



**ACCOUNTANCY  
EUROPE.**

# **INDEPENDENT ASSURANCE ON ESEF**

The block tagging requirement

Briefing paper

**VIEWS.**

**AUDIT & ASSURANCE  
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## **HIGHLIGHTS**

European issuers subject to ESEF are required, for the first time, to mark-up the notes to their 2022 consolidated financial statements in 'block tagging'. This new requirement has brought challenges for the issuers and software providers. How and when these challenges are overcome will have an impact on the auditor's work.

This guidance sets out practical considerations for auditors who will be performing ESEF assurance engagements. It focuses on considerations related to block tagging and describes main touchpoints for the engagement's different phases.

## INTRODUCTION

Issuers within the scope of the [Regulatory Technical Standard on the European Single Electronic Format \(ESEF RTS\)](#) are required to mark up their primary financial statements using XBRL technology if these statements are prepared in accordance with the International Financial Reporting Standards (IFRS). ESEF RTS will enter a new phase for 2022 annual financial reports. Issuers subject to ESEF RTS and will also need to mark up the notes to their consolidated financial statements. This element of the new requirement is generally referred to as block tagging.

This paper focuses on the auditor's work on ESEF assurance engagements with a specific focus on block tagging. It is intended for auditors familiar with the professional requirements related to ESEF assurance and supplements previous guidance published by [Accountancy Europe & the European Contact Group of major networked firms](#) and by [the Committee of European Auditing Oversight Bodies \(CEAOB\)](#).

National authorities or local XBRL organisations may have published additional guidance on ESEF and block tagging. Such guidance is relevant for auditors in those jurisdictions and can inspire other national initiatives. Accountancy Europe's dedicated ESEF [webpage](#) provides links to relevant national initiatives of which it is aware, including those related to block tagging.

## THE ESEF BLOCK TAGGING REQUIREMENT AND RELATED GUIDANCE

In August 2022, the European Securities and Markets Authority (ESMA) published an update to their [ESEF reporting manual](#) including a new section on how to meet the ESEF RTS requirement relating to block tagging. The manual has been produced by ESMA to assist issuers and software vendors in creating ESEF documents. It provides guidance on common issues that may be encountered and explains how to resolve them.

ESMA also explained the block tagging requirement in [a recent public statement](#) on their 2022 enforcement priorities:

*“ESMA reminds issuers that, starting from 2022, disclosures included in IFRS consolidated financial statements shall be marked up as a minimum, with the elements contained in Annex II of the RTS of ESEF. Annex II of the RTS on ESEF includes a number of elements defined with the “TextBlockItemType” i.e., block tags for larger pieces of information which are of different granularity. Therefore, issuers should consider the accounting meaning of a taxonomy element when selecting the appropriate block tag for marking up such disclosure. This is particularly important when there are multiple block tags of different granularity (with narrower and wider elements) that can match a given disclosure. In such cases, issuers should use each of the tags and multi tag the information to the extent that it corresponds with the underlying accounting meaning of the information.”*

## THE SPECIFICITIES OF THE BLOCK TAGGING

Tagging of text or paragraphs is not new and has featured in many XBRL mandates. Block tagging takes that core capability and extends its application. For example, the content of an inventory note in the financial statements might include a table of data and accompanying explanation in the form of text. Under block tagging rules, all that information needs to be captured by a single block tag relating to the core taxonomy element ‘Disclosure of inventories [text block]’ so that the user can access it by searching for this particular element.

Some of the required block tags are very wide-ranging, for example a single tag that covers all the notes to the financial statements (i.e. the core taxonomy element *Disclosure of notes and other explanatory information [text block]*), or a single tag that covers all accounting policies (i.e. core taxonomy element *Disclosure of significant accounting policies [text block]*). Both tags given as example, in effect, sit above block tags relating to individual notes or accounting policies.

The auditor may reflect that block tagging is a less granular alternative to detailed tagging of each data point within the notes to the financial statements. Whilst users of the financial information might find more granular detail to be a desirable outcome, that is not the level of detail selected for the ESEF RTS.

To implement block tagging, software companies, and thereafter service providers and preparers at issuers, will need to deliver a solution to:

- link and join information from different sections of the annual financial report (referred to as concatenation)
- overlap one tag with another (referred to as *nesting* or *multi-tagging*) particularly for wide-ranging tags (see above)
- convert a table within a note to the financial statements into XHTML data within one tag
- respond to a wide variety of presentation styles and structures adopted by listed companies when preparing their notes
- manage high volumes of data - some issuers have over fifty pages of notes to the financial statements

During 2022, it has become apparent that some software providers are finding these requirements difficult to meet with the existing solutions. There are many facets to the block tagging challenge and several different software solution styles. Whilst all are finding the requirements on block tagging challenging, we understand that those responsible for software solutions involving converting documents from PDF format into XHTML are finding block tagging particularly challenging.

A risk relating to data transformation has been recognized by ESMA in their ESEF reporting manual [Guidance 2.2.6]:

*“Due to mechanics of producing XHTML documents, some narrative blocks extracted from such documents to an XBRL instance may not be formatted in a manner that is exactly the same as the full document when looked at in isolation (such as, but not limited to, lost table structures, applied styles, different line breaks). The limitations in these transformation mechanics are known and understood by the XBRL community who will be monitoring the evolution and possible improvements in these mechanics. Until transformation mechanics are further improved, ESMA recommends that issuers follow the guidance to ensure better resemblance of the tagged facts with the human readable report.”*

In summary, there is a risk that issuers will not be in a position to change their financial reporting process or implement an alternate software solution in order to meet ESEF requirements within their reporting deadlines.

## THE AUDITOR'S ROLE

In most European Union Member States, the independent auditor is required to conclude on the compliance with ESEF RTS. The ESEF conclusion is separate from the auditor's opinion on the truth and fairness / fair presentation of the financial statements.

The challenges of developing and implementing software to deliver compliance with the block tagging requirement do not directly involve the auditor. The auditor works to obtain evidence to conclude whether the ESEF RTS has, in all material respects, been complied with and reports the outcome of their work. Where, in the auditor's judgement, there is a material breach of the ESEF RTS, the auditor modifies their conclusion to inform the reader of the existence and nature of the breach.

It is also important that auditors can interact effectively with management and those charged with governance at issuers affected by the ESEF Block tagging requirement to explain the nature of their work. This guidance paper is intended to help facilitate such discussions.

## TOUCHPOINTS ON ESEF ASSURANCE

The arrival of the ESEF Block tagging requirement will affect different phases of the independent assurance engagement.

### PLANNING - RISK ASSESSMENT

The auditor identifies and assesses the risks of material misstatement in the marking up the IFRS consolidated financial statements and will extend the risk assessment to include the new requirement for block tagging. Discussions with the issuer's management about how the block tagging requirement will be addressed in their processes and internal controls will help inform the auditor's risk assessment at the planning stage of the audit.

A risk related to completeness of the block tagging is that the notes to the IFRS consolidated financial statements are not marked up with all the elements of different granularity as listed in the Annex II of the ESEF RTS.

A risk related to accuracy is that the data marked up with a block tag does not correspond to the audited consolidated financial statements. Such differences may be as a result of human error or software limitations including presentation challenges with respect to block tagging. Accuracy risks for block tagging may also be similar to the risks relating to marking up of the primary financial statements, for example an incorrect element that does not correspond with the underlying accounting meaning, or an incorrect choice of a relevant context such as the year or year-end date applicable to the mark up.

Professional standards allow the auditor to rely on controls put in place by the issuer to reduce the level of substantive testing when there is evidence of the relevant controls' effectiveness. Without entirely ruling this out, the difficulties currently being observed in the application and interpretation of the requirements on block tagging and the fact that this will be the first year of implementation of block tagging could all lead the auditor to select a substantive approach to their testing to obtain sufficient appropriate evidence as a basis for their conclusion on ESEF.

### PLANNING - MATERIALITY

The concept of materiality affects the auditor's planning including when determining the nature, timing and extent of procedures. The relative importance of quantitative and qualitative factors will vary when auditor considers materiality in planning the assurance engagement. Considering materiality with respect to the block tagging requirement will be a matter of professional judgement focussed on the needs of intended users.

In practical terms, the concept of materiality assists the auditor to focus their work and avoid the cost and impracticability of testing every tag applied by the issuer. Accordingly, the auditor may consider some of the required tags unlikely to be useful to users of the information and exclude these from the scope of testing.

### TESTING

Having established the scope of planned testing, the auditor may apply a range of audit procedures to the block tagged data, including, but not limited to:

- developing an independent expectation of the block tags as listed in Annex II of the ESEF RTS that are likely to be used to the facts and circumstances of the issuer's consolidated financial statements, then comparing the independent expectation to the issuer's selection of block tags and investigating any differences
- inspecting the tagging performed by the issuer to assess whether the ESEF RTS requirement has been correctly applied to include the relevant data within the scope of the digital tag
- considering how the data is presented within the digital tag to assess whether the presentation is reasonable within the boundaries of the technical capabilities connected with block tagging

When evaluating the results of testing, the auditor may decide to extend the initial scope of testing to obtain a better understanding of any non-compliance with the ESEF RTS requirements.

The results of testing the block tagging, along with the results of other procedures, will be communicated to issuer's management and those charged with governance. Based on the misstatements reported by the auditor, the issuers may subsequently adjust their draft ESEF files, and this prompts a further iteration of audit testing.

## MATERIALITY AT THE COMPLETION STAGE AND REPORTING

The auditor's report will be in human readable format and the introduction of the block tagging requirement should not affect the practical arrangements relating to the inclusion of the auditor's report within the issuer's filing document.

The auditor will need to evaluate any uncorrected misstatements and consider the implications for the auditor's conclusion based on their impact on users' decision making. For block tagging, the qualitative nature of the misstatement will have particular relevance in connection with the tagging of narrative disclosures. The aim is to evaluate the impact of uncorrected misstatements on the decisions of users and other stakeholders.

If unadjusted errors relating to block tagging form, or contribute to, a list of errors that individually or in aggregate would be material to the users of the tagged information, professional standards require modification to the auditor's report on compliance with the ESEF RTS. The format for reporting the basis of a qualified conclusion may not be specified in professional standards. In such cases, a tabular format might be adopted to set out the relevant facts. For example, in circumstances where an issuer has selected an incorrect tag relating to an accounting policy for goodwill and omitted a material block tag for the inventory note in the consolidated financial statements, the modification to the auditor's report might include the following table. Whilst this table illustrates how modification may be communicated, it does not propose a threshold for the materiality level that would trigger a modification.

Disclosure	Tag applied by the Issuer	Appropriate replacement tag(s)
Note 1 - Accounting policy for goodwill	Description of accounting policy for hedging (text block)	Description of accounting policy for goodwill (text block)
Note 8 - Inventory	None	Disclosure of inventories (text block)

## COMMUNICATIONS IN THE FIRST YEAR OF BLOCK TAGGING

Readiness for the new block tagging requirement is likely to continue to be challenging for the issuers affected and software companies offering services for ESEF reporting. The practical delivery of ESEF files involves a sequence of actions that begins with the interpretation of the requirements and related guidance so that software companies can develop software that can meet the new requirement. This is typically followed by implementation and training in combination with other workstreams involved in the preparation of the annual financial report.

Any delays in the early phases of this process will affect later phases and potentially the timing of finalising the annual financial report. Such delays may also have an impact on the timing of the auditor's work related to the ESEF RTS in general and the block tagging requirement in particular.

Early and regular communication between the auditor and the issuer's management, and those charged with governance as appropriate, is often the key for the assurance engagement to deliver the appropriate conclusion to the users of the financial information and to be conducted in an efficient and constructive manner.



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