



Polska Agencja Nadzoru Audytowego

SUMMARY OF THE INSPECTIONS CARRIED OUT BY THE END OF JUNE 2022 ON THE AUDIT OF REPORTS IN THE ESEF FORMAT

SELECTED ISSUES

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Abbreviations

Abbreviation	Meaning
Agency, PANA	Polish Agency for Audit Oversight
ESEF compliant	Compliant with the requirements of Delegated Regulation 2019/815
ESEF documents	A file or files containing the financial report or the consolidated annual financial report, the report on the activities or the report on the activities of the capital group or the audit report, in XHTML format compliant with the ESEF.
KSA	Key statutory auditor
Transparency Directive	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 (OJ L 390, 31.12.2004, p. 38–57, as amended)
AF	An audit firm within the meaning of Article 46 of the Act on Statutory Auditors
PIE	Public interest entity
Delegated Regulation 2019/815	Commission Delegated Regulation (EU) 2018/815 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 (OJ L 143, 29.05.2019, as amended)
FS	Financial statements
CFS	Consolidated financial statements of the capital group
Accounting Act (UoR)	Act of 29 September 1994, on accounting (Journal of Laws of 2021, item 217, as amended)
Act on statutory auditors (UOBR)	Act of 11 May 2017 on statutory auditors, audit firms and public supervision (Journal of Laws of 2022, item 1302)

Summary

The purpose of this publication is to inform, in accordance with Article 90 (1) (15a) (d) of the UOBR, about the main problems with regard to the inspection of ESEF (European Single Electronic Format) documents, observed during inspections in the period until the end of June 2022. The study focuses solely on the scope of the inspection with regard to compliance with Delegated Regulation 2019/815.

The analysis of inspection protocols revealed the main findings in the understanding by the inspected auditors of the rules of standardization of ESEF document files. Pursuant to Delegated Regulation 2019/815, the entire annual report should be prepared in XHTML format. In particular (in addition to FS or CFS) this format should be used to prepare the Report on operations and the Audit report (pursuant to the Regulation of the Minister of Finance of 29 March 2018, on current and periodic information published by issuers of securities and the conditions for recognizing as equivalent information required by the laws of a non-member state (Journal of Laws of 2018, r, item 757)). The XHTML format contains a number of technical requirements to be met by an ESEF document. The mere fact that the file extension has been set to "XHTML" or even the ability to open the file in a browser does not guarantee that the format is correct. Therefore, validation becomes necessary, e.g. with the available validator application. Consequently, the statutory auditor confirming in the opinion the correctness of the format of the report must subject it to appropriate validation beforehand.

A common mistake is also incorrect labelling, which is mandatory in consolidated financial statements. The idea behind the ESEF is to enable machine readability, and thus facilitate data analysis, including aggregation. Mandatory labels (currently there are 10) contain data that is extremely important for analysis - data grouping, etc. Incorrect marking of data such as country, form of activity or parent entity prevent data aggregation according to these criteria and their analysis. A large number of errors make the aggregation or comparison of data very difficult, even sometimes impossible.

There are also cases where the audit was conducted on the basis of a file that is not an ESEF compliant document and an audit report was issued for such a file.

Own analysis of the most common findings identified later in this paper should allow the AF to better align their audit procedures with respect to ESEF compliance. The indicated irregularities should also support further work on improving the National Standard on Assurance Engagements Other than Audit and Review 3001PL

Introduction

The goal of any IT standardization is to introduce a file creation method that allows other software with this feature to be able to interpret the contents of the file without human support. Therefore, strict rules for creating these files are created, and in the case of legally regulated content, also rules for the method of labelling the data. These rules must be strictly adhered to so that IT specialists from all over the world are able to adjust their software to read and interpret the data provided in a uniform manner.

In 2004, the Transparency Directive started the process related to the standardization of the files of the issuers' annual reports. In 2013, the Transparency Directive introduced a provision that, with effect from 1 January 2020, all annual financial statements will be prepared in a uniform electronic reporting format. In 2018, the first version of Delegated Regulation 2019/815 (with the designation 2018/815) appeared, which set out the rules for creating files of a uniform reporting format.

It should be noted, as a side note, that the digitization and standardization of financial statements in Poland has a longer running tradition. Already in October 2018, the provisions of the Accounting Act indicated the need for most entities to maintain a specific structured electronic form, compliant in terms of both the file structure and the labelling of individual data in accordance with applicable law.

As a result of Delegated Regulation 2019/815 entering into force, all issuers have been obliged to prepare annual reports in accordance with the ESEF standard with respect to financial reports containing financial statements for financial years beginning on or after 1 January 2020.

This obligation has been postponed in Poland¹ and issuers could, with regard to the statements for 2020, decide to prepare reports on the basis of the existing rules. However, due to the significant advancement of works, some issuers² decided to prepare annual reports in the ESEF format as early as 2021 - with regard to the reports for 2020.

The ESEF format is based on:

- standardized file type in XHTML format (which allows, from a technical point of view, to predict the structure and coding of report files),
- in the case of CFS:
 - indicative labelling with the help of tags (i.e. an IT standardized and accepted way of indicating individual disclosures of the report) among others, assigning to a standardized element (e.g. item of gross financial result or cash flows from investing activities), for amounts also showing the ledger side (debit / credit), marking
 - (if different than natural), or the period it concerns,
 - links between these labels,
 - the method of calculating the sum values.

Delegated Regulation 2019/815 describes every element of the technical structure of the annual report in detail. Compliance with the ESEF format indicates the need to maintain all the requirements set out in this regulation in accordance with the principles of standardization of computer files.

¹ Article 24 (1) of the Act of 25 February 2021, amending the Act - Banking Law and certain other acts (Journal of Laws of 2021, item 680)

² According to the Polish Financial Supervision Authority, by the end of the first half of 2021, 149 issuers had submitted ESEF compliant reports for 2020 (https://www.knf.gov.pl/komunikacja/komunikaty?articleId=74277&p_id=18)

In accordance with the legal status in force in 2021, if the financial statements or the consolidated financial statements were prepared in the ESEF format, KSA was required to certify, among others, compliance with the form indicated, among others, in Delegated Regulation 2019/815 (Article 83 (3) (9) of the Act) and express an opinion on whether the consolidated financial statements have been labelled in accordance with the requirements set out in the Delegated Regulation 2019/815 (Article 83 (6) (6) of the Act).

It should be noted that despite the fact that the term "consistent in form and content with the provisions of law, statute or contract" includes the requirement to verify all the requirements of Delegated Regulation 2019/815, it is the provisions of UOBR regarding the need to express an additional opinion on the correct labelling of the consolidated financial statements underline the importance of the correctness of these disclosures.

With regard to the inspections for the reporting periods ending on 31 December 2021, and later, the KSUA 3001PL standard was introduced in Poland - Audit of financial statements prepared in a uniform electronic reporting format however, this standard was not in force yet with regard to inspections for earlier periods.

It is worth noting that the Polish law differs from the Transparency Directive in terms of the content of the annual report. Pursuant to the Transparency Directive (Art. 4 par. 2), the annual report includes the audited financial statement, the management board's report and a statement of persons authorized by the issuer. On the other hand, in accordance with paragraph 70 section 1 point 9 of the Regulation of the Minister of Finance of 29 March 2018, on current and periodic information published by issuers of securities and the conditions for recognizing as equivalent information required by the law of a non-member state (Journal of Laws of 2018, item 757) the annual report also includes the report on the audit of the annual financial statements.

During inspections carried out in the first half of 2022, concerning audits of financial statements and consolidated financial statements for 2020, The Agency paid special attention to this type of assurance procedures leading to the issuance of an opinion on compliance with the form and content with Delegated Regulation 2019/815, and leading to an opinion on the correctness of the labelling. The Agency also paid particular attention to the compliance of the audit report format with Delegated Regulation 2019/815.

The main findings

1.1 Main findings revealed in the planning phase

With regard to the planning phase (including contracting the service), it is worth paying attention to:

1. No contractual obligation to perform additional procedures in relation to the audit in terms of ESEF compliance.
2. No change in the audit pricing in the event of signing an annex extending the scope of services performed by expressing an opinion whether the consolidated financial statements have been labelled in accordance with the requirements set out in Delegated Regulation 2019/815.
3. If the contract was signed prior to the postponement of the obligation to prepare the report in the ESEF format - failure to include the procedures for assuring ESEF compliance in the audit plan, and if the issuer decided to prepare the financial statements in the current form (after this option entered into force) - no change to the audit plan in a manner that takes such decision into account. Additionally, in this context, the lack of documentation of communication with the issuer's relevant authorities indicating the decision made by the issuer should be noted.
4. Planning the performance (and also performance) of the audit based on the same software that was used by the inspected entity to prepare the financial statements. It should be noted that when creating software for the preparation of financial statements, an integral part of such software is the part that performs verification tests. Often such component is separated and sold by software vendors under separate trade names. However, it does not change the fact that it is based on code prepared by the same people who prepared the software for creating financial statements. Therefore, despite the change of the trade name, it may raise doubts among the recipients of financial statements as to the actual independence of the tests verifying the correctness of ESEF documents.

1.2 Main findings related to audit evidence in relation to the ESEF format of the financial statements and the consolidated financial statements

With regard to the examination of the correctness of the form, it is worth paying attention to:

1. Conduct an audit of FS based on a pdf file only, and then issuing an audit report based on this file also in pdf (which violates Article 3 of Delegated Regulation 2019/815, which indicates that the annual report is prepared in the XHTML format) – therefore, the audit report was issued for a file other than a financial statement.
2. The complete lack of file validation with the XHTML format of financial statements, management reports or audit reports. Extremely often, KSA misinterpreted that if a file has an XHTML extension, it is in XHTML format (or alternatively, that if a file has a searchable format, it is in XHTML). It should be clearly emphasized that the XHTML format is a strictly and precisely described format and as such can be validated in terms of the correctness of the format itself. The XHTML file extension does not in any way guarantee that the file is properly structured. Also, the fact that a file is

searchable does not guarantee that the file is XHTML-structured. There were no traces of validation in the documentation of the audits, nor descriptions of the procedures performed, and no indication of the tool and the person who performed the validation. Very often one could only notice the statement "OK" "validation correct". There was no indication of the method of testing (scope or tools and level of testing) or which file was tested (usually, in the course of KSA's audit, he dealt with several versions of these files). In particular, the documentation lacked tests of the activity reports as well as the audit reports themselves for compliance with the XHTML format. In some cases, the audit report template was tested without the final version of the audit report being tested.

3. Including file validation only in the documentation of the audit of the consolidated financial statements. In some cases, the validation of the compliance of financial statements files with the XHTML format was included in the documentation for the audit of the consolidated financial statements. This did not allow the entire documentation to be traced (National Standard on Auditing 230 paragraph 8 and Art. 84 of the UOBR) to confirm the correctness of the opinion issued on the basis of the audit files.
4. In some of the inspected documentation, the audited entity's statement on the compliance of the report format with the XHTML format was missing.
5. Failure to include the files of the financial statements, the report on the activities in the audit files in XHTML format with the signatures of the relevant persons.
6. Negative validation in terms of compliance with the XHTML format of the audit report - during the inspection, PANA performed a validation test which produced error messages.

1.3 Main findings in audit evidence with regard to labelling

With regard to the examination of the correctness of labelling, it is worth paying attention to:

1. Findings regarding **mandatory tags of the core taxonomy that should have been labelled for 2020 (Table 1 of Annex II of Delegated Regulation 2019/815)** For the consolidated financial statements for 2020, only 10 elements of the core taxonomy were indicated, which were mandatory.

It should be noted that the inspected entities did not fully understand the provisions of point 2 of Annex II of Delegated Regulation 2019/815. Point 2 indicates that if a disclosure corresponding to the elements indicated in Table 1 was entered in the consolidated financial statements, the disclosure should be labelled with the appropriate element as a rule.

The most common findings in this respect:

- a) The inspected entity clearly indicated that there was no disclosure regarding the change of the name of the entity, but incorrectly labelled such information using the label „ExplanationOfChangeInNameOfReportingEntityOrOtherMeansOfIdentificationFromEndOfPrecedingReportingPeriod” to label text indicating that the name has not been changed.
- b) The inspected entity was the ultimate parent entity, as clearly indicated in the report, but incorrectly labelled by using the label „NameOfParentEntity” and

- „NameOfUltimateParentOfGroup” to denote the text that the entity is not a subsidiary, as it is the ultimate parent entity.
- c) Labelling with "DomicileOfEntity" denoting the country where the entity is based, e.g. the city in which the entity is based.
 - d) Labelling with "CountryOfIncorporation" denoting the country in which the entity was registered, e.g. disclosure regarding an entry in the National Court Register.
 - e) Labelling with „AddressOfRegisteredOfficeOfEntity” denoting the address of the registered office of the unit, e.g. incomplete office address without indicating the city.
 - f) Labelling with „PrincipalPlaceOfBusiness” denoting the place of principal business activity, in particular when it is different from the address at which it was registered, e.g. disclosures about nationwide activity, i.e. without providing such an address.
2. Findings in the documentation of the labelling test process consisting in the inability to trace the course of the audit. The documentation includes numerous versions of report files and their exports for labelling verification. However, in response to individual steps in the procedures of such an audit, a laconic remark "Verification correct" was placed, or an indication of a folder with documentation, the content of which did not allow for understanding who, how and on what basis, assured the correctness of this verification. During the inspections, the inspection teams provided explanations, which, however, were not included in the audit documentation, and therefore it was not possible to trace the work carried out or draw a conclusion in accordance with the KSA's disclosure.
 3. Failure to document KSA's assessment of the expert competence of the statutory auditor. Some of the processes related to the verification of the correctness of the format of financial statements were performed by specialists contracted by the team performing the engagement. However, the audit documentation does not document KSA's assessment of whether the statutory auditor's expert has the necessary competence, skills and objectivity, which is a violation of paragraph 9 of National Standards on Auditing 620. This is particularly important as errors in labelling mandatory elements of the core taxonomy have not been identified.

At the same time, during the inspection, the Agency paid special attention to the irregularities indicated by the PFSA in the report [Supervision over compliance with disclosure obligations by issuers of securities conducted in 2021](#), that is:

- use of wrong characters for tagged values (negative value instead of positive value, or vice versa);
- inconsistencies in the calculation layer, i.e. the values included in the financial statements, did not comply with the calculation defined in the taxonomy.

With regard to the inspected documentation, these findings were not identified (according to the audit documentation, they were identified by the KSA during the audit process).