

APPENDIX C

Key points of attention from the exploratory review of cash flow statements at accounting firms

In short – In 2025, the AFM conducted an exploratory review of the quality of cash flow statements, covering both financial statements and audit firms. This document presents the key points of attention for the sector arising from the review of the system of quality management and audit procedures related to the audit of cash flow statements at audit firms.

10 key points of attention from the review

In this document, we set out 10 key points of attention arising from our exploratory review of the system of quality management and audit procedures related to cash flow statements at six audit firms holding a PIE licence. The review was conducted in response to recurring findings identified by the AFM in its financial reporting supervision relating to cash flow statements. This underscores the relevance of these points of attention. The cash flow statement is a primary statement in the financial statements and provides important input for investors' decision-making. Ensuring a faithful representation of the cash flow statement and the related disclosures is therefore a key focus within financial reporting supervision. In addition to management's responsibility for a faithful representation of financial information, audit firms play an essential role in safeguarding its quality.

Through this document, we provide insight into the points of attention identified in relation to the system of quality management and statutory audits. These include both points relating to elements that are in place and contribute positively, as well as points relating to elements that were identified as being absent or insufficiently developed.

For each point of attention, we describe the contribution a point can make when it is applied, as well as which aspect is missing or which risk may arise when it is not adequately addressed in the audit. In doing so, we aim to highlight the points of attention that are important for a high-quality and traceable audit of the cash flow statement.

We have shared these points of attention with the six audit firms concerned and have taken their comments into consideration.

1. Training and professional development

The training program regularly places emphasis on financial reporting related to the cash flow statement, driven by the technical departments. This focus on financial reporting aligns well with IFRS and Dutch GAAP (RJ) requirements and provides a solid foundation. A next step that could add further value would be to expand the training offerings with greater emphasis on audit methodology related to the audit of the cash flow statement. By providing guidance on the audit approach in addition to financial reporting, audit teams can perform their work in a more focused and efficient manner. The observations from this thematic review indicate that this topic is well suited for further in-depth development.

2. Monitoring measures related to the cash flow statement

A range of quality measures have been implemented at the front-end to support the audit of the cash flow statement. At the same time, there are opportunities to embed monitoring measures more explicitly within the overall system of quality management, particularly because such measures provide a valuable complement to the quality measures already in place. Strengthening monitoring in this way contributes to a more robust quality cycle and supports the achievement of the intended outcomes.

3. Documentation of judgements in audit files

Explicit documentation of judgements related to the cash flow statement is limited in the audit files. Clear documentation of such judgements can enhance the transparency, consistency and traceability of the audit. This includes, for example, the explicit rationale for risk assessments, key decisions made in the audit approach, and the substantiation of conclusions relating to the cash flow statement. By clearly documenting these judgements, the audit file is strengthened substantively and provides greater insight into the underlying audit rationale.

4. Work program, audit approach and risk assessment

It is important that the audit of the cash flow statement is explicitly integrated into the broader risk assessment and planning activities, which traditionally focus primarily on balance sheet and profit and loss items. Explicitly incorporating the cash flow statement into these broader risk assessment and planning processes can enhance awareness of the interrelationship between the balance sheet, the statement of profit or loss and cash flows. By giving the cash flow statement a clear place in team meetings, planning documentation and work programs, greater clarity is achieved regarding the relevant risks and the audit procedures required. In addition, a well-defined work program can provide direction and support consistent execution and documentation. Determining in advance for which items specific reconciliations or supporting evidence (for example, bank statements) are required can help prevent audit procedures from being omitted or appearing ad hoc.

5. Assertions at the level of presentation and classification

The work programs relating to the cash flow statement include substantial attention to assertions concerning presentation and classification, which provides a solid basis for alignment with IFRS requirements. By embedding these aspects more explicitly in both the execution and documentation of audit procedures, greater consistency can be achieved. Substantiating decisions relating to presentation and classification helps demonstrate that cash flows have been presented appropriately. These topics are also addressed, to some extent, in IFRS checklists, which contributes to their safeguarding; however, such

checklists are not always applied on an annual basis in all cases and/or are not consistently supported by documented judgements.

6. Analytical review and insights into cashflows

A well-performed analytical review of the cash flow statement can assist audit teams in obtaining a deeper understanding of cash flows and the underlying transactions. In practice, the extent to which such analytical procedures are applied varies, if an analytical review on the cash flow statement is included in the audit procedures at all. By applying the analytical review consistently and using it as a substantive tool to gain insight, rather than merely as a reference, it can become a powerful aid. This contributes to a better understanding of the structure of the cash flow statement and increases the likelihood that unusual items are identified in a timely manner.

7. Reconciliation of the cash flow statement

In practice, the audit of the cash flow statement typically includes a numerical reconciliation between the information prepared by the entity and the audited figures. The client's reconciliation provides a useful starting point for assessing, among other things, the accuracy and completeness of the information. However, when reliance is placed solely on the reconciliation provided by the entity, an explicit assessment of the presentation and classification of cash flows often remains limited. Further strengthening of the audit can be achieved by performing additional, independent procedures focused on presentation and classification.

In addition, good practices have been observed where audit teams independently prepare their own cash flow statement based on audit evidence obtained and their own calculations. This approach makes explicit considerations regarding the structure, classification, and allocation of movements. By comparing the independently prepared cash flow statement with the cash flow statement from the entity, differences can be more effectively identified and analysed, providing valuable audit evidence. This reduces the risk of confirmation bias and results in a stronger audit foundation, as it enhances insight into the underlying logic and interrelationships of the cash flows.

8. Level of reconciliation and substantiation of the cash flow statement

Within the system of quality management, audit teams are generally required to have performed at least a reconciliation of the cash flow statement. However, the level at which such reconciliations are performed is not always appropriate. In several instances, reconciliations were made at the level of movements in balance sheet items, without taking into account further disaggregation that were evident from detailed movement schedules in the financial statement.

No documented considerations were identified demonstrating that these high-level comparisons would be sufficient to serve as adequate reconciliation. By further harmonising these reconciliations and deepening them where possible, the robustness and consistency of the audit of the cash flow statement can be strengthened. Moreover, reconciliations were observed that were based on inappropriate source information. For example, while interest paid may reconcile to interest expense in the income statement, this is not necessarily the case. As a result, material differences may not be identified through the audit procedures performed.

9. Non-cash items and foreign exchange differences

Non-cash items represent amounts that do not belong in the cash flow

statement and therefore require specific audit attention. It is important to identify these items separately, determine where they occur, and assess their impact on the cash flow statement. This requires both explicit consideration of the relevance and materiality of these items and clear documentation supporting the audit procedures performed.

The same applies to items that cannot be directly derived from balance sheet movements or income statement line items, such as foreign exchange differences on cash balances. For such items, it is important to document specific considerations and, where applicable, calculations, in order to make clear how these elements have been addressed in the audit.

10. Application of materiality

Materiality plays an important role in determining the nature and extent of audit procedures relating to the cash flow statement. In several instances, line items in the cash flow statement were not reconciled or otherwise audited on the basis that they were considered “quantitatively immaterial”. In these cases, further considerations were often absent, such as whether the line item might nevertheless be material from a completeness or qualitative perspective, or whether aggregated deviations across multiple line items could result in a material misstatement.

Where materiality forms part of the judgements made, the inclusion of explicit considerations can help to make the underlying reasoning transparent. By documenting why certain components are examined or excluded from further audit procedures, and how identified differences are evaluated, it becomes clearer how the audit approach aligns with the specific characteristics of the cash flow statement. This supports both the quality and the traceability of the documentation.

If you have any questions regarding this review, please contact wta@afm.nl.