



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

Objectives of the guidelines

The European Commission Interpretative Communication 2020/C379/01 states that Union law requires statutory auditors (hereafter “auditors”) to provide an audit opinion on whether the financial statements included in the annual financial reports comply with the relevant statutory requirements¹ laid down in the ESEF Delegated Regulation,² i.e. with the provisions of the ESEF Delegated Regulation that apply to financial statements (ref. Annex 1 of this document).

In the absence of auditing standard(s) dealing specifically with ESEF reporting applicable in the whole European Union, the objectives of these guidelines are to describe the expectations of the CEAOB³ regarding:

- the procedures to be performed by the auditors to assess whether the financial statements included in the annual financial report comply with the ESEF requirements,
- the consequences of any misstatements identified by the auditors, and
- the form and content of the audit report regarding whether the financial statements comply with the ESEF requirements.

These guidelines highlight specifications to be complied with by auditors in addition to the provisions of auditing standards. The guidelines refer to and do not replace the other requirements on auditing and ethics, including independence, applicable to auditors in the Member States.⁴

These guidelines take into account the Commission Interpretative Communication 2020/C379/01⁵ which was published after the issuance of the initial CEAOB guidelines, and they provide for further clarifications drawn from experience gained in implementation of ESEF. They thus replace the initial guidelines on the auditors' involvement on financial statements in ESEF issued by the CEAOB on 28 November 2019.

¹ The ‘relevant statutory requirements’ are set out in the Question 2.2 of the Commission Interpretative Communication 2020/C379/01

² Commission Delegated Regulation (EU) 2019/815 on ESEF

³ The term « shall » is used in the guidelines to present the expectations agreed within the CEAOB.

⁴ Specific provisions not covered by these guidelines may be required by Member States in relation to ESEF.

⁵ Commission Interpretative Communication on the preparation, audit and publication of the financial statements included in the annual financial reports drawn up in accordance with Commission Delegated Regulation (EU) 2019/815 on the European Single Electronic Format (ESEF) (Communication 2020/C379/01)

Procedures to be performed by auditors on financial statements in ESEF

I - Planning of the auditors' work

1. The auditors shall plan the procedures to be performed considering the following aspects:
 - the characteristics of the financial statements prepared in ESEF format,
 - the deadlines to be met for carrying out the procedures on financial statements in ESEF, and
 - the process put in place by the entity to prepare the financial statements in ESEF (ref. paragraph 2).

II - Understanding the process for preparing the financial statements in ESEF and related controls

2. Regarding the preparation of the financial statements in ESEF, the auditors shall obtain an understanding, in particular, of the following:
 - the process for preparing the financial statements in ESEF including the use of technical (for example IT tools) and human resources and whether the entity outsources partially or totally this preparation to a service provider or uses a management's expert, and
 - the controls designed and implemented by the entity to prevent, detect or correct misstatements in the preparation of the financial statements in ESEF.

III - Procedures related to the XHTML format⁶

3. The auditors shall verify that all financial statements included in the annual financial report are prepared in XHTML format.
4. In cases where the entity provides financial statements that are not yet prepared in accordance with the ESEF requirements to the auditors for the audit purposes and, later on, provides the financial statements in ESEF, the auditors shall check the reconciliation between those two sets of information (financial statements in XHTML and audited version) to verify their full alignment.

IV - Procedures related to the marking up

5. The auditors shall perform procedures to obtain sufficient appropriate evidence that the requirements on marking up defined by the ESEF Delegated Regulation have been complied with.

Materiality

6. The auditors shall use an appropriate materiality level when:
 - planning and determining the extent of procedures to be performed on marked-up information specified in paragraph 10,
 - evaluating the effect of identified misstatements pursuant to procedures on marked-up information, and
 - forming the opinion to be included in the audit report regarding the compliance of the marked-up information with the ESEF requirements.

⁶ No materiality in this regard

7. In determining the materiality for the purposes identified above, auditors shall use as a starting point the materiality defined for the audit of financial statements and take into account quantitative and qualitative aspects that result from the specificities of the marked-up information and the needs and expectations users may have regarding marked up information.

Assessment of risks of material misstatement and responses to those risks

8. The auditors shall identify and assess the risks of material misstatement in the financial statements presented in ESEF taking into account:
 - the internal control elements relevant for the preparation of financial statements in ESEF, and
 - the risks⁷ of incompleteness and inaccuracy attached to the marked-up information.
9. The auditors shall verify that all numbers referred to in Annex II paragraph 1 of the ESEF Delegated Regulation have been marked-up.⁸
10. For information⁹ required to be marked-up according to ESEF Delegated Regulation or for voluntary mark-ups, the auditors shall verify that:
 - the XBRL mark-up language is used,
 - the elements of the core taxonomy (specified in Annex VI of the ESEF Delegated Regulation) with the closest accounting meaning are used, unless an extension taxonomy element is created, and
 - extension taxonomy elements created, if any, comply with Annex IV of the ESEF Delegated Regulation, and
 - the mark-ups comply with the common rules on mark-ups set out in Annex III (on applicable Inline XBRL specifications) and Annex IV (on the marking up and filing rules) of the ESEF Delegated Regulation.
11. The mark-ups to be checked according to paragraph 10¹⁰ shall be selected depending on the risks of material misstatement assessed by the auditors.¹¹ The auditors may decide to rely, to a certain extent, on relevant controls put in place by the entity, after having obtained sufficient and appropriate evidence on the operating effectiveness of the relevant controls to reduce the extent of substantive procedures.

V - Additional procedures

12. The auditors may be required to perform other procedures according to national provisions.
13. Those may include checking the readability of the files by using another tool than the one used by the entity for the preparation of the financial statements in ESEF. This use of another tool is in all cases a good practice, even where no specific national provision or standard mandates it.

⁷ Refer to Annex 2 hereafter

⁸ No materiality in this regard

⁹ This information includes also the numbers referred to in paragraph 9

¹⁰ See paragraph 6 regarding materiality

¹¹ Refer to paragraph 8 regarding the identification and assessment of the risks of material misstatement in the financial statements presented in ESEF

VI - Reporting on compliance with ESEF in the audit report

14. After performance of the procedures and communication with management and those charged with governance, the auditors shall consider the implications of material misstatements or non compliance, if any, identified on the audit report.
15. The audit report shall include:
 - An opinion on whether the presentation of the financial statements included in the annual financial report:
 - o either complies, in all material aspects, with the ESEF,
 - o either complies with the ESEF, with the exception of material misstatement (s) or non-compliance clearly explained in a specific paragraph and mentioned in the opinion,
 - o either does not comply with the ESEF because of the pervasive effect of material misstatement(s) or non-compliance clearly explained in a specific paragraph and mentioned in the opinion,
 - or a statement of the auditors' inability to conclude on the compliance of the presentation of the financial statements in ESEF, in cases where the auditors were unable to obtain sufficient appropriate evidence in this regard. The auditors shall provide the reasons for this inability in the audit report.
16. This opinion shall be stated in the audit report, separated from the audit opinion. Depending on the layout of the audit report, this opinion can be located in a sub-section within the section describing other legal and regulatory requirements.
17. In case it is accepted in a particular jurisdiction that the auditors carry out their procedures, prior to the availability of the annual financial report, on the financial statements in ESEF intended to be included in the annual financial report, they should provide this information together with their opinion on ESEF in the audit report.

VII – Other aspects

Independence

18. When performing procedures on financial statements in ESEF, the auditors shall remain alert to independence rules applicable and shall not perform any non-audit service prohibited under Article 5 of the Regulation (EU) n°537/2017 of the European Parliament and the Council.¹² The auditors shall also remain alert to any self-review threats related to ESEF.

Engagement letter

19. The auditors shall include specific arrangements in relation to ESEF in the engagement letter.

Use of an expert

20. When the auditors decide to use the work of an expert, the provisions on the use of experts for an audit of financial statements shall apply equally in this regard.

¹² For example, refer to paragraph c of Article 5 of the Regulation (EU) n° 537/2014 No 537/2014 of the European Parliament and of the Council regarding bookkeeping and preparing accounting records and financial statements

Communication

21. Before issuing the audit report, the auditors shall communicate to management and, where appropriate, those charged with governance,¹³ any misstatements identified or non-compliance, other than those that are clearly trivial.

Written representation

22. The auditors shall request specific provisions in relation to ESEF in the written representation. The auditors may determine that it is appropriate to request specific written representation from management to cover specificities of ESEF, or to include such specificities in the written representation. In case it is accepted in a particular jurisdiction that the auditors carry out their procedures on financial statements in ESEF prior to the availability of the annual financial report, a statement shall be requested in the written representation to confirm that the financial statements provided to the auditors are those which will be included in the annual financial report.

Documentation

23. General provisions for documentation in an audit of financial statements shall apply to procedures performed on financial statements in ESEF.

Joint audit

24. When the audit engagement is performed jointly, the auditors appointed for the audit agree on the allocation of work on ESEF and each joint auditor performs a review of the work performed by the other auditor to assess whether the procedures performed correspond to those defined, whether sufficient appropriate evidence was obtained and whether the opinion is appropriate.
25. The joint auditors shall communicate together and in a concerted manner with management and, where appropriate, those charged with governance.¹⁴

¹³ Including the persons who are responsible for financial statements presented in ESEF

¹⁴ Including the persons who are responsible for financial statements presented in ESEF

Annex 1 – “Relevant statutory requirements”

The relevant statutory requirements are set out in the Question 2.2 of the Commission Interpretative Communication on the preparation, audit and publication of the financial statements included in the annual financial reports drawn up in accordance with Commission Delegated Regulation (EU) 2019/815 on the European Single Electronic Format (ESEF) (Communication 2020/C379/01).

In order to provide an audit opinion on whether the financial statements comply with the ‘relevant statutory requirements’ laid down therein, statutory auditors shall check the compliance of the issuers’ financial statements with the provisions of the ESEF Delegated Regulation that are applicable to the financial statements. The ‘relevant statutory requirements’ are the following:

- i) All the financial statements that are included in the annual financial report shall be prepared in a valid XHTML format;
- ii) For all consolidated financial statements that are drawn up in accordance with IFRS as endorsed by the EU or with IFRS as adopted by the IASB;¹⁵
 - The disclosures specified in Annex II of the ESEF Delegated Regulation shall be marked-up, where those disclosures are present in those consolidated financial statements;
 - All mark-ups, including the voluntary mark-ups of disclosures other than those specified in Annex II of the ESEF Delegated Regulation, shall meet the following requirements:
 - o the XBRL mark-up language shall be used;
 - o the elements of the core taxonomy specified in Annex VI of the ESEF Delegated Regulation with the closest accounting meaning shall be used, unless an extension taxonomy element is created in compliance with Annex IV of the ESEF Delegated Regulation;
 - o the mark-ups shall comply with the common rules on mark-ups.¹⁶
- iii) For financial statements other than the IFRS consolidated financial statements.¹⁷
 - All mark-ups included by the issuer on a voluntary basis or in compliance with national law shall meet the following requirements:
 - o the XBRL mark-up language shall be used;
 - o a specific taxonomy provided by the Member State in which the issuer is incorporated shall be used;
 - o the mark-ups shall comply with the common rules on mark-ups.¹⁸

¹⁵ See Article 4 of the ESEF Delegated Regulation

¹⁶ See Article 6 of the ESEF Delegated Regulation

¹⁷ See Article 5 of the ESEF Delegated Regulation. These rules apply to issuers incorporated in EU Member States

¹⁸ See Article 6 of the ESEF Delegated Regulation

Annex 2 – Risks attached to the marked-up information

Risks attached to the marked-up information may encompass, for example, the following areas:

Completeness

- Not all figures disclosed in the primary financial statements¹⁹ 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 ESEF Delegated Regulation;
- Required mark-ups relating to the identification of the entity are omitted.

Accuracy

- The marked-up information does not correspond with the human-readable layer of the financial statements;
- Numbers disclosed in the primary statements 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.

¹⁹ Primary (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.