Audit of ESEF financial statements?

Enrico Evink

Are you ready for the ESEF implementation?

And how about your auditor?

Agenda

1. Background of the Requirements

2. How about the auditor ?

3. Minimal work to be preformed

4. Reporting & signing

5. A more practical point of view

6. Recap

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Background of the Requirements
ESEF requirement:

Required application of ESEF from financials statements 2020 onwards for issuers on EU Regulated Markets

Source: https://www.esma.europa.eu/policy-activities/corporate-disclosure/european-single-electronic-format

How about the auditor ?
ESEF as a format also drives what the auditor reviews (1)

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.

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.

Based on the Q&A from the EC, the audit of whether the ESEF reporting is prepared in accordance with the ESEF regulation is is considered part of the statutory audit requirements.

How about the auditor ?
ESEF as a format also drives what the auditor reviews (2)

COMMITTEE OF EUROPEAN AUDITING OVERSIGHT BODIES

CEAOB 2019-039
Adopted on 28 November 2019

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.

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 layer[7] 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.

As mentioned by the EC, the CEAOB was requested for further guidelines. There key messages

So in addition of the true and fair view of the (human) readable financial statements, determine that the ESEF requirements (i.e. RTS on ESEF) are met.

Source: https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finan ce/documents/191128-ceaob-guidelines-auditors-involvement-financialstatements_en.pdf

How about the auditor ?
ESEF as a format also drives what the auditor reviews (3)

The paper also discussed which Materiality and risk are expected to be covered. The concept of materiality is the same as for the financials statements. Examples of the risks that should be covered by the auditor:

➢ Not all figures disclosed are tagged (completeness)

➢ Required tagging for the ID of the company is missing (completeness)

➢ The tagged information does not correspond with the Human readable one (Accuracy)

➢ The tagged information has the wrong context, e.g. debit/credit, scaling, Period (Accuracy)

➢ Inappropriate elements are used (Accuracy)

➢ Incorrect extension / anchoring of the extension Taxonomy (Accuracy)

How about the auditor ?
ESEF as a format also drives what the auditor reviews (4)

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 potential procedures to cover this risk are included at a high level overview.

NBA is working on a worksteps guidance document

How about the auditor ?
ESEF as a format also drives what the auditor reviews (5)

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 format[12];

(ii) In addition, for all IFRS consolidated financial statements[13]:
   o   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);
   o   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 consolidated[14]:
   o   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.

In the appendix further guidance is given which elements should be considered for the definition of 'compliance with the RTS'.

Source: https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finan ce/documents/191128-ceaob-guidelines-auditors-involvement-financialstatements_en.pdf

Minimal work to be preformed?

Accountancy Europe published an briefing paper (Guidance) about the type of reporting that could be used by the auditor.

CLARITY ABOUT THE SCOPE OF THE ENGAGEMENT

In our discussions, we identified significant risk of confusion about the nature and extent of the engagement for the readers of the assurance report. We have sought to clarify this in the illustrative reports at Appendix B by:

- identifying the objective of the engagement. The objective is to obtain reasonable assurance as to whether the issuer's consolidated financial statements have been tagged, in all material respects, in compliance with the ESEF RTS;
- naming the digital submission files within the assurance report to ensure there is appropriate linkage to the company's ESEF submission;
- where necessary, cross-referring to the auditor's report on the consolidated financial statements; and
- where necessary, stating that the auditor does not express an audit opinion, review conclusion or other assurance conclusion on the tagged consolidated financial statements

The scope of the audit of the tagging is to give reasonable assurance this was done correctly in all material aspects. Using the ISAE 3000 (Assurance engagements) or specific (inter) national standard (Preferred).

Source: https://www.accountancyeurope.eu/publications/considerations-for-independent-assurance-on-the-european-single-electronic-format/

Reporting & Signing
discussed formats and signing of the Auditors opinion

Current discussion of two Reports or one (as mentioned before)

For the auditors opinion there are three scenarios:

- Tagged (iXBRL) separate (XHTML) file
- Tagged (iXBRL) in the other information of the financial statements (XHTML)
- Untagged text in the other information section of the financial statements (XHTML)

For the signing and authorization of the auditors opinion there are two scenarios :

- Digital Linking and signing with the PKI government certificate (same as with SBR)
- Hardcopy authorization to include the text of the auditors opinion in the XHTML financial statements.

Final decisions to be made by the Ministry of Finance

1-Linking and Signing

2- Consistent Transformation

3-NBA Assurance Taxonomy
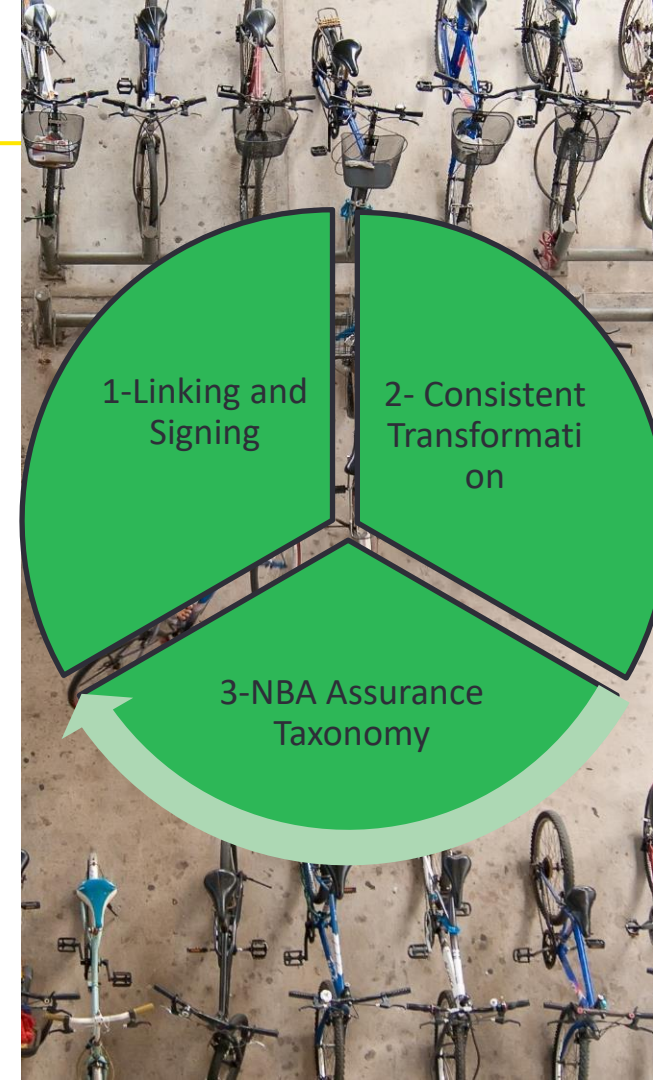
A more practical point of view:
how to audit

TP

XHTML		Entrypoint schema
		Presentation LB
		Calculation LB
		Definition LB
		Label LB

Automated Controls

Extract with Tranformation Rules

Instance(.xbrl) → Rendering ← Manual Control → XHTML

Rendering based on TP definitions
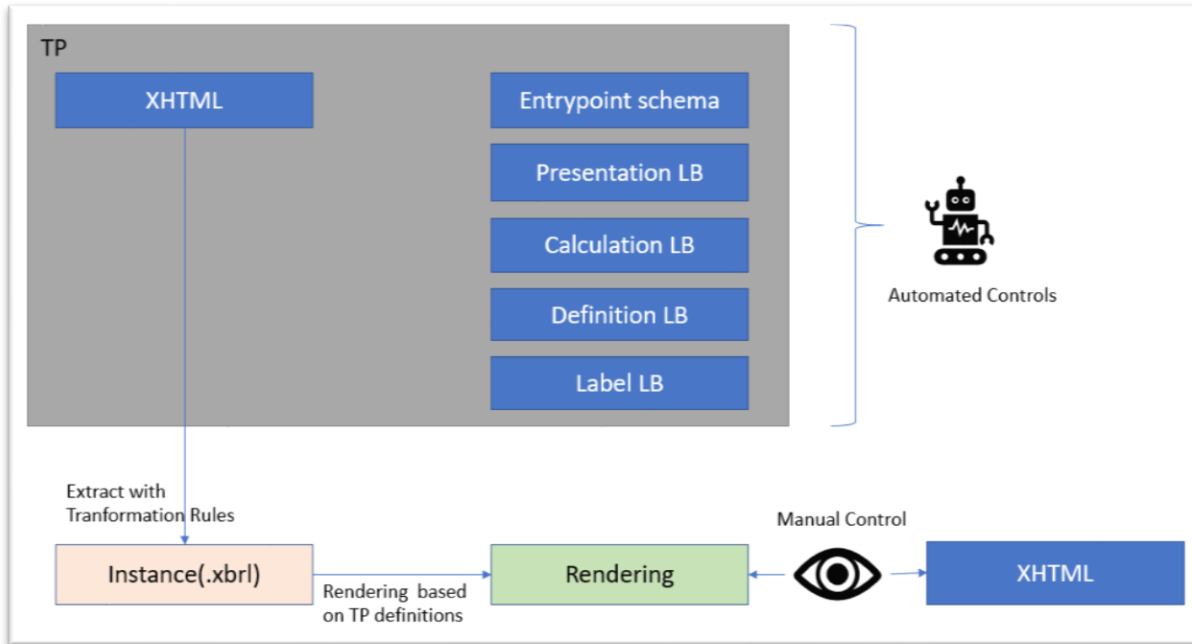
Overall a split between the technical aspects (automated control) and more judgmental aspects (manual control by auditor).

A more practical point of view
What to audit yourself (1)

C	D	E	F	G	I	J
Element	Label (standaard + preferred)	Waarde	Waarde	Balans type	Calculation ID	Calculation relatie
		Id=969500AQW31GYO8JZD66 Datum:2016-01-01 - 2016-12-31	Id=969500AQW31GYO8JZD66 Datum:2015-01-01 - 2015-12-31			
ELRID_IncomeStatement	ELRID_IncomeStatement					
ifrs-full_IncomeStatementAbstract	Profit or loss placeholder - this item MUST be used as a starting point for the statement of profit or loss if the statement of profit or loss is separately					
ifrs-full_Revenue	Revenue	24846000000	25691000000	credit	A	A → D (1)
ifrs-full_OtherRevenue	Other revenue	2000000	2000000	credit	B	B → A (1)
ifrs-full_RevenueFromRenderingOfServices	Revenue from rendering of services	24844000000	25689000000	credit	C	C → A (1)

Other revenues		2	2
Revenues		24,846	25,691

```
392        </xbrli:unit>
393        <ifrs-full:RevenueFromRenderingOfServices decimals="INF" contextRef="FROM_Jan01_2016_TO_Dec31_2016_Entity_9876543210"
           unitRef="EUR" id="ID_177">24844000000</ifrs-full:RevenueFromRenderingOfServices>
394        <ifrs-full:RevenueFromRenderingOfServices decimals="INF" contextRef="FROM_Jan01_2015_TO_Dec31_2015_Entity_9876543210"
           unitRef="EUR" id="ID_178">25689000000</ifrs-full:RevenueFromRenderingOfServices>
395        <ifrs-full:OtherRevenue decimals="INF" contextRef="FROM_Jan01_2016_TO_Dec31_2016_Entity_9876543210" unitRef="EUR" id=
           "ID_175">2000000</ifrs-full:OtherRevenue>
396        <ifrs-full:OtherRevenue decimals="INF" contextRef="FROM_Jan01_2015_TO_Dec31_2015_Entity_9876543210" unitRef="EUR" id=
           "ID_176">2000000</ifrs-full:OtherRevenue>
397        <ifrs-full:Revenue decimals="INF" contextRef="FROM_Jan01_2016_TO_Dec31_2016_Entity_9876543210" unitRef="EUR" id="ID_173">
           24846000000</ifrs-full:Revenue>
398        <ifrs-full:Revenue decimals="INF" contextRef="FROM_Jan01_2015_TO_Dec31_2015_Entity_9876543210" unitRef="EUR" id="ID_174">
           25691000000</ifrs-full:Revenue>
```

Air France-KLM Group

CONSOLIDATED INCOME STATEMENT

	A	B	C	D	E	F	G	I	J
	IFRS Basis	Anchoring type	Element	Label (standaard + preferred)	Waarde	Waarde	Balans type	Calculation ID	Calculation relatie
					Id=969500AQW31GYO8JZD66 Datum:2016-01-01 - 2016-12-31	Id=969500AQW31GYO8JZD66 Datum:2015-01-01 - 2015-12-31			
			ELRID_IncomeStatement	ELRID_IncomeStatement					
			afklm_Ebitdar	EBITDAR	3787000000	3414000000	credit	D	D → I (1)
	ifrs-full_FuelExpense	N/W							
	ifrs-full_RepairsAndMaintenanceExpense	N/W	afklm_ExternalExpenses	External expenses				E	E → D (-1)
	ifrs-full_DistributionCosts	N/W			14263000000	15768000000	debit		
			ifrs-full_TaxExpenseOtherThanIncomeTaxExpense	Tax expense other than income tax expense	164000000	155000000	debit	F	F → D (-1)
			ifrs-full_EmployeeBenefitsExpense	Employee benefits expense	7474000000	7464000000	debit	G	G → D (-1)
	ifrs-full_OtherExpenseByNature	W/N	afklm_OtherExternalExpenses	Other external expenses	-842000000	-1110000000	debit	H	H → D (-1)

EBITDAR   3,787   3,414

```
399   <afklm:ExternalExpenses decimals="INF" contextRef="FROM_Jan01_2016_TO_Dec31_2016_Entity_9876543210" unitRef="EUR" id=
      "ID_180">14263000000</afklm:ExternalExpenses>
400   <afklm:ExternalExpenses decimals="INF" contextRef="FROM_Jan01_2015_TO_Dec31_2015_Entity_9876543210" unitRef="EUR" id=
      "ID_181">15768000000</afklm:ExternalExpenses>
401   <ifrs-full:EmployeeBenefitsExpense decimals="INF" contextRef="FROM_Jan01_2016_TO_Dec31_2016_Entity_9876543210" unitRef=
      "EUR" id="ID_184">7474000000</ifrs-full:EmployeeBenefitsExpense>
402   <ifrs-full:EmployeeBenefitsExpense decimals="INF" contextRef="FROM_Jan01_2015_TO_Dec31_2015_Entity_9876543210" unitRef=
      "EUR" id="ID_185">7464000000</ifrs-full:EmployeeBenefitsExpense>
403   <ifrs-full:TaxExpenseOtherThanIncomeTaxExpense decimals="INF" contextRef=
      "FROM_Jan01_2016_TO_Dec31_2016_Entity_9876543210" unitRef="EUR" id="ID_182">164000000
      </ifrs-full:TaxExpenseOtherThanIncomeTaxExpense>
404   <ifrs-full:TaxExpenseOtherThanIncomeTaxExpense decimals="INF" contextRef=
      "FROM_Jan01_2015_TO_Dec31_2015_Entity_9876543210" unitRef="EUR" id="ID_183">155000000
      </ifrs-full:TaxExpenseOtherThanIncomeTaxExpense>
405   <afklm:OtherExternalExpenses decimals="INF" contextRef="FROM_Jan01_2016_TO_Dec31_2016_Entity_9876543210" unitRef="EUR" id
      ="ID_186">-842000000</afklm:OtherExternalExpenses>
406   <afklm:OtherExternalExpenses decimals="INF" contextRef="FROM_Jan01_2015_TO_Dec31_2015_Entity_9876543210" unitRef="EUR" id
      ="ID_187">-1110000000</afklm:OtherExternalExpenses>
```

Recap

Key takeaway Issuers

Start discussion between the issuers and the auditors on a timely basis to 'dry run' both the conversion to XHTML as well as the audit.

Key takeaways auditors

Stay up to date with the current updates, and stay tuned for further guidance and information from the NBA

Key takeaway Ministry of Finance / finance sector as a whole

Please inform the sector as a whole about the chosen method / format for the auditors report as well as the way of signing. So there is more clarity for the sector as a whole.

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