information category on the basis of the relevance of the disclosure for the decision-making process of the addressees.

A35 The requirement for the auditor to make materiality considerations does not mean that the auditor must establish materiality thresholds at that level. The reason for this is that materiality levels for qualitative management report disclosures cannot be established in the context of planning the assurance procedures. If a material disclosure group is a cumulative amount or a material individual disclosure is an amount, the auditor may consider it necessary to establish a separate materiality threshold.

A36 A possible basis for deciding whether materiality considerations are required at the level of specific disclosure groups or at the level of individual disclosures in individual cases is the homogeneity or inhomogeneity of disclosures within a category of information.

Consideration of the risk of qualitative material misstatements (cf. Paragraph 28)

A37 It is naturally not possible to define materiality levels for qualitative disclosures in the context of assurance engagement planning. However, the auditor will consider the risk of material misstatements of a qualitative nature when performing assurance procedures to assess risk in accordance with Paragraph 32 the auditor will consider the qualitative aspects of disclosures in the risk assessment in accordance with Paragraph 43.

Materiality considerations based on budgets (cf. Paragraph 31)

A38 For example, in the case of a fast-growing start-up entity, a budget calculation will deviate significantly from the audited financial statements, so that in this case the materiality levels defined for the audit of the financial statements may not be appropriate for the audit of the forward-looking information contained in the management report.

A39 The design of a budget depends on the size and complexity of an entity. A budgeted financial statement will regularly consist of a profit and liquidity plan for the forecast period and at least an idea of how the asset and capital structure will change in the forecast period.

Risks of material misstatements in the management report

Assurance procedures for risk assessment [Paragraphs 32-36]

"Management report level" and "assertion level" (cf. Paragraphs 32-33)

A40 Risks of material misstatements at the level of the management report as a whole, relate to risks that have a pervasive effect on the management report and thus affect many assertions. These risks reflect circumstances that may generally increase the risks of material misstatements at the assertion level, for example, risks of material misstatements due to violations or the overriding of the accounting-related internal control system by the executive directors. Such risks can also result from an inadequate control environment.

A41 It is not necessary to make an explicit assessment of the risks of material misstatement in relation to specific types of assertions, the risk of which obviously does not exceed an acceptably low level.

Connection with the audit of the financial statements (cf. Paragraph 33 (2))

A42 The results of the risk assessment of the financial statements are to be taken into account in the assurance procedures for risk assessment in accordance with Paragraph 32 et seq. insofar as the risks at the level of the financial statements and management report overlap. When management report disclosures are information contained in the financial statements, a separate risk assessment is not required for these management report disclosures. In particular, inspections and observations made in the course of the audit of the financial statements in order to obtain information about the entity and its environment are at the same time assurance procedures for the purpose of assurance on the management report.

Analytical assurance procedures for risk assessment (cf. Paragraph 34)

A43 The analytical assurance procedures to be performed as part of the risk assessment in accordance with Paragraph 34 c) do not relate to the analytical audit procedures performed for the audit of the financial statements, but rather, for example, to the evaluation of compliance with planning by means of comparisons with management report information from the previous year. As a rule, analytical audit procedures are less relevant to the assurance on the management report than to the audit of the financial statements, since the management report disclosures are often qualitative disclosures.

Gaining an understanding of the entity and its environment [Paragraphs 37-38]

Insufficient understanding of the entity and its environment gained during the audit of the financial statements (cf. Paragraph 38)

A44 Depending on the complexity of the entity and its accounting system and the presentations in the management report, the understanding of the entity and its environment gained during the audit of the financial statements may not be sufficient for the assurance procedures on the management report. It is conceivable, for example, that the previous discussion of the opportunities of future business activities is not sufficient for the assurance procedures on the opportunities reported in the management report. In this case, a more intensive examination of industry developments and their possible influence on the entity may be necessary.

Acquiring an understanding of the relevant arrangements and measures (systems) for preparing the management report and determining forecast data [Paragraphs 39-42]

Understanding of the arrangements and measures (systems) for preparing the management report (cf. Paragraph 39 (1))

A45 The auditor will regularly take into account the results of audit procedures to gain an understanding of the accounting-related internal control system in accordance with *IDW AuS 261 (Revised),* which was obtained during the audit of the financial statements, when performing assurance procedures on the management report in order to avoid duplication of work. This may be the case, for example, with forecast data used both to determine fair values or impairments and when preparing the forecast report.

A46 The scope of the assurance procedures to obtain an understanding of the arrangements and measures (systems) used in the preparation of the management report depends on the arrangements and measures (systems) appropriate to the size and complexity of the entity. For example, in the case of a smaller entity with manageable business operations, the arrangements and measures (systems) may be very simple. By contrast, for large and complex, internationally active entities, such systems will be correspondingly complex. The simple arrangements and measures (systems) used to prepare the management report tend to be manual, whereas in complex systems the preparation of the management report is often automated.

Understanding of the arrangements and measures (systems) with regard to the opportunities and risks of future development (cf. Paragraph 39 (2))

A47 If, for example, the management report contains statements on measures to take advantage of opportunities or to manage risks of future development, the understanding is limited to whether the arrangements and measures (systems) applied in this regard constitute a suitable basis for the opportunity and risk reporting in the management report.

Comparison of previous year's forecasts with actual results (cf. Paragraph 42)

A48 The comparison of the forecasts reported for previous financial years with the actual results is made in order to obtain evidence of the general reliability of the methods used by the entity to determine forecasts, and not to call into question the estimates made in the audit of previous years on the basis of the information available at that time.

Identification and evaluation of the risks of material misstatements in the management report [Paragraphs 43-44].

Qualitative aspects of management report disclosures (cf. Paragraphs 32 and 43)

A49 The evaluation of the materiality of misstatements in the management report can be influenced by the following qualitative factors:

a) Factors arising from the design of the misrepresentation, for example

- the choice of words in qualitative terms (e.g. inadequate or inappropriate descriptions which may mislead the addressees)

- the form of presentation in the management report (e.g. narrative presentations or presentation in the form of tables or diagrams that are incomprehensible or misleading);

b) Factors that allow conclusions to be drawn about the cause of the misrepresentation or are the trigger for the misrepresentation, e.g:

- whether a misrepresentation is intentional or unintentional;
- whether a misrepresentation is a violation of the law or a breach of contractual agreements;
- whether misstatement is an indication of weaknesses in the internal control system;
- the interaction between information in different parts of the management report and its relative importance, e.g. quantitative and qualitative performance indicators;
- if a threshold value or a comparative value is used and the result stated in the management report differs from this value
- significant factors determining forecasts, including assumptions about the future or their possible impact on trends;
- sensitivity analyses for forecasts;
- significant entity acquisitions and sales;
- agreements on variable remuneration systems, e.g. share-based or profit-based remuneration;
- events or circumstances that have led to an impairment loss;
- changes in accounting principles, e.g. new requirements for qualitative management report disclosures, which are of significance for the entity;

c) Factors indicating a particular scope of the misrepresentation, such as

- industry specifics (e.g. information on liquidity risks can be particularly important for the addressees of a bank's financial statements);
- the extent to which an entity in a financially strained situation does not comply with liquidity or debt agreements;
- the seriousness of the consequences of a breach of the law or a breach of contractual agreements
- whether the presentation has an impact on past or future reporting;
- whether the misstatement affects disclosures in other information within the meaning of *ISA 720 (Revised) (Draft-EN);*
- whether the misrepresentation is significant due to previous communication with addressees, e.g. about expected results;
- whether the misrepresentation affects relationships within the meaning of *IDW AuS 255*[39] between the entity and other parties.

[39] Cf. *IDW Auditing Standard: Related Party Disclosures in the context of the audit of financial statements (IDW AuS 255)* (as of 24 November 2010).

Reactions to the assessed risks of material misstatements in the management report

General reactions at the level of the management report as a whole [Paragraph 45]

A50 General reactions to address assessed risks of material misstatements at management report level may include the following measures:

- emphasising to the audit team that it is necessary to maintain professional skepticism;
- the use of more experienced staff or those with special skills or the involvement of experts;
- stronger monitoring of engagement performance;
- general change in the nature, timing or extent of audit procedures (e.g. changing the nature of assurance procedures to obtain more persuasive evidence).

Reactions at the statement level [Paragraphs 46-81]

A51 The reactions to the assessed risks of material misstatements at the assertion level described in Paragraphs 46-52 apply to all information categories covered by the management report. The specific responses to the assessed risks of material misstatement at the assertion level set out in Paragraphs 53-81 specify, for selected categories of information, the requirement in Paragraph 46 to plan and perform assurance procedures in response to the assessed risks of material misstatement at the assertion level. These concretisations relate exclusively to the category of information mentioned in each case. In cases where materiality considerations are made at the level of the information category or, in individual cases, at the level of groups of information, a corresponding selection of management report disclosures as defined by *IDW AuS 300 (Revised)* can be made when planning and performing the assurance procedures.

A52 Paragraph 47 specifies the cases in which the auditor must react to the assessed risks of material misstatements by evaluating the effectiveness of the arrangements and measures (systems) relevant for the preparation of the management report. In the case of smaller and less complex entities, these cases often do not occur, so that assurance procedures on the management report can only be performed by means of substantive assurance procedures.

Reactions at assertion level with regard to all categories of information [Paragraphs 46-52]

Consistency between the information in the financial statements and the management report (cf. Para. 50)

A53 In order to determine whether the disclosures in the management report are consistent in all material respects with those in the financial statements and, if applicable, with the separate financial statements pursuant to § 325 (2a) HGB, the auditor will compare them. If disclosures in the management report do not agree with those in the financial statements and, if applicable, with those in the individual financial statements in accordance with § 325 (2a) HGB, a reconciliation between these disclosures in the management report may also be sufficient, provided that it is not misleading.

Special reactions at assertion level for selected categories of information in the management report [Paragraphs 53-81]

Objectives and strategies (cf. Paragraph 53)

A54 Measures taken by the entity can relate, for example, to changes in the organizational structure or the structure and content of internal reporting.

Control system (cf. Paragraph 54)

A55 If the management report contains explanations on the control system set up by the entity, these explanations can be understood on the basis of the system documentation available.

A56 In order to determine whether the ratios used to manage the entity have also been stated or whether the stated ratios are actually used to manage the entity, the auditor may, for example, consult the following documents:

- Management accounting reports
- Corporate planning together with deviation analysis
- Sustainability Reports
- Board presentations and minutes of meetings
- Supervisory Board presentations and minutes of meetings.

A57 If the key figures used to manage the entity have changed in comparison to the previous year, it may be useful to have the background to this explained in discussions with the executive directors and to determine, on the basis of the documents presented in Paragraph A56 whether the presentation in the management report has been adjusted.

A58 If the management report contains information on the appropriateness or effectiveness of the management system beyond the presentation of the principles and measures for managing the entity, this information is to be addressed outside the management report and in accordance with Paragraphs 24 and 25. If these management report-atypical disclosures are not clearly delineated and, contrary to Paragraph 120, in the auditor's report, the auditor did not name them in the audit opinion and did not state that they had not been subject to assurance procedures in terms of their content, the auditor is obliged to perform assurance procedures on these disclosures pursuant to Paragraph 25. Assurance on the appropriateness of information requires tests of design, assurance relating to information on effectiveness requires tests of controls.

A59 In evaluating whether the method of calculating the ratios is appropriately presented - unless it is obvious to the knowledgeable addressee - it may be important to determine whether these ratios are determined in accordance with known definitions laid down in law or in standards or by institutions and whether the parameters used in the respective ratio are derived directly from the financial statements.

Macroeconomic and industry-related conditions (cf. Paragraphs 55-56)

A60 A source can be qualified as relevant if the information in the source can be shown to influence the entity's business and the course of business. Reliability can generally be assumed in the case of publications by public institutions and independent bodies with relevant expertise.

Sources may not be relevant or reliable if they are minor or individual opinions (e.g. party opinions) or if they come from biased (e.g. related or dependent) persons or institutions.

A61 Information on the general economic and industry-related framework conditions, such as inflation rates, interest rates, employment rates and market growth, can also be derived from the following sources, for example, which can be qualified as relevant and reliable

- public statistics
- industry reports/statistics
- reports published by credit institutions and financial analysts
- financial newspapers
- official information.

In other cases, the basis may be entity-specific and based on internally collected data. Examples include personnel statistics, planning and budgeting documents, sales statistics, statistics on orders on hand and credit lines.

A62 In addition to the information on the business model, this information can form the central starting point for the further presentation of the course of business and the other subjects of the management report.

In addition, the variables indicated in the general conditions of the financial year (e.g. market growth) may also be key assumptions for forecasts, which must be explained in the forecast report in accordance with § 289 (1) Sentence 4 half-Sentence 2 HGB and § 315 (1) Sentence 4 half-Sentence 2 HGB.

Development of business (cf. Paragraph 57)

A63 The extent and level of detail of the information provided in the management report depends on the specific circumstances of the entity and in particular on the nature of its business activities and its size. Reporting in the case of a simply structured, smaller, non-capital market-oriented entity that is in an economically orderly situation is likely to be much less complex than in the case of a large, highly complex entity with a high degree of diversification, which is also in a situation that threatens its existence or impairs its development.

Financial position and performance with financial and non-financial performance indicators (cf. Paragraphs 58-62)

Sources of information on the net assets, financial position and results of operations (cf. Paragraph 58)

A64 Most of the information on the assets, financial position and earnings situation can be reconciled with the bookkeeping and financial statements. For the remaining information, other evidence provided by the entity can be regularly used (e.g. credit agreements for specified credit lines; volume statistics for sales volume developments).

Evaluation of the most significant performance indicators (cf. Paragraphs 60-61)

A65 If the auditor determines, for example, that the most significant performance indicators mentioned in the management report do not correspond to those from internal reporting and the management report therefore contains a misstatement, the auditor must, in accordance with

IDW AuS 210, Para. 64, report this determination to the responsible level of management and, if necessary, to those responsible for supervision. According to *IDW AuS 210*, Para. 65, the evaluation of whether this fact must be reported to the persons responsible for supervision depends on the auditor's professional judgment, taking into account the requirements of *IDW AuS 470, (Revised).*

A66 In the case of non-financial performance indicators, such as customer satisfaction or market share, it may be more difficult to present a link to the financial position and performance. However, the development of such performance indicators is often also reflected in financial parameters such as sales revenues or enterprise value. A better understanding of business performance can be achieved by establishing the links between non-financial performance indicators and amounts and disclosures in the financial statements.

According to DRS 20.104, reconciliations of financial performance indicators can also be disclosed in the notes.

A67 The most important financial and non-financial performance indicators are those used for corporate management purposes, which are regularly communicated in the internal reporting to management and, where appropriate, to those responsible for monitoring. The internal communication documents (e.g., budget forecasts presented to the Supervisory Board, budget for the following year approved by the Supervisory Board, documentation on the performance indicators used in the management compensation system) can be an appropriate evidence for verifying the accuracy and completeness of the control parameters designated as performance indicators in the management report. In accordance with DRS 20, the performance indicators must be presented in the management report within the comments on the control system, analysed in the economic report and forecast in the forecast report.

A68 A deviation between the performance indicators used for internal management and those reported can be acceptable in the sense of aggregation (DRS 20.109 for non-financial performance indicators). For example, the internally quantified performance indicators fluctuation, sick days and length of service can be aggregated to form a qualified reported performance indicator (e.g. "high employee satisfaction"). This may be appropriate for financial performance indicators. For example, it may be permissible - in the case of financial statements without independent segment reporting - to combine internally reported sales figures for different business segments for larger areas.

Forecast report (cf. Paragraphs 63-70)

Evidence for the assumptions underlying the forecast data (cf. Paragraph 64)

A69 The forecast information in the management report is based on assumptions made by the entity, e.g. with regard to the future development of the overall market, material and personnel expenses, interest rates and exchange rates. The entity will often provide the auditor with written evidence to support these assumptions.

Evaluation of the significance of the assumptions (cf. Paragraph 65)

A70 An assumption made in determining a forecast value in the management report may be considered significant if a substantiated change in the assumption has a material effect on the forecast value in the management report. A change in an assumption is deemed to be reasonable if it is within the range of values considered to be justifiable, which is predominantly probable, i.e. more likely than unlikely.

Evaluation of the reasonableness of the assumptions (cf. Paragraph 66 Sentence 1)

A71 When evaluating the reasonableness of significant assumptions, the auditor will often consider intersubjectively understandable versions of the assumptions and evaluate whether the entity's significant assumptions lie within these ranges. This may depend, among other things, on the intersubjective comprehensibility of cause-and-effect relationships. For example, a trend extrapolation is only meaningful if the assumed cause-and-effect relationship can be assumed to be relatively constant and the main influencing factors have not changed fundamentally (such as the product range when forecasting sales development).

A72 In evaluating the reasonableness of the entity's assumptions underlying the business plan, the auditor may consider industry information or other external sources. If the assumptions on which corporate planning is based deviate significantly from industry or market trends, the investigation of whether the entity can justify this deviation in an intersubjectively comprehensible manner is of increased importance. In this context, the auditor can, for example, evaluate the feasibility of measures with which the entity has underpinned its planning in order to achieve the development it has forecast.

Probability of occurrence for significant assumptions (cf. Paragraph 66 Sentence 5)

A73 A unilateral exercise of judgement can occur if several assumptions used by the entity are, for example, only just at the acceptable limit of intersubjectively comprehensible values when viewed in isolation, but it seems unlikely that these assumptions will be very positive overall.

A74 The occurrence of significant assumptions is not to be expected with a predominant probability even if none of several scenarios shows a predominant probability of occurrence. If, for example, three scenarios exist for an assumption, whose probabilities of occurrence are estimated at 25 %, 35 % and 40 %, no predominant probability can be assumed for any scenario.

A75 When evaluating alternative representations and their effects, the auditor may be able to determine intersubjectively comprehensible versions of the assumptions himself (e.g. by means of scenario calculations).

Appropriate derivation of the prognostic data from the assumptions (cf. Paragraph 67)

A76 Forecast data are appropriately derived from the assumptions on which they are based if the derivation is logical and calculable and the assumptions and the forecasts derived from them are free of contradictions.

A77 Integrated corporate planning includes, for example, coordinated budgeted balance sheets, budgeted profit and loss statements and budgeted cash flow statements.

Forecasting reliability (cf. Paragraph 68)

A78 Even if prognostic information is properly derived from the assumptions on which it is based, actual developments may subsequently differ from the forecasts. In this context, the auditor is required by Paragraph104 examine whether there were any indications by the time of the assurance procedures that the actual developments occurring after the balance sheet date confirmed or called into question the corporate planning.

Inherent limitations of the examination of prognostic data (cf. Paragraph 70)

A79 An independent [audit] opinion on the future-oriented statements and the underlying assumptions is not given by the auditor. There is a significant unavoidable risk that future events could differ materially from the forward-looking statements. This is due in particular to the fact that the uncertainty associated with assumptions increases significantly the further the events underlying the assumptions lie in the future.

Report on opportunities and risks (cf. Paragraphs 71-77)

Completeness (cf. Paragraph 71)

A80 Insignificant opportunities and risks do not have to be included in the management report. Risks threatening the continued existence of the entity constitute a subset of the material risks and thus reportable risks.

Evaluation of the effectiveness of the arrangements and measures (systems) for recording and evaluation (cf. Paragraph 72)

A81 The requirement to possibly evaluate the effectiveness of the arrangements and measures (systems) for recording and assessing the material opportunities and risks of future development as set out in Paragraph 72 is a more specific specification of the requirement to possibly evaluate the arrangements and measures (systems) relevant for the preparation of the management report as set out in Paragraph 47. Depending on the size and complexity of an entity, the recording and assessment of the material opportunities and risks of future development can be formalised to varying degrees. For smaller, less complex entities, an ad hoc recording of the opportunities and risks may be sufficient. For example, the recording and assessment of the opportunities and risks can also be carried out by means of inquiry of department heads, so that in this case too the auditor will not only carry out substantive procedures, but will also evaluate the control over the completeness of response to the inquiry. The need to set up a formalised system for recording opportunities and risks increases with the size and complexity of the entity or is required in part by law (e.g. setting up an early risk recognition system in accordance with § 91 (2) (AktG) [German Stock Corporation Act].

A82 If the arrangements and measures (systems) for recording and assessing the material opportunities and risks are not sufficiently effective, this may have an impact on the judgment on the management report, unless the auditor is able to obtain sufficient appropriate evidence for assessing the material opportunities and risks of future development solely through substantive assurance procedures.

A83 The decision to make an evaluation of the effectiveness of the arrangements and measures (systems) for recording and assessing the significant opportunities and risks of future development may also be made by the auditor for reasons of efficiency of the assurance engagement. This may be the case if substantive assurance procedures alone are more complex than a combination of auditing the effectiveness of the arrangements and measures (systems) for recording and assessing the material opportunities and risks, and if the nature, scope and timing of the substantive procedures are appropriate.

A84 If the audit of the early risk recognition system was already the subject of the audit of the financial statements on the basis of § 317 (4) HGB or a contractual extension of the audit engagement, the auditor can draw on the knowledge gained from this audit. The nature and scope of the assurance procedures to evaluate the effectiveness of the arrangements and measures (systems) for recording and assessing the material opportunities and risks of future development may differ from those required for an audit of the early risk recognition system on the basis of § 317 (4) HGB or a contractual extension of the audit engagement, since the auditor is not required to express a separate opinion on the effectiveness of these arrangements and measures (systems) when performing assurance procedures on the management report. For example, deficiencies in the arrangements and measures (systems) which would lead to modifications (to the auditor's opinion) in a separate audit of the early risk detection system cannot influence the auditor's opinion relating to the assurance on o the management report if additional substantive procedures can be used to obtain additional assurance.

A85 Even if the arrangements and measures (systems) have been evaluated as inadequate or ineffective, a comparison of the opportunities and risks of future development indicated in the management report with the opportunities and risks identified and assessed by the arrangements and measures (systems) may be helpful, as such systems cannot guarantee complete coverage overall, but may nevertheless provide information that is relevant to certain areas of the entity, for example.

Other relevant information that came to light (cf. Paragraph 73)

A86 Other relevant information that the auditor has become aware of relating to the opportunities and risks presented may be, for example

a) information from the minutes of the Executive Board / Management Board and Supervisory Board meetings

b) publications on macroeconomic and sector-specific risks

c) analyst reports

d) securities prospectuses.

Assessment of the main opportunities and risks (cf. Paragraph 74)

A87 The materiality of a risk will regularly result from the joint consideration of the probability of occurrence and potential effects (scope). For example, a risk with a low probability of occurrence and low impact will generally not constitute a material risk for management reporting purposes. By contrast, risks with a high probability of occurrence and serious effects will generally be considered material. In the areas between these extreme cases, qualification as a material risk will depend on the individual case. For example, a risk with an effect that could jeopardize the entity's continued existence may qualify as material even if its probability of occurrence is low.

A88 In evaluating whether the material opportunities and risks are appropriately presented and assessed in the management report, an aggregation of individual risks or the omission of a disclosure of risks below a threshold defined by the entity may also be relevant factors for reporting in the management report. This is the case, for example, if a threshold value set by the entity has been set at an inappropriately high level, taking into account the risk of accumulation of individual risks.

Biased presentation (cf. Paragraph 77)

A89 In particular, due to the predominantly qualitative nature of the opportunities and risk reporting, there may be an increased risk of biased presentation, which could lead to a material misstatement in the management report. If, for example, the presentation of the individual risks is still justifiable, the overall risk reporting may nevertheless be imbalanced.

Non-financial reporting and (group) corporate governance statement [Paragraphs 82-87]

(Group) Declaration on Corporate Governance (§§ 289f, 315d HGB) (cf. Paragraphs 84-85)

A90 Irrespective of whether the (group) corporate governance statement was made in a separate section of the management report or whether it is stated in the management report that the (group) statement has been made publicly available on the entity's website, the audit is limited to a check of the existence of the information and does not include an examination of the content of the information.

Special features of the assurance procedures on the group management report [Paragraphs 90-91]

Relevant information from components (cf. Paragraph 90)

A91 Information from components may be relevant for the Group management report if, for example, in a decentrally organised Group, the risks relevant for risk reporting are determined to a considerable extent by the risk situation of the components. In this case, it may be appropriate for the group auditor to request the component auditors to include the information included in this information in the audit at component level. In addition, it may be appropriate for the auditor of the consolidated financial statements, when performing the evaluation required in accordance with Paragraph 73 as to whether the opportunities and risks presented are consistent with other relevant information that has come to his attention, to also ask the component auditors for their level of knowledge, if he expects this to provide relevant information for the audit of the Group management report.

A92 Where information from components is relevant to disclosures in the group management report, this is often already covered by the audit of the accounting information of the significant components. For example, the notes on the net assets, financial position and results of operations may be based on figures from components that were already the subject of audit or review procedures at the time of the audit. Depending on the circumstances of the individual case, the need for additional assurance procedures may arise from the following requirements of *IDW AuS 320 (Revised):* Paragraphs 22 and 23, Paragraph 33 Sentence 1, Paragraph 35 Sentence 2, Paragraph 36, Paragraph 37 Sentence 2 and 3, 1st bullet, Paragraphs 39-41, Paragraph 46 Sentence 1 a) half-Sentence 1, Paragraph 46 Sentence 1 b)-d), Paragraph 46 Sentence 2 and Paragraph 47.

Combined management report (cf. Paragraph 91)

A93 When combining the management report and the Group management report, there may be an increased risk that the combined presentation may not include all relevant information relating to the position of the parent entity and the Group in the combined management report. This may be the case, in particular, if different accounting principles are applied in the consolidated financial statements and the annual financial statements of the parent entity or if economic conditions at the level of the parent entity and the Group differ significantly.

Overall evaluation of the management report [Paragraphs 92-95]

Adequate and balanced ratio of the management report disclosures (cf. Paragraph 92)

A94 Examples of criteria for evaluating the adequacy and balance of the management report disclosures may include

- Relationship of the comments on the economic environment to entity-related information
- Relationship of management-related information to financial and non-financial performance indicators
- Relationship of opportunity reporting to risk reporting
- Evaluation of positive and negative developments.

A95 A misleading impression can arise, for example, by omitting certain information, by incorrectly weighting material and immaterial information, by highlighting opportunities without adequately mentioning the corresponding risks or by establishing misleading connections.

A96 Opinions expressed by the executive directors may also constitute evaluative statements. These may be non-verifiable statements (cf. Paragraph 20 m)) if the opinions expressed are not objectively evaluated by a third party.

Correspondence of the management report with the scope and complexity of business activities (cf. Paragraph 94)

A97 In evaluating whether the management report is commensurate with the scope and complexity of the business, the detail of certain information may be an important indicator. Accordingly, this evaluation can be influenced by the product range (single-product entity vs. diversified multi-product entity) and the geographical focus of the entity (global entity vs. local entity).

Overall picture provided by the management report (cf. Paragraph 95)

A98 The overall evaluation of whether the management report as a whole provides an appropriate view of the entity's position and appropriately presents the opportunities and risks of future development is determined by the overall picture provided by the management report in addition to the fulfilment of the individual requirements. Even if all the individual disclosures are present, an inappropriate and imbalanced relationship between the management report disclosures or the selected form of presentation or choice of words may give a misleading impression (cf. Paragraph 92).

Evaluation of the identified, uncorrected misstatements in the management report [Paragraphs 99-103]

Omission of information (cf. Paragraph 100 c))

A99 The omission of information in the management report on research and development, for example, cannot constitute a material misstatement if an entity's research and development activities are of minor importance and the entity operates in an industry with only minor research and development activities.

Determination of intersubjectively comprehensible characteristics of the assumptions (cf. Paragraph 101 a))

A100 In order to evaluate whether an estimate or forecast contained in the management report contains a material misstatement, the auditor first determines intersubjectively comprehensible characteristics of the assumptions underlying the estimate or forecast within which the auditor considers an assumption made by the executive directors to be reasonable. In the case of a point estimate or forecast, the expression is limited to a single value. In addition, the auditor determines a range of reasonable values within which he considers the forecast or estimate itself to be reasonable. In the case of a point estimate or forecast, this range may also be monovalent.

A101 If the assumption by the executive directors on which a forecast or estimate is based is outside the range of reasonable forecast or estimate values determined by the auditor, the deviation only leads to a material misstatement in the management report if the forecast or estimate itself is significantly outside the range of reasonable forecast or estimate values determined by the auditor.

A102 If the most probable values of an estimate or forecast determined by the executive directors and the auditor differ from each other and both values are within the range of reasonable estimates or forecasts determined by the auditor, there is no material misstatement of the management report, even if the range between these two values is greater than materiality.

A103 When determining the range of reasonable estimates or forecasts, the underlying assumptions should not be considered individually, but in their interaction. If assumptions are mutually dependent, this must be taken into account when determining reasonable estimates or forecasts. If, for example, the forecast of increasing sales revenue is based on the assumption of maximizing sales volume, it must be considered whether this assumption is accompanied by a reduction in future sales price.

Significant impairment of the clarity and transparency of the management report due to management report-atypical information (cf. Paragraph 102)

A104 The clarity and transparency of the presentation in the management report may be significantly impaired, for example, by a large number of management report-atypical Disclosures. This may be the case if, for example, the reporting of management report-atypical sustainability information is disproportionately comprehensive compared to the presentation and analysis of the net assets, financial position and results of operations. It is also conceivable that the clarity of presentation is not ensured if a large number of management report-atypical disclosures are not clearly separated from the required disclosures in the management report or if the required disclosures are not presented in a logical sequence.

Declarations by the executive directors including the management report in the declaration of completeness and other external confirmations [Paragraphs 105-107]

A105 The auditor may have recourse to statements obtained from the client during the audit of the financial statements. If, for example, written evidence of planned measures has been obtained to determine lower fair values in fixed assets or to account for provisions, this evidence may also be used for the assurance procedures on forecast information in the management report.

Documentation [Paragraphs 108-111]

Form, content and scope of the documentation (cf. Paragraph 108)

A106 Documentation requirements for the assurance procedures on management report disclosures may, where relevant, also be met by references to documentation for the audit of the financial statements, provided that the documentation for the audit of the financial statements relates to these management report disclosures.

A107 The form, content and scope of the documentation on the assurance procedures on the management report may depend on the following factors, for example:

- size and complexity of the entity
- nature of the assurance procedures to be performed
- the identified risks of material misstatement
- the significance of the evidence obtained
- the nature and extent of the anomalies detected.

A108 The documentation for the assurance procedures on the management report of a smaller entity is generally less extensive than the documentation for the assurance procedures on the management report of a larger entity.

Completion of the engagement documentation (cf. Paragraph 110)

A109 The completion of the engagement documentation includes the compilation of the working papers and the related documentation measures, but not new procedures and conclusions. The completion of the engagement documentation includes, for example

- the deletion or removal of outdated documentation,
- sorting and arranging the working papers and inserting cross-references,
- written formulations of evidence obtained prior to the issuance of the audit opinion and discussed and agreed upon by the audit team.

Long-form audit report and auditor's report

Long-form audit report [Paragraphs 113-114]

Deviations from DRS 20 in the case of a management report in accordance with §§ 289 to 289f HGB (cf. Paragraph 114)

A110 When performing assurance procedures on a management report in accordance with §§ 289 to 289f HGB, it is not necessary to mention in the long-form audit report any deviations from DRS 20 that do not lead to a modification of the auditor's report because DRS 20 only recommends that the standard be applied to the management report in accordance with §§ 289 to 289f HGB.

Auditor's report [Paragraphs 115-123]

Modification of the audit opinion on compliance with the statutory provisions governing the preparation of the management report (cf. Paragraph 115)

A111 An example of material misstatement that could lead to a modified opinion on the management report as to whether the management report is in compliance with the legal requirements in all material respects is the omission of quantitative or qualitative disclosures that are intended to provide other insights. This includes, for example, the omission of relevant individual disclosures:

- branch offices (§§ 289 (2) Sentence 1 No. 3, 315 (2) Sentence 1 No. 3 HGB)
- the remuneration system (§§ 289a (2), 315a (2) HGB)
- takeover-relevant issues (§§ 289a (1), 315a (1) HGB)
- the final declaration on the dependent entity report in accordance with § 312 (3) AktG
- the main features of the internal control and risk management system with regard to the (consolidated) accounting process (§§ 289 (4), 315 (4) HGB)

Another example is when these individual disclosures are made in the management report but are materially misstated.

A112 A modification of the audit opinion on the management report is also given, for example, by the absence of the (group) corporate governance statement or reference to the publication of this (group) statement on the Internet pursuant to §§ 289f, 315d HGB, the absence of information on the proportion of women in this (group) statement or the absence of reference in the management report to the publication of the separate non-financial (group) report on the Internet (cf. Paragraph 83 a)).

Presumed conformity of DRS 20 with German principles of proper accounting (GoB) (cf. Paragraph 116)

A113 DRS 20 was announced by the Federal Ministry of Justice on December 4, 2012, the amendment by DRS 6 on June 21, 2016 and the amendment by DRS 8 on December 4, 2017; a group management report prepared in accordance with DRS 20 is therefore presumed to be in conformity with GoB (§ 342 (2) HGB).

A114 In the audit of a management report in accordance with §§ 289 to 289f HGB, deviations from DRS 20 do not lead to a modification or disclaimer of the audit opinion on the management report in the auditor's report, provided that the statutory provisions governing the preparation of the management report have been observed in all material respects against the background of the information requirements of the respective addressees and the management report in accordance with §§ 289 to 289f HGB as a whole provides an appropriate view of the entity's position and appropriately presents the opportunities and risks of future development in all material respects.

Declaration on compliance with DRS 20 in the group management report (cf. Paragraph 117)

A115 If the entity declares its compliance with DRS 20 in the group management report and DRS 20 has been observed in all material respects, the auditor can include an [audit] opinion on compliance with DRS 20 in the auditor's report.

Information that is management report-atypical, information that is management report-typical for which there is no legal assurance obligation regarding the content, cross-references and non-assurable disclosures [Paragraphs 119-123]

A116 The auditor may include this information in an appendix to the auditor's report provided that he refers to the appendix in the description of the subject matter and in the [audit] opinion.

A117 Even if management report disclosures that have not been subject to assurance (assurable and non-assurable) are clearly distinguished from the management report disclosures that have been subject to assurance procedures, the auditor may, in order to avoid misunderstandings, consider it necessary to state in the auditor's report, in appropriate application of Paragraphs 120, 121 and 123 these disclosures have not been subject to assurance procedures in terms of content and therefore the [audit] opinion on the management report does not extend to them.

A118 If the management report contains cross-references to information provided by the entity outside the financial statements and the management report that are not required by law, the auditor will normally ask the executive directors to omit such cross-references in the management report.

A119 The auditor may include this information in an appendix to the auditor's report provided that he refers to the appendix in the description of the subject matter and in the [audit] opinion.

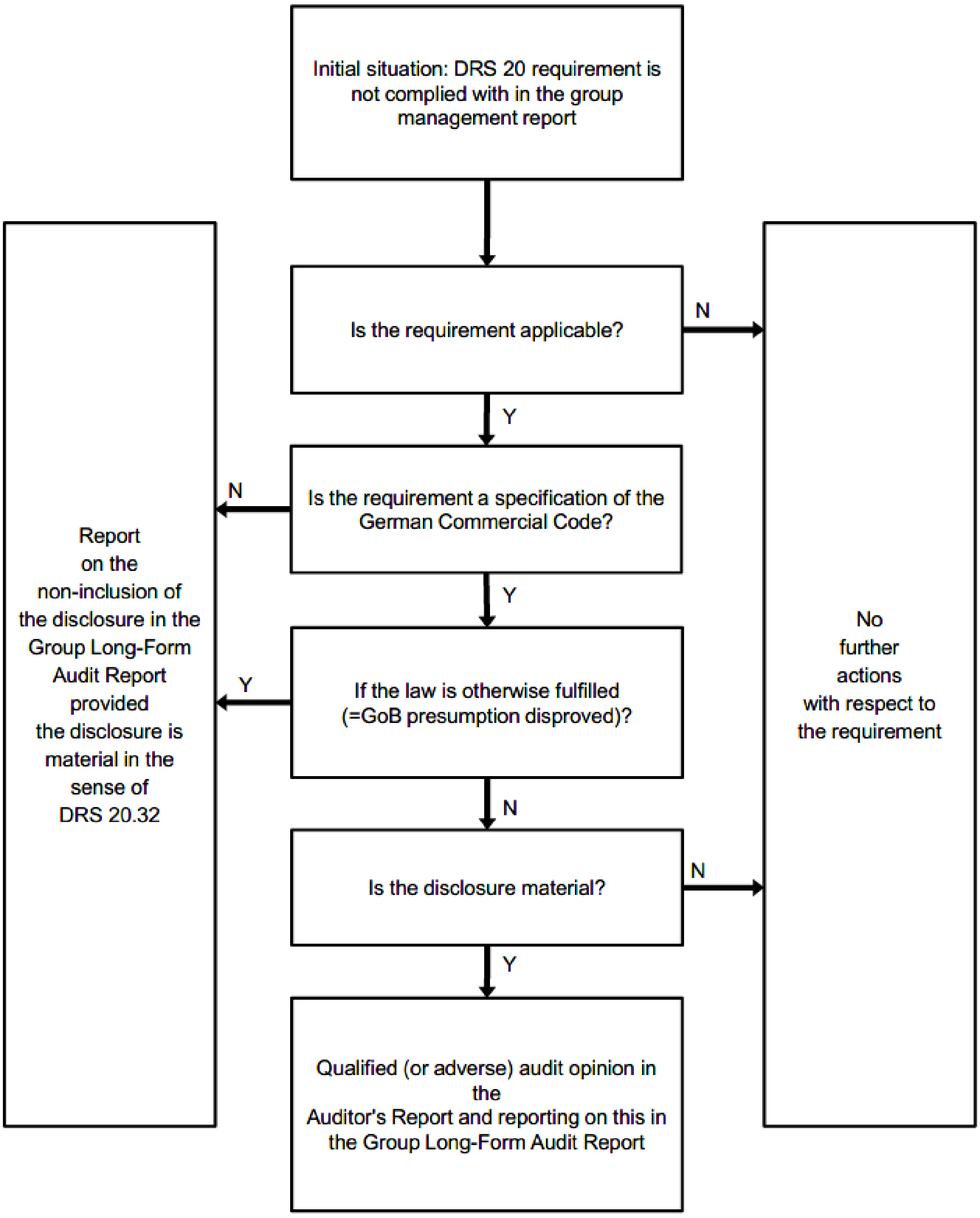
A120 Even if cross-references to information provided by the entity outside the financial statements and the management report that are not required by law are clearly marked as not subject to assurance procedures, the auditor may, in order to avoid misunderstandings, consider it necessary to state in the auditor's report, in appropriate application of Paragraph 122 the information to which the cross-references refer has not been subject to assurance procedures and therefore the [audit] opinion on the management report does not extend to it.

A121 The non-assurability of information that is not subject to assurance procedures (non-financial reporting, (group) corporate governance statement and management report-atypical information) represents an inherent limitation of the audit due to the nature of the information provided or the lack of suitable criteria. Such an inherent limitation of the audit must be distinguished from a scope limitation. A scope limitation exists if, as a rule, evidence with corresponding suitable criteria is available and should be accessible for a certain type of information typical of a management report to be subject to assurance procedures, but the auditor is not in a position to obtain sufficient appropriate evidence.

A122 The auditor may include this information in an appendix to the auditor's report provided that he refers to the appendix in the description of the subject matter and in the [audit] opinion.

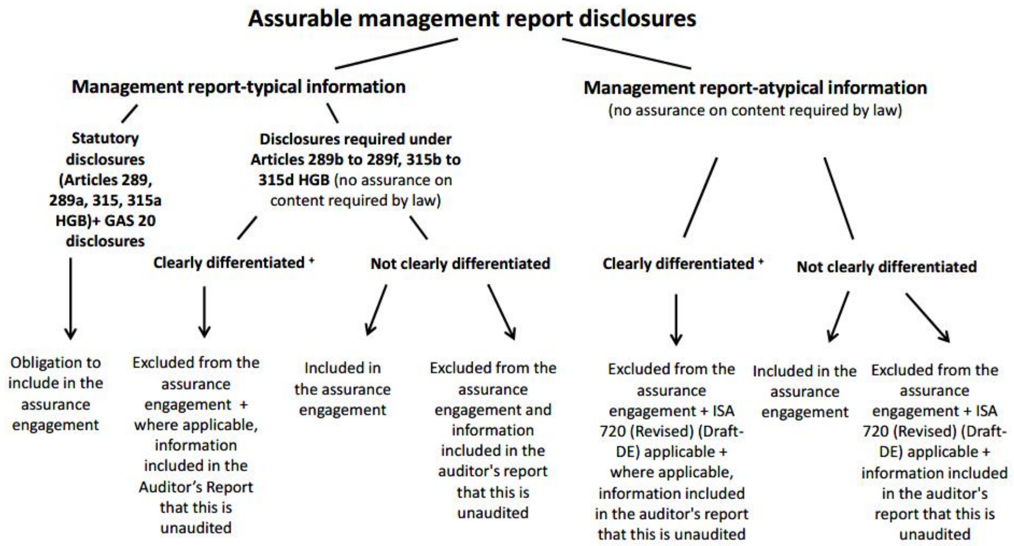
Appendix 1: Decision tree for a non-compliance with a DRS 20 requirement in the Group Management Report

(Cf. Paragraph 116)



Appendix 2: Chart on the treatment of assurable management report-typical and management report-atypical disclosures

(Cf. Paragraphs 120-121)

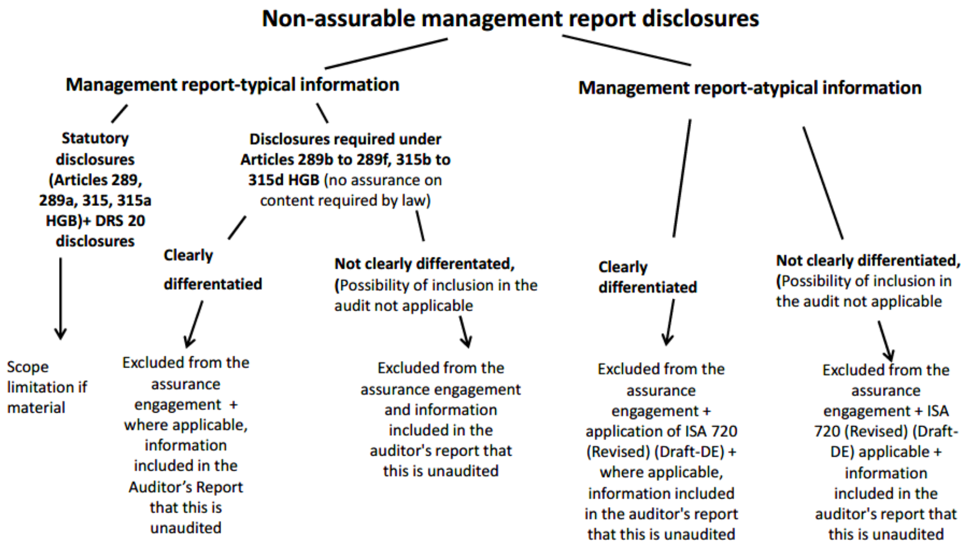


+„Clearly differentiated" =

1. *physically separated + clearly marked as unaudited, or*
2. *clearly marked as unaudited, without a material affect on the clarity and transparency of the management report (so-called*-solution)*

Appendix 3: Chart on the treatment of non-assurable management report-typical and management report-atypical disclosures

(Cf. Paragraph 123)



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