

Requirements for Auditor Reporting on the Single European Format of Financial Statements

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Abstract

For the proper functioning of the capital markets it is essential to provide users faithful and relevant information, about the company financial position, its performance, and cash-flows, which to be available in time for the decision-making process. In order to increase the transparency of the financial information communicated by the companies traded on a regulated market, the European Union (EU) gave digitalization a special position by requiring the use of a single electronic format for the annual financial reports prepared for years beginning on or after 1 January 2020. The European Single Electronic Format (ESEF), which draft Regulatory Technical Standards (RTS) were prepared by the European Securities and Markets Authority (ESMA), implies that issuers prepare their entire annual financial reports in eXtensible Hypertext Markup Language (XHTML) format and use eXtensible Business Reporting Language (XBRL) for the consolidated financial statements prepared under International Financial Reporting Standards (IFRS). It is well known that digital technologies facilitate the process of collecting, preparing, analyzing, and interpreting information, and in this study the authors concentrate on the extent which the Romanian companies traded on Bucharest Stock Exchange (BSE), Regulated Market, introduced the new digital technologies in the reporting process, on a mandatory or a voluntary base, trying to capture specific aspects of the auditor's reporting on the new statutory requirements in the context of ESEF implementation.

Key Words: annual report; financial statements; auditor's report; reasonable assurance; taxonomy; ESEF; XHTML; XBRL;

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1. Introduction

Transparency requirements for financial information of entities traded on a regulated market have been issued in the European Union since 2001 by Directive 2001/34/EC on the admission of securities to official stock exchange listing and on information to be published on those securities. This Directive established that the annual financial statements and the annual report must be made available to the public as soon as possible, together with the auditor's report.

According to Directive 2004/109/EC 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, annual financial reports must be published „at the latest four months after the end of each financial year” and their public availability must be ensured „for at least 10 years”, period which may be reduced by the European Commission to 5 years.

This directive specifies the components of the annual financial report (the audited financial statements, the management report and the statements made by the persons responsible within the issuer) and requires the audit report, signed by the person or persons responsible, to be disclosed in full to the public together with the annual financial report.

We cannot fail to notice the slippages in the translation into Romanian of the texts of the English directives, which are not in line with the professional vocabulary established by national legislation. Thus, the expression *annual accounts*, provided for in Directive 2001/109/EC, has been translated as *financial-accounting situation* instead of *annual financial statements*. In Directive 2004/34/EC, the expression *financial statements* was translated as *financial declarations* instead of *financial statements* and the expression *management report* was translated *gestion report* instead of *management report*. Also, in national law, the term used is *annual report*, not *annual financial report*.

At national level, the requirement is to publish the annual financial report on the website of issuer and to submit it to the Financial Supervisory Authority (FSA) and the system operator (Bucharest Stock Exchange – BVB), respecting the deadline of no more than four months from the end of the financial year, and to ensure its availability for at least five years. Moreover, ASF specifies that the signed statutory audit report is part of the annual report (Financial Supervisory Authority, 2018).

The EU Transparency Directive states that for financial years beginning on or after 1 January 2020, all the annual financial reports of the issuers whose securities are admitted to trading on a regulated market shall be prepared in a single electronic reporting format, but offering the possibility for Member States to register a delay of one year in conforming to this requirement, duly justified in the notification sent to the European Commission (European Parliament, & Council of the European Union, 2004).

In this context, we must mention that, in Romania, the Financial Supervisory Authority (FSA), the only competent national authority for representing Romania's interests within The European Securities and Markets Authority (ESMA), announced in February 2021 that it postponed by one year the mandatory application of the European Single Electronic Format (ESEF) for issuers listed on the regulated market. Among the reasons behind the decision of notification the European Commission regarding the postponement of the application of the ESEF were: the lack of staff specialized in the transformation of annual financial statements according to the new requirements; the existence of a small number of companies developing applications of this type; high costs for identifying and implementing IT solutions; difficulties in identifying and contracting an IT provider that offers complete and viable services; the mapping errors that occurred during the conversion of the annual report in the new format required by ESEF etc. (<https://asfromania.ro/>).

Not only Romania decided to notify the European Commission on the decision to delay ESEF implementation, but also many other European countries: Belgium, Bulgaria, Croatia, Cyprus, Denmark, Estonia, Finland, France, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovakia, Spain, Sweden (https://finance.ec.europa.eu/publications/one-year-optional-esef-postponement_en#list).

In March 2021, the FSA endorsed the Regulation no. 7/2021 which specifies that issuers whose securities are admitted to trading on a regulated market must prepare and publish the annual financial reports in the electronic single reporting format for financial years beginning on or after 1 January 2021 and that issuers may also comply with this requirement for the financial year 2020 (Financial Supervisory Authority, 2021).

ESMA, the EU's securities markets regulator, was entitled to elaborate draft Regulatory Technical Standards (RTS) to specify the European single electronic format (Regulation (EU) 1095/2010) and submit it to the European Commission for endorsement.

According to the Commission Delegated Regulation (EU) 2019/815, ESEF implies that issuers prepare entire annual financial reports in XHTML format and where annual financial reports include consolidated financial statements prepared under IFRS, mark up in detail those consolidated primary financial statements (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) for financial years beginning on or after 1 January 2020 using XBRL markup language and block-tag the notes to the financial statements (apply markups for whole sections of the notes) for financial years beginning on or after 1 January 2022 (European Commission, 2019a). The detailed tagging of notes can be made on a voluntary basis in the case of consolidated financial statements under IFRS and the XBRL mark-up of individual financial statements (no matter if they are prepared according to national regulations or IFRS) by the issuers incorporated in Member States is allowed if the member states provide taxonomies. Markups will be embedded in the annual financial reports in XHTML format using the Inline XBRL (iXBRL) specifications (European Commission, 2019a).

The ESEF taxonomy is based on the IFRS Taxonomy, prepared by the IFRS Foundation, which ESMA made some small additions, and is made up of a set of

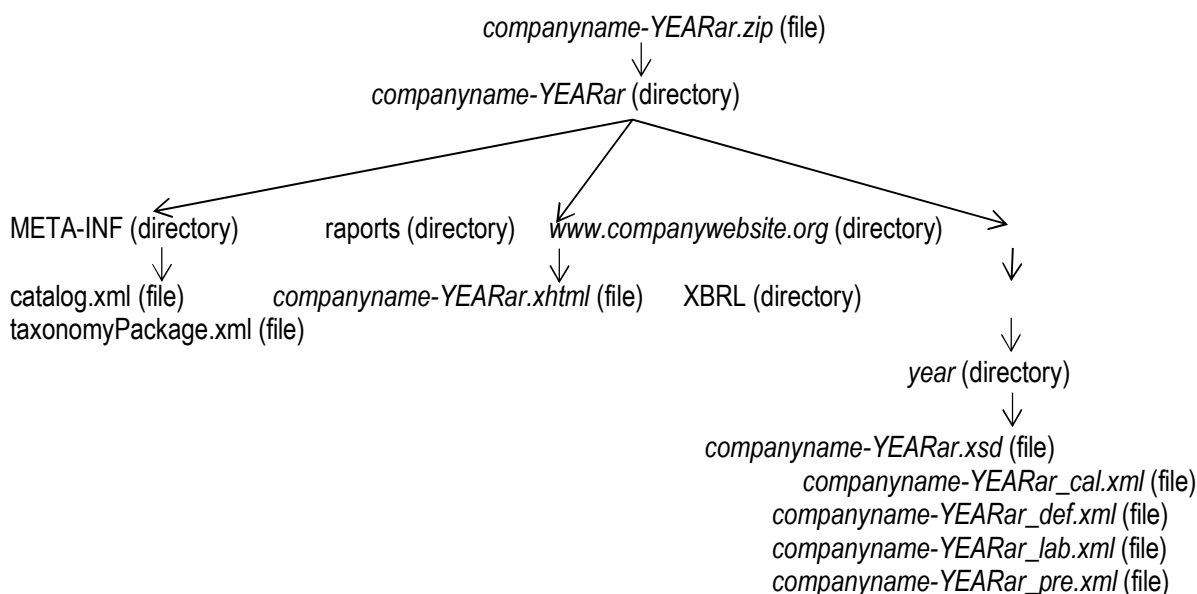
electronic files with the extension .xsd or .xml which contain the schemas and linkbases to be used in preparing consolidated financial statements.

In August 2023, ESMA published the most recent annual update of ESEF Reporting Manual: Preparation of Annual Financial Reports in ESEF format, a document that is intended to “assist issuers and software vendors in creating ESEF documents that are compliant with the RTS on ESEF” (European Securities and Markets Authority, August, 2023).

ESMA has also published the ESEF Conformance Suite that “is aimed primarily at a technical audience (i.e. XBRL software developers), as a way to test and provide assurance on whether software tools are able to create and/or consume filings which are in line with all the ESEF requirements” (<https://www.esma.europa.eu/policy-activities/corporate-disclosure/european-single-electronic-format>).

We must mention that ESMA offer an example of annual financial report in ESEF format, making available to the public the report prepared by one company with headquarter in Europe and specifies that additional publications (such as an Inline XBRL viewer) can be found on that company website (<https://www.esma.europa.eu/>). The structure of this report package is presented in *Figure no. 1*.

Figure no. 1. The structure of an ESEF report package



Source: Own projection of the authors after analysing the structure of the report package made available on ESMA website (<https://www.esma.europa.eu/>)

In this figure we marked in italic the information that varies from one entity to another or from one year to another. The file with the extension .xhtml is the annual financial report. The catalog.xml file (optional in the META-INF directory according to Taxonomy Packages 1.0.) provides remappings that allow one Uniform Resource Locator (URL) to be substituted for another during URL resolution and the taxonomyPackage.xml file (mandatory according to Taxonomy Packages 1.0.) provides documentation about the taxonomy used by the company. The other files with the extensions .xsd and .xml are the components of the ESEF taxonomy used by the company.

Regarding the Commission Delegated Regulation (EU) 2019/815, in 2020, the Commission published Commission Interpretative Communication 2020/C 379/01 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).

Through this communication there are offered some clarifications on European Union provisions concerning audit. In this regard we mention that the statutory auditors are required "to provide an audit opinion on whether the financial statements included in the annual financial reports comply with the relevant statutory requirements laid down in the ESEF Regulation" and this opinion "shall

be included in the audit report". The EU law does not specify whether the audit report should be included in the annual report or disclosed, as a separate document, together with the annual report.

The European Single Electronic Format, which involves the preparation of annual financial reports entirely in XHTML format, and where annual reports include consolidated financial statements prepared according to International Financial Reporting Standards (IFRS), marking those consolidated financial statements using XBRL, has the role of increasing the comparability of information in the annual reports of listed companies and at the same time ensuring flexibility in accessing their content.

The introduction of these additional reporting requirements for entities with securities listed on regulated markets in the European Union led to the expansion of the activity of statutory auditors who are asked to express an opinion on the compliance of the financial statements with the statutory requirements (Directive 2014/56/EU), thus, implicitly, the Regulatory Technical Standards (RTS) on ESEF.

In **Table no. 1** we captured the relevant statutory requirements of the ESEF Regulation against which statutory auditors will have to verify the compliance of the financial statements.

Table no. 1. Provisions of the ESEF Regulation that apply to financial statements	
All the financial statements that are included in the annual financial report shall be prepared in a valid XHTML format	
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	For financial statements other than the IFRS consolidated financial statements
<p>➤ The disclosures specified in Annex II of the ESEF Regulation shall be marked-up, where those disclosures are present in those consolidated financial statements.</p>	
<p>➤ All mark-ups, including the voluntary mark-ups of disclosures other than those specified in Annex II, shall meet the following requirements:</p> <ul style="list-style-type: none"> ▪ 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 in compliance with Annex IV of the ESEF Regulation; ▪ the mark-ups shall comply with the common rules on mark-ups. 	<p>➤ All mark-ups included by the issuer on a voluntary basis or in compliance with national law shall meet the following requirements:</p> <ul style="list-style-type: none"> ▪ the XBRL mark-up language shall be used; ▪ a specific taxonomy provided by the Member State in which the issuer is incorporated shall be used; ▪ the mark-ups shall comply with the common rules on mark-ups.

Source: Excerpt from the European Commission Interpretative Communication 2020/C 379/01

The Committee of European Auditing Oversight Body (CEAOB), whose role is to ensure the cooperation between national audit oversight bodies at EU level, has issued a document which contains guidelines on the auditors' involvement on annual financial statements in the European single electronic format, assisting the mission of verifying compliance of the financial statements with relevant statutory requirements of the ESEF Regulation. The objectives of this material are to describe CEAOB's expectations 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” (Committee of European Auditing Oversight Bodies, November 9, 2021). This document has been translated into Romanian and made available to auditors as a guide by the Statutory Audit Public Oversight Authority (ASPAAS).

„Auditors have an essential role in ensuring that the digital disclosures accurately reflect the content and meaning of the report, but they should not get bogged down in syntactic or technical details. Automated validation by XBRL Certified Software will ensure that reports are technically sound” (<https://www.xbrl.org/>). However, although digital tools support the audit engagement, it is necessary to familiarize yourself with this modern reporting language and understand the facilities offered by different software products in evaluating financial reports.

As regards the audit report on the compliance of financial statements with RTS on ESEF, the European legislation gives just as much freedom, entities having the possibility either to publish it together with the annual financial report, as a separate document, or to include it in the annual financial report (Commission interpretative communication 2020/C 379/01), and this approach has not undergone changes at national level. However, the obligation to include in the statutory audit report also the audit opinion on the compliance of the financial statements with the relevant statutory requirements set out in the ESEF Regulation (Commission interpretative communication 2020/C 379/01) leads, in the case of BVB-listed companies, to limiting the presentation of this opinion in the annual report and not in a separate document because the signed statutory audit report is part of the annual report (Financial Supervisory Authority, 2018).

According to the briefing paper published by Accountancy Europe – the European body of the accounting profession

– in order to assist auditors in providing an opinion on ESEF, the auditor's engagement „should be conducted and reported on in accordance with ISAE 3000 published by the International Auditing and Assurance Standards Board (IAASB) or a professional standard to be developed in the future which sets out requirements that are at least as demanding as ISAE 3000” (Accountancy Europe, December, 2019).

The same paper specifies that, in order to avoid confusion about the nature and extent of the reasonable assurance engagement, the report issued should set out, inter alia, the objective of the assurance engagement on whether the electronic tagging of financial statements complies with the RTS on ESEF and the names of the digital submission files.

In 2023, the Chamber of Financial Auditors of Romania (CAFR) updated the audit report template made available to members on its website, which also included the proposed template for the auditor's report on compliance with the ESEF regulation.

2. Materials and methods

We found in the literature a relatively small number of studies conducted on ESEF uses in different countries of the European Union, the aspects treated referring to: issuers' readiness for ESEF reporting in Poland (Miścikowska, 2021), the influence of ESEF reporting in Slovak Republic (Marci & Stanková, 2017), ESEF characteristics based on annual financial reports of the four largest companies in the wood based industry in Bulgaria (Atanasov, 2022), Finland's experience in using ESEF as an early adopter (Brands et al., 2022) etc.

In our study, we proposed to analyse in what extent the Romanian companies listed on Bucharest Stock Exchange, Regulated Market, which is established in Romania (not an XBRL Jurisdiction), comply with ESMA requirement of using ESEF and if the level of development of the area they are based could be one of the factors influencing their attitude. We didn't choose to analyse the companies from abroad listed on BSE due to their limited number.

We also analyzed the extent to which the management of the entities provided information on the procedures used to convert annual reports into ESEF format and the additional aspects captured by the auditor in the report prepared in the case of entities that have implemented the European single electronic format.

The research hypotheses are the following:

H1: There is a direct relationship between the extent which the Romanian companies traded on Bucharest Stock Exchange comply with ESMA requirement of using ESEF and the level of development of the area they are based.

H2: When there is no obligation to use XBRL in ESEF annual financial reports, Romanian companies traded on Bucharest Stock Exchange does rarely voluntary comply to a recommendation. Concerning the second hypothesis, we refer here to the companies preparing financial statements according to IFRS for which there was created a taxonomy to support the reporting process.

H3: Concerning the management responsibility, the financial statements in ESEF format are published on the personal website, and in the management declaration on the financial statements or in the annual report containing them there are mentioned the procedures used for conversion in ESEF format.

H4: The auditors mention in their report the existence of financial statements in ESEF format, identify these statements accordingly and mention the international

auditing standard underlying the engagement as well as the procedures used to verify compliance with ESEF.

3. Results and discussions

The data used in our analysis were collected from the Bucharest Stock Exchange website (<https://www.bvb.ro/>) and the repository of Inline XBRL filings, official database including annual reports prepared under the ESEF mandate (<https://filings.xbrl.org/>). In order to assure that the information is completely provided, we also analysed the websites of the Romanian companies traded on BSE in 2021 and 2022, these having the obligation to publish on their websites the annual financial reports (Romanian Parliament, 2021).

In **Table no. 2** we present the number of Romania entities listed on BSE preparing ESEF reports and the Gross Domestic Product (GDP) per capita in 2021 and 2022 in order to analyse the possible relationship between the level of development of different regions of Romania and the number of entities traded on BSE which comply to ESEF.

Table no. 2. Entities listed on BSE which prepared ESEF reports and GDP/capita in 2021 and 2022						
Development regions of Romania	Entities preparing ESEF reports (Number)				Gross Domestic Product per capita (% of European Union mean)	
	2022		2021		2022	2021
	Yes	No	Yes	No		
North-East Development Region	9	0	7	2	8.01	7.30
South-East Development Region	7	0	7	0	7.70	7.30
South-Muntenia Development Region	7	0	7	0	8.70	5.84
South-West Oltenia Development Region	5	0	5	0	5.93	8.76
West Development Region	2	0	2	0	7.08	6.57
North-West Development Region	13	0	12	1	9.47	8.76
Center Development Region	11	1	11	1	8.78	8.76
Bucharest-Ilfov Development Region	24	0	24	0	21.33	19.71
Total	78	1	75	4	77	73

Source: Own projection of the authors according to used databases

As we can see in **Table no. 2**, a significant percent (95% in 2021 and 99% in 2022) of the Romanian entities listed on BSE used ESEF in publishing the annual financial reports.

We can observe that in Bucharest-Ilfov Development Region, which present the most important value for GDP per capita, there are established about 30% of the entities that used ESEF for the annual financial reports.

In order to analyse the connection between the level of development of different regions and the degree of

compliance with ESEF requirements, we used a test of Pearson's Correlation (Table no. 3).

Table no. 3. Correlation between the level of development of different regions and the degree of compliance with ESEF requirements

		Gross Domestic Product per capita in 2022 (% of European Union mean)	Gross Domestic Product per capita in 2021 (% of European Union mean)
Entities preparing ESEF reports	Pearson Correlation	.930**	.919**
	Sig. (2-tailed)	<.001	.001
	N	8	8

** Correlation is significant at the 0.01 level (2-tailed).

Source: Own projection of the authors

Despite this strong correlation we must mention that entities with head office in the area where GDP/capita is at high level are the main entities traded on BSE.

Analysing the ESEF reports we observed that not every entity used XBRL in preparing consolidated annual financial statements under IFRS (Table no. 4).

Table no. 4. Number of Romania entities listed on BSE which used XBRL in the ESEF reports for the financial years 2021 and 2022

Development regions of Romania	Entities using XBRL in the ESEF reports (Number)				Entities preparing consolidated financial statements (Number)			
	2022		2021		2022		2021	
	Yes	No	Yes	No	Yes	No	Yes	No
North-East Development Region	2	7	1	8	2	7	2	7
South-East Development Region	4	3	4	3	4	3	4	3
South-Muntenia Development Region	3	4	3	4	3	4	3	4
South-West Oltenia Development Region	2	3	2	3	2	3	2	3
West Development Region	2	0	2	0	2	0	2	0
North-West Development Region	4	9	3	10	4	9	4	9
Center Development Region	5	7	6	6	6	6	6	6
Bucharest-Ilfov Development Region	18	6	17	7	17	7	16	8
Total	40	39	38	41	40	39	39	40

Source: Own projection of the authors according to used databases

As we can observe, in 2021 only two companies (one of them not adopting IFRS), and in 2022 only one company preparing consolidated financial statements, don't use the XBRL language. So, there is a strong

correlation between the number of entities using XBRL in the ESEF reports and the number of entities preparing consolidated financial statements (Figure no. 2).

Figure no. 2. Correlation between the number of entities using XBRL in the ESEF reports and the number of entities preparing consolidated financial statements in 2021 and 2022



Source: Own projection of the authors

We also observed that none of the Romanian companies traded on BSE, Regulated Market, presented in 2020 the annual report in ESEF format and used XBRL in the case of consolidated financial statements based on IFRS and, in 2021 and 2022 one company used XBRL, voluntarily, for individual financial statements prepared under IFRS.

Taking account of this information and that presented in **Table no. 5** we can affirm that the

second hypothesis of our study is confirmed. Even if XBRL allows entities to increase the transparency of the information communicated to different users and, in this way, accelerating the decision-making process, Romanian companies traded on BSE does rarely use XBRL in ESEF annual financial reports when there is no obligation to conform with this requirement.

Table no. 5. Correlation between the number of entities not using XBRL in the ESEF reports and the number of entities not preparing consolidated financial statements

		Entities not preparing consolidated financial statements	
		2022	2021
Entities not using XBRL in the ESEF reports	Pearson Correlation	.983**	.981**
	Sig. (2-tailed)	<.001	.001
	N	8	8

** Correlation is significant at the 0.01 level (2-tailed).

Source: Own projection of the authors

Only for 83%, in 2022, and 79%, in 2021, of the entities using XBRL in the ESEF reports we found the annual financial reports, prepared under the ESEF mandate, in the repository of Inline XBRL filings (<https://filings.xbrl.org/>). The reason for the lack of completeness of this official database is, according to the owners of the website, that Romania, together with Germany and Ireland, are the countries where ESEF filings are not made available in a way that allows to reliably discover and download them, or where they have not been able to locate a source at all. We encountered

the same problem when collecting information for our study and needed to access not only the BSE website but also the websites of the companies traded on BSE.

As we can see in **Table no. 6**, many of the filings have calculation inconsistencies or validation warnings, generally because of failing to comply with XBRL Formula rules defined in the ESEF taxonomy. For none of these filings was analysed the conformity with the rules in the ESEF Reporting Manual (European Securities and Markets Authority, August, 2023), or any Romanian-specific rules that may apply.

Table no. 6. Number of Romania entities which XBRL reports for the financial years 2021 and 2022 are available on the website <https://filings.xbrl.org/>

Development regions of Romania	Entities presented on the website https://filings.xbrl.org/ (Number)				Reports without XBRL calculation inconsistencies or validation warnings (Number)			
	2022		2021		2022		2021	
	Yes	No	Yes	No	Yes	No	Yes	No
North-East Development Region	2	0	1	0	0	2	0	1
South-East Development Region	3	1	3	1	2	1	2	1
South-Muntenia Development Region	2	1	2	1	0	2	0	2
South-West Oltenia Development Region	2	0	2	0	0	2	0	2
West Development Region	1	1	1	1	0	1	0	1
North-West Development Region	3	1	2	1	0	3	0	2
Center Development Region	4	1	6	0	4	0	4	2
Bucharest-Ilfov Development Region	16	2	13	4	3	13	5	8
Total	33	7	30	8	9	24	11	19

Source: Own projection of the authors, according to used databases

We consider that the presence of calculation inconsistencies or validation warnings in the XBRL reports, not only in the case of Romanian companies but also in the case of many companies from the other member states which financial reports can be found in the repository of Inline XBRL filings (<https://filings.xbrl.org/>) are natural in the context of the beginning of the adoption of XBRL.

In what concern the files of the taxonomy made available by the companies traded on BSE, the situation is presented in **Table no. 7**.

Only two companies published a taxonomy that included all types of files for a standard taxonomy. We refer here to an XBRL schema (that stores information about the taxonomy concepts such as their names, identifiers (ids), and various other characteristics), in the forms of an .xsd file, and linkbases, often referred to as layers (calculation, definition and presentation, that manage the relations between taxonomy concepts; label, that associate taxonomy concepts with text labels defined in various languages; reference, that connect concepts with authoritative literature), in form of .xml files (Debreceeny et al., 2009).

Table no. 7. The XBRL taxonomy structure for 2021 and 2022 published by the entities traded on BSE

XBRL Taxonomy files	Entities using XBRL which published different types of files (Number)			
	2022		2021	
	Yes	No	Yes	No
XBRL Schema	40	0	38	0
Calculation	40	0	38	0
Definition	40	0	38	0
Label – Romanian	40	0	34	4
Label – English	37	3	34	4
Presentation	40	0	38	0
Reference	2	38	2	36

Source: Own projection of the authors according to used databases

We also observed that every company presented a catalog.xml file, even if this is optional according to Taxonomy Packages 1.0. (XBRL International Inc., April 19, 2016).

Analyzing the content of the annual reports published in 2021 and 2022 on BSE website or the websites of

companies, we have synthesized in **Table no. 8** the manner of presenting the auditor's opinion on the compliance with ESEF requirements and the manner of disclosing the report with this opinion. We mention that we didn't find the reports with the auditor's opinion for one company in 2022 and four companies in 2021.

Table no. 8. Number of entities providing the auditor's opinion on ESEF compliance in the audit report or annual report

Development regions of Romania	Manner of presenting the opinion on the compliance with ESEF (Number of entities)				Manner of publishing the report with the auditor's opinion (Number of entities)			
	2022		2021		2022		2021	
	In the audit report	In a separate report	In the audit report	In a separate report	In the annual report	As a separate document	In the annual report	As a separate document
North-East Development Region	8	1	5	1	9	0	5	1
South-East Development Region	7	0	7	0	7	0	6	1
South-Muntenia Development Region	7	0	6	1	6	1	6	1
South-West Oltenia Development Region	4	1	3	2	4	1	4	1
West Development Region	1	1	1	1	2	0	1	1
North-West Development Region	11	1	8	3	12	0	8	3
Center Development Region	10	1	9	0	11	0	8	1
Bucharest-Ilfov Development Region	24	0	24	0	21	3	23	1
Total	72	5	63	8	72	5	61	10

Source: Own projection of the authors, according to used databases

According to the Commission Interpretative Communication 2020/C 379/01 which specifies that the auditor's opinion on whether the financial statements comply with the relevant statutory requirements laid down

in the ESEF Regulation shall be included in the audit report, a high number of entities (89% in 2021 and 94% in 2022) chose to include this opinion in the auditor's report. Also, in 2021, most of the entities publishing the auditor's

opinion in a separate report than the audit report preferred to disclose this distinct report outside the annual report. This option changed in 2022.

The situations identified by us in which the audit report does not contain the opinion on compliance with the ESEF Regulation refer to the fact that the financial statements were not prepared in XHTML format at the date of issuing the audit report, which is why the auditors prepared separate reports on this aspect.

Table no. 9 captures the synthesis of findings after analyzing the degree of confirmation of hypotheses 3 and 4 in the case of 77 entities listed on BVB. We mention that in the case of two entities we have not been able to identify the personal website or it does not exist, which is why we analyzed the information provided to the system operator (BVB).

In this analysis, we considered information related to the financial year 2022, the second year since ESEF was used in the preparation of annual reports.

Tabelul no. 9. Analysis of criteria related to management's responsibility and auditor's responsibility regarding the financial statements in ESEF format

Development regions of Romania	Analyzed criteria 2022 (Number of entities)					
	C1. Financial statements in ESEF format published on the issuer's website (YES/NO)	C2. Mention of procedures used for ESEF conversion in management declaration or in annual report (YES/NO)	C3. ESEF mention in the audit report (YES/NO)	C4. Identificatio n of financial statements in ESEF format in the audit report (YES/NO)	C5. Mention the application of ISAE 3000 (YES/NO)	C6. Mention of the procedures used by the auditor regarding ESEF (YES/NO)
North-East Development Region	4 / 5	0 / 9	9 / 0	6 / 3	9 / 0	0 / 9
South-East Development Region	4 / 3	0 / 7	7 / 0	3 / 4	7 / 0	0 / 7
South-Muntenia Development Region	5 / 2	0 / 7	7 / 0	4 / 3	7 / 0	0 / 7
South-West Oltenia Development Region	4 / 1	1 / 4	5 / 0	4 / 1	5 / 0	0 / 5
West Development Region	2 / 0	0 / 2	2 / 0	2 / 0	2 / 0	0 / 2
North-West Development Region	4 / 7	0 / 12	11 / 1	3 / 9	10 / 2	0 / 12
Center Development Region	4 / 6	1 / 10	11 / 0	4 / 7	10 / 1	0 / 11
Bucharest-Ilfov Development Region	14 / 10	0 / 24	24 / 0	15 / 9	23 / 1	0 / 24
Total	41 / 34	2 / 75	76 / 1	41 / 36	73 / 4	0 / 77

Source: Own projection of the authors, according to used databases.

The aforementioned Directives use expressions like *the issuer make public*, *disclosed to the public* and *it remains publicly available*, without mentioning what publication means in this context. We also mention that the ESEF Regulation refers to the preparation of financial statements in XHTML format without discussing their circuit.

In Romania, the term *publication* is replaced and covered by the term *submission*, which cancels the main purpose of publication, which is to make available to any interested person all information considered public. On the website of the Ministry of Finance, where the financial statements are submitted, there are no complete financial statements, but only extracts from them. Therefore, we consider that

making the financial statements and the auditor's report available to the public could be realized by posting them on the entity's own website, as part of the annual report or separately from the annual report. Our opinion is based also on the mention made in Commission Interpretative Communication 2020/C379/01, which states that publication takes place, for example, on the issuers' website. Moreover, the purpose of using XHTML format is the information can be read automatically. As we have seen, many entities have not posted this format on their website, although the purpose of the new format is just the public information. Instead, we found the annual reports on the website of the system operator (BVB).

With regard to criteria C1 and C3, there are many situations where the ESEF format is not published on the issuer's website and the auditor does not identify these financial statements, but mentions that they exist, without providing any evidence other than his mention. We mention that in the case of two entities we have not been able to identify the personal website or it does not exist.

For criterion C2, the Interpretative Communication 2020/C379/01 states that issuers may include in the annual report a statement of compliance of financial statements with the ESEF Regulation. We consider that this statement must be included in the issuers' management declaration regarding the presentation of financial statements in accordance with the applicable accounting standards. In this statement is the place where issuers indicate the financial statements or the annual report containing them by entering the unique XHTML code and may disclose information on the procedures by which financial statements in XHTML format have been drawn up, specifying whether they have engaged in this activity with their own staff or have requested support from a service provider, in which case they indicate his name.

We noticed that almost all issuers (with two exceptions) did not include in the declaration regarding the financial statements references to the XHTML format of those, with the indication of their unique code. Of the two issuers referring to the ESEF Regulation, one mentioned some information in the declaration regarding the financial statements and the other in the consolidated annual report. None of them, however, presented the unique code for identification or mentioned the procedures by which the financial statements in XHTML format were prepared.

In our opinion, in the management declaration regarding the financial statements or in the annual report containing them, management should, as part of the information on compliance with the ESEF Regulation, specify what procedures it used to convert the financial statements in XHTML format, by mentioning their preparation by its own staff or the support from a service provider, and the auditor, in his report, also presents the procedures that have been used to convert the financial statements. As we have seen, there is no such information in management declaration or auditors' reports. In a single report of the auditor, i.e. for a single entity, it is mentioned that the entity has used the services of a specialized company to prepare financial statements in XHTML format, without further details.

Regarding the criteria C4, more than half of the auditors identified, in the report on compliance with the ESEF Regulation, financial statements prepared in XHTML format, by indicating their unique code, for example, in the form XXXXXXXXXXXXXXXXXXXX-2022-12-31.

Even if the ESEF Regulation does not explicitly stipulates, we consider that the obligation to mark financial statements logically leads to their identification based on the unique code. In our opinion, the identification of financial statements or annual reports containing them, through their unique code, is a basic condition for ascertaining compliance with the regulation, this code having to be indicated both in the management declaration and in the auditor's report. Unfortunately, we find that quite many auditors did not include in the report by which they found the existence of financial statements in XHTML format their unique identification code.

Our findings highlight that for 17 issuers, the financial statements or annual reports containing them, in XHTML format, are not published on the personal website, no information is presented about them in the declaration regarding the financial statements or in the annual report and are not identified in the auditor's report by the unique code. In these cases, the finding that these issuers have prepared financial statements in XHTML format is based only on the provision in the auditor's report that they exist.

As regards criteria C5, regarding the mention in the auditor's report, at the paragraph on his responsibility, of the reference to International Standard on Assurance Engagements (ISAE) 3000, even though most regulations or documents which serve as a reference for auditors regarding their intervention do not directly mention the application of the international auditing standard ISAE 3000, reference in them to the terms *assurance* and *opinion* leads to the obligation to use the provisions of this standard. In the Interpretative Communication, for example, following legal analysis, it is mentioned that „Union law requires statutory auditors to provide an audit opinion on whether the financial statements included in the annual financial reports comply with the relevant statutory requirements laid down in the ESEF Regulation, i.e. with the provisions of the ESEF Regulation that apply to financial statements”.

Our findings highlight that most auditors indicated in the report on the application of the ESEF Regulation that the assurance engagement was conducted based on ISAE 3000.

As mentioned, the Chamber of Financial Auditors of Romania has provided auditors with a model for the audit report that also includes a reporting template for finding compliance with the ESEF regulation. However, our findings show that this model was used, in whole or in part, in very few cases.

With regard to criteria C6, we have not identified any auditor presenting the procedures used to verify compliance with ESEF.

The regulations and information documents that the auditor uses as reference for his intervention contain procedures that the auditor must perform regarding the financial statements in ESEF format. The procedures relate to: planning of the activity; understanding the process for preparing the financial statements in ESEF and related controls; procedures related to the XHTML format; procedures related to the marking up; additional procedures; reporting on compliance with ESEF in the audit report; other aspects.

These procedures are a guide to achieving the engagement, but for each of them the auditor should make a series of findings and present them in the report. For example, when understanding the process of preparing financial statements in ESEF format, we consider that the report should mention the procedures and tools used by the entity for this activity and whether or not it has outsourced this process. We take into account that the guide prepared by CEA OB stipulates in the planning procedure that the auditor takes into account the process put in place by the entity to prepare the financial statements in ESEF format. Furthermore, the procedures performed by the auditor related to the XHTML format and markup are based on software tools, which the auditor should present. Mentioning them in the report would bring more information and confidence in its findings, because

the auditor is free to request the assistance of an expert for these findings.

4. Conclusions

Since the financial year 2021 was the first year for Romanian companies to comply with the ESEF requirements, we did not have access to multiannual information to make the results of our analyze more relevant. But, there is a clear image that, even if the FSA notified the European Commission regarding the postponement by one year of the application of the ESEF due to many reasons, most of the companies traded on BSE, Regulated Market, made efforts to present their annual financial reports for 2021 and 2022 in ESEF format and even to use XBRL in presenting consolidated financial statements. Moreover, in the auditor's report or a separate report published by these companies it was presented the auditor's opinion on whether the financial statements included in the annual financial reports comply with the relevant statutory requirements laid down in the ESEF Regulation.

The limits of our study consist in analyzing the attitude towards the financial reporting requirements in the ESEF mode, of the entities listed on the Bucharest Stock Exchange, with the presentation and analysis of their structure by geographical regions. We intend to continue our study by analyzing the structure of these entities according to their field of activity.

Also, we intend to concentrate our future research on evaluating the effects of XBRL on the economic progress registered by Romanian companies traded on BSE by comparing the evolution of equity of the companies that use XBRL to those not using this modern reporting language and analysing the fluctuations on shareholding structure on long term.

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