



CEAOB guidelines on the auditors' involvement on financial statements in European Single Electronic Format

I. Context

The European Single Electronic Format (ESEF) is being introduced pursuant to Article 4(7) of the Transparency Directive.¹ It is the new single electronic reporting format for the issuance of annual financial reports to be published by issuers whose securities are admitted to trading on a regulated market in the European Union for financial years beginning on or after 1 January 2020.

The ESEF provisions integrated in the Transparency Directive are based on the consideration that a harmonised electronic format for reporting would be very beneficial for issuers, investors and competent authorities, since it would make reporting easier and facilitate accessibility, analysis and comparability of annual financial reports.²

This single electronic reporting format has been specified in the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 (hereafter ESEF requirements).³

This Regulation requires that issuers shall prepare a single “report”, comprising one or several electronic files. It will include, in particular, the financial statements, the management report and the responsibility statements of the persons responsible within the company. The information in those files shall be prepared in XHTML format, which is human-readable, just like a normal webpage. As an additional obligation, if the consolidated financial statements are prepared on the basis of International Financial Reporting Standards (IFRS), they will also have to be marked up in accordance with the ESEF taxonomy (which is based on the IFRS Taxonomy) using mark-ups (XBRL tags) and the inline XBRL technology. Ultimately, the mark-ups (also called “tags”) embedded in the report will make the financial statements also machine-readable.

¹ Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC

² Paragraph 26, preamble of Amending Directive 2013/50/EU, which added the ESEF-obligation in the Transparency Directive “(26) A harmonised electronic format for reporting would be very beneficial for issuers, investors and competent authorities, since it would make reporting easier and facilitate accessibility, analysis and comparability of annual financial reports. [...]”

³ Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format

II. Legal background analysis provided by the Commission services

The European Commission services issued a “Questions and Answers” document on ESEF (Q&A)⁴ mentioning that the ESEF Regulation is a binding legal instrument, and that they are of the view that the provisions included therein shall be considered as “statutory requirements” within the meaning of Article 28(2)(c)(ii) of the Audit Directive.

The Commission services base this statement on the rationale that, under Union law, the financial statements of limited liability companies – regardless of whether they are listed or not - must be audited by one or more statutory auditors or audit firms,⁵ in charge of providing an audit opinion on whether the financial statements: (i) give a true and fair view in accordance with the relevant financial reporting framework; and (ii) comply with statutory requirements.⁶

Once the ESEF Regulation becomes applicable, the annual financial reports – which include inter alia the financial statements of listed companies, will have to be prepared in compliance with the ESEF requirements. These requirements concern general rules on the format of the annual financial reports as a whole – including the financial statements - and more specific rules on marking up the consolidated financial statements. Consequently, from reporting periods beginning on or after 1 January 2020 onwards, the financial statements included in the annual financial reports will have to meet the ESEF requirements.

According to the Commission services’ combined reading of the provisions of the Transparency Directive, the Accounting Directive and the Audit Directive – which are subject to national transposition in each Member State, statutory auditors of companies with securities listed on EU regulated markets will have to provide an audit opinion stating: (i) whether the financial statements included in the annual financial reports give a true and fair view in accordance with the relevant financial reporting framework; and (ii) whether these financial statements comply with the requirements set out in the ESEF Regulation.

III. Purpose of the document

With this Commission services’ analysis as a background and considering that auditors, standard setters and national oversight bodies would benefit from guidance to facilitate consistency in the implementation of the ESEF-related provisions in the Union, the CEAOB developed the following guidelines regarding how the audit of ESEF should be carried out, developing the work effort required in this regard. These CEAOB guidelines are non-binding, and do not constitute an auditing standard. They present high-level aspects agreed within the CEAOB which should be relevant for the auditor’s work on ESEF related issues.

⁴https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/190529-faq-rts-esfs_en.pdf

⁵ See Article 34(1) of Directive 2013/34/EU (Accounting Directive). This Article is also cross-referenced in Article 4(4) of Directive 2004/109/EC (Transparency Directive).

⁶ See Article 28(2)(c) of Directive 2006/43/EC (Audit Directive).

IV. Work to be performed by auditors to assess the compliance of the financial statements with the ESEF requirements

Drawing the consequences of the Commission's analysis, and to provide an opinion on whether the financial statements of the entity comply with the ESEF requirements, the auditor should both:

- (1) Ensure that the human-readable layer⁷ of the financial statements included in the electronic report prepared by the entity is either audited, or identical to the audited information;
- and
- (2) Determine whether the information embedded in the electronic report is marked-up in compliance with the ESEF requirements.

Details are provided hereafter.

1. Human-readable layer of the financial statements

With regards to the human-readable layer (item (1) mentioned above) of the financial statements in ESEF format, the work to be performed by the auditor depends on the timing of availability, for the auditor, of the finalised electronic report prepared by the issuer, and, eventually, on the approach taken by the auditor for the performance of the audit of the financial statements. In practice, two different situations can be identified, whose implications are described hereafter.

Situation 1: The financial statements in ESEF format are available at an early stage for the auditor.

In this situation, the auditor can perform the audit work directly on the content of the human-readable layer of the financial statements, since the content of this layer needs to be the same as any other format of the financial statements (e.g. paper, "word", "pdf" ...). No specific additional audit procedures are necessary for the reconciliation between various formats of the financial statements, when the auditor directly uses the human-readable layer of the financial statements as the basis for the audit.⁸

Situation 2: The issuer first provides financial statements that are not yet prepared in accordance with the ESEF requirements to the auditor for the audit purposes and, later on, provides the electronic report complying with the ESEF requirements.

In this situation, the auditor needs to perform a reconciliation (sometimes called "bridging") between the human-readable layer of financial statements presented in the electronic report and the initial information provided by the entity, on which the auditor performed the audit procedures. The auditor should therefore verify the alignment of the human-readable layer of the financial statements with the information on which he/she has performed the procedures.

⁷ The financial statements reported in the electronic files are both human-readable (through XHTML) and machine-readable (through XBRL).

⁸ Even if the financial statements in ESEF format are available, in this situation 1, the auditor may do the audit work on a draft or "paper" version of the financial statements and reconcile this draft or "paper" version with the ESEF human readable layer of the financial statements, to verify the alignment.

2. Marked-up information

With regards to item (2) mentioned above, the auditor should obtain reasonable assurance about whether financial statements, including relevant disclosures, have been marked-up, where relevant, in all material aspects, in compliance with the ESEF requirements.

The ESEF requirements which are relevant to the financial statements and the auditor's work are summarised in Appendix 1.

To obtain this reasonable assurance, following steps should be taken by the auditor.

(a) Materiality

The auditor should use an appropriate materiality:

- when planning and determining the nature, timing and extent of procedures to be performed; and
- when evaluating whether the marked-up information is free from material misstatements.

For the statutory audit purposes, the auditor defines the materiality in reference to the level of misstatement that could reasonably be expected to influence economic decisions taken by the intended users of the financial statements.

Regarding the marked-up information, the intended users of the information may have specific needs and expectations as regards to the completeness and accuracy of the mark-ups. The materiality for the marked-up information, derived from the materiality at financial statements' level, thus should be adapted to the specificities of the marked-up information: qualitative and quantitative aspects should be taken into consideration by the auditor to adapt the materiality to assess the compliance with ESEF requirements.

Those quantitative and qualitative aspects may include specificities related to the first year of application, by the issuer, of the ESEF requirements.

(b) Risks of material misstatements attached to the marked-up information

The auditor should identify and evaluate the risks of material misstatements attached to the marked-up information prepared by the issuer. This assessment will be based on the understanding of the process put in place by the issuer to produce the marked-up information, including understanding of the internal control implemented by the entity. Risks attached to the marked-up information may encompass, for example, the following areas:

Completeness

- Not all figures disclosed in the primary financial statements⁹ of the IFRS consolidated financial statements are marked-up;
- Not all the disclosures in the IFRS consolidated financial statements, are marked-up as specified in Annex II of the RTS on ESEF;
- Required mark-ups relating to the identification of the entity are omitted;

⁹ and ¹⁰Primary (financial) statements encompass the statement of financial position, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows.

Accuracy

- The marked-up information does not correspond with the human-readable layer of the financial statements;
- Numbers disclosed in the primary statements¹⁰ of the IFRS consolidated financial statements have been marked-up with an inaccurate context (e.g. year or year-end, currency; debit/credit; scaling (i.e. millions/thousands));
- Inappropriate elements from the core taxonomy have been selected;
- A misrepresentation of the accounting meaning of the number or disclosure being marked-up arising from selecting an inappropriate element from the core taxonomy;
- An extension taxonomy element created to mark-up a number in the primary statements is not anchored to the core taxonomy element having the closest wider accounting meaning and/or scope to that extension taxonomy element of the issuer;
- Where an extension taxonomy element combines a number of core taxonomy elements, the issuer has not anchored that extension taxonomy element to each of those core taxonomy elements.

(c) Procedures to respond to the risks identified

After having assessed the risks of material misstatements, the auditor should define the appropriate responses to ensure that the information prepared by the issuer complies with the ESEF requirements.

The auditor should select the appropriate procedures and define the appropriate sample size for the substantive procedures to be performed, taking into consideration the performance materiality on the various items composing the financial statements.

The auditor may decide to rely, to a certain extent, on relevant controls put in place by the issuer, after having obtained evidence on the effectiveness of the relevant controls, to reduce the subsequent substantive procedures.

The auditor may choose one or a combination of the following procedures:

- inspect the issuer's mark-ups, including related anchoring, if applicable, using knowledge of the ESEF requirements including the taxonomy, and assess whether the mark-ups are appropriate;
- develop an independent expectation of the appropriate mark-up and anchoring, if applicable, and compare the results to the issuer's marked-up financial statements as the basis for their substantive testing.

The auditor may use the work of an expert to benefit from specialised information technology expertise, without reducing the auditor's responsibility in the opinion expressed.

The implementation of the selected procedures should allow the auditor to obtain sufficient appropriate evidence regarding the compliance of the marked-up information with the ESEF requirements.

¹⁰ See ⁹

(d) Conclusion on whether the marked-up information complies or not with the ESEF requirements

The conclusion of the auditor on the compliance with the ESEF requirements will be based on the results of the procedures performed by the auditor.

Taking into account the materiality defined, the auditor should express an opinion (sometimes called “positive” conclusion) on the compliance of the marked-up information with the ESEF requirements.

In cases where the mark-ups are materially misstated, the auditor should express a qualified or adverse opinion regarding this compliance. The conclusion will depend on the severity and pervasiveness of the misstatement(s).

A disclaimer of opinion on this compliance should be expressed, when the auditor is unable to obtain sufficient appropriate evidence in this regard.

V. Reporting

The CEAOB agrees that there is a benefit in consistence in the reporting, by auditors, across Member States, on the conclusion on the work performed. However, the format of reporting may be related, in some countries, to specific national legal provisions.

The CEAOB is of the view that the auditor should report specifically on the work performed on ESEF, and reference clearly the files which were subject of the examination in this reporting.

The conclusion should state the auditor’s opinion on whether the financial statements prepared by the entity comply with the ESEF requirements applicable.

The CEAOB recommends that the conclusion on the compliance, by the issuers, with ESEF requirements is provided in the audit report, in a section which is clearly separated from the audit opinion. This treatment is in line with the European Commission’s services analysis of the legal background mentioned in Section II above.

However, where specific national provisions which transpose article 4(7) of the Transparency Directive or article 28 of the Audit Directive in the national legislation require otherwise, the conclusion of the auditor may also be expressed in a separate report, outside the audit report.¹¹

Moreover, in any case, when the national legislation prescribes different or additional provisions, the auditor should follow those national provisions.

¹¹ Issuing a separate report may mean however that the auditor should perform additional work which is not described in section IV of this document, if the audit report and the separate report are not signed at the same date.

Appendix – summary of ESEF requirements relevant for the work of the auditors

The ESEF requirements that apply to financial statements of issuers whose securities are admitted to trading on a EU regulated market from reporting periods beginning on or after 1 January 2020 - and that are relevant for the work of the auditors - are the following:

- (i) All financial statements included in the annual financial report shall be prepared in XHTML format¹²;
- (ii) In addition, for all IFRS consolidated financial statements¹³:
 - The disclosures specified in Annex II of the ESEF Regulation shall be marked-up (where those disclosures are present in those IFRS consolidated financial statements);
 - For all mark-ups (including the voluntary mark-ups of disclosures other than those specified in Annex II):
 - the XBRL mark-up language shall be used;
 - the elements of the core taxonomy specified in Annex VI of the ESEF Regulation with the closest accounting meaning shall be used, unless an extension taxonomy element is created (ie. if the use of an element in the core taxonomy would misinterpret the accounting meaning) in compliance with Annex IV of the ESEF Regulation (the mark-ups shall comply with the rules provided for in Article 6 of the ESEF Regulation.)
- (iii) In addition, for financial statements other than IFRS consolidated¹⁴:
 - For all (voluntary) mark-ups:
 - the XBRL mark-up language shall be used;
 - the element of a relevant taxonomy provided by the Member State, shall be used;
 - the mark-ups shall comply with the rules provided for in Article 6 of the ESEF Regulation.

¹² Article 3 of the ESEF Regulation specifies that issuers shall prepare their entire annual financial reports – which include the financial statements as per Article 4(2) of the Transparency Directive - in XHTML format.

¹³ See Article 4 of the ESEF Regulation.

¹⁴ Article 5(1) of the ESEF Regulation specifies that EU issuers may voluntarily mark up all parts of their annual financial reports other than the IFRS consolidated financial statements provided that they use the XBRL markup language and a taxonomy specific to those parts provided by the Member State of incorporation.