



ESEF: THE ROLE OF THE AUDITOR

- DEVELOPMENTS AND PERSPECTIVES

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Developments



EUROPEAN COMMISSION

ESEF Q&A #7

“What kind of assurance will be provided for financial statements prepared in compliance with ESEF? Will auditors check ESEF-compliant reports?”

Considering that the ESEF Regulation is a binding legal instrument, the Commission services 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.”

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

AUDIT DIRECTIVE ARTICLE 28(2)(C)(II)

(c) Include an audit opinion, which shall be either unqualified, qualified or an adverse opinion and shall clearly state the opinion of the statutory auditor(s) or the audit firm(s) as to:

(i) Whether the annual financial statements give a true and fair view in accordance with the relevant financial reporting framework; and

(ii) Where appropriate, whether the annual financial statements comply with statutory requirements.

<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0056&from=EN>



EUROPEAN COMMISSION

ESEF Q&A #8

What is the Commission doing to facilitate the audit of ESEF and to clarify the practical implications?

The Commission asked the Committee of European Auditing Oversight Bodies (CEAOB) to explore how the audit of ESEF could be carried out in practice, with a view to possibly provide guidance to the market. In the context of the ongoing Fitness Check on public reporting by companies, the Commission is exploring whether the audit of ESEF could warrant possible modifications in the existing transparency rules.



Perspectives



OBJECTIVE

“To achieve the same level of investor protection investors should be able to rely on the audited content of the financial report irrespective of whether the report is issued in machine readable format or not”

This vision seems to generate consensus.

Delivering the objective across Europe involves many interested parties

ACHIEVING THE OBJECTIVE

- ORGANISATIONS WITH A ROLE TO PLAY

European
Commission

National Competent
Authorities (up to 30)

Accountancy
Europe

CEAOB ISA
Working Group

National Auditing
Standard Setters
(up to 30)

European
Contact Group

National Government
(up to 30)

Officially Appointed
Mechanisms (up to 30)

XBRL Europe



AUDITOR REPORTING MODELS TO ACHIEVE THE OBJECTIVE

Reporting options proposed by the European Contact Group:

- Option 1 The audit report to include a separate section addressing compliance with ESEF rules
- Option 2 Information relating to the audit of ESEF integrated across various sections of the audit report
- Option 3 A separate assurance report prepared by the auditor and provided outside the auditor's report. Assurance findings relate to compliance with ESEF rules and on the electronic data being consistent with the human-readable audited financial statements.

Whilst each option is feasible, any option needs to be in harmony with the company reporting approach implemented in a country

LISTED COMPANY REPORTING - ARRANGEMENTS AFFECTING AUDITORS

Will National Competent Authorities:

- A) Insist that the only annual report including consolidated financial statements is the XHTML version including iXBRL tagging (*"One document model"*); or
- B) Require listed companies to prepare the existing annual report in its current format. Then require a second XHTML document to fulfil ESEF requirements. In the second document the directors would confirm consistency with the first document and compliance with ESEF rules. (*"Two document model"*); or
- C) Allow companies a choice of one or two document reporting models. In other words, listed companies must submit an iXBRL tagged XHTML document but are also permitted to file in the current format. (*"Preparer choice model"*)?

Deciding the way forward will be influenced by national laws, regulations and preferences including the way the Transparency Directive has been implemented nationally.

In a *two document model* or *preparer choice model*, a separate assurance report to be prepared by the auditor may be the most practical approach to auditor reporting.

PRACTICAL ISSUES CONNECTED WITH THE AUDITOR'S ROLE

Materiality
- planning

Materiality
– effect of
errors

Digital reporting
– signatures and
gateways

Judgement,
especially
anchoring

Full tagging on
a voluntary
basis?

Reporting on
tagging errors

Client / auditor workflow

ESMA'S GUIDANCE TO PREPARERS

“The first step in the preparation of an inline XBRL report is getting familiar with the requirements set out in the RTS on ESEF and in the ESEF Reporting Manual.

The second step in the production process of an inline XBRL report is to prepare a correlation table. That means mapping IFRS financial statements to the ESEF taxonomy and extending the taxonomy if necessary.”

If listed companies follow this process, auditors will be able to review and discuss tag selection very early in the process, ideally before the year-end date.

https://www.esma.europa.eu/sites/default/files/ecef_2020_the_preparation_of_an_inline_xbri_report.pdf



CLOSING THOUGHTS

A clear objective focusses activity.

There are many parties involved in addressing the auditor's role

First ESEF reporting in early 2021, full ESEF reporting early 2023

Diversity in national implementation

Practical issues to be addressed and overcome

We are ready to play our part in devising the auditor's role