

# POST CSRD WORLD: PROSPECTIVE AMENDMENTS TO SLOVENIAN LEGISLATION IN THE FIELD OF AUDITING

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**Abstract** The European Union adopted the Corporate Sustainability Reporting Directive (2022/2464/EU). The CSRD amends, among others, the Auditing Directive (2006/43/EC with amendments) in the light of establishing the European Union's cornerstone rules in relation to the assurance of sustainability reporting of entities. The CSRD's provisions mirror existing provisions concerning auditing for sustainability assurance to ensure consistent rules in the field. Nevertheless, there remain dilemmas, especially in the forthcoming transitional period. These are dilemmas that are systemic. For example, who will be capable of doing sustainability assurance engagements, which pronouncements in relation to sustainability assurance should be used, who should prepare them, what architecture should be established for education and training, by who, oversight dilemmas, etc. Our paper aims to present the CSRD's provisions in relation to sustainability assurance and interlinked dilemmas. Slovenia will need to implement the CSRD's provisions in relation to auditing into its legislation.

**Keywords:**

assurance,  
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## 1 Introduction

The European Union adopted the Corporate Sustainability Reporting Directive (2022/2464/EU; hereafter: CSRD) in 2022. The CSRD impacts organisations and the EU's member states in various ways (i.e., risk and compliance, auditing, human resources, finance and treasury, investor relations, etc.). The CSRD amends, among others, the Auditing Directive (Directive 2006/43/EC with amendments) in the light of establishing the European Union's (EU) cornerstone rules in relation to the assurance of annual and consolidated sustainability reporting of entities. Sustainability information assurance engagement is set to be one of the main pillars to achieving the EU's strategic goals in relation to sustainability (i.e., climate-neutral economy and area, achieving a sustainable world, eradicating poverty, etc.). Assurance engagement is meant to be a mechanism that eliminates the information asymmetry problem regarding the credibility of entities' sustainability information and reports. Until now, there have not been any legislative pronouncements in relation to assurance on sustainability reporting. The CSRD acknowledges this fact. Nevertheless, in the field of auditing, the IFAC's International Auditing and Assurance Standards Board (IAASB) has for years been active in this area as the landscape has continued to evolve. Additionally, in the field of auditing, there is some research regarding sustainability information assurance engagement (for example, see O'Dwyer, 2011; Gillet-Monjarret, 2015; Farooq & de Villiers, 2017; Channuntapipat et al., 2020; Hazaea et al., 2022; Hsiao et al., 2022).

The CSRD puts legislative provisions regarding sustainability information assurance engagement in place. In short, CSRD's provisions mirror existing provisions concerning auditing for sustainability assurance to ensure consistent rules in the field. Our paper aims to present the CSRD's provisions in relation to sustainability information assurance engagement and interlinked dilemmas. Slovenia will need to implement the CSRD's provisions in relation to auditing into its legislation. It can be expected that the Companies Act (in Slovene: *Zakon o gospodarskih družbah*, ZGD-1) and the Auditing Act (in Slovene: *Zakon o revidiranju*, ZRev-2) will be amended in 2023–2024. Prospective amendments are expected to gradually assist in building more nationally sustainable businesses and economy in the long term. Our paper briefly presents a few prospective amendments, which are the most important. Only some prospective amendments are presented. Therefore, our paper is not comprehensive regarding sustainability information assurance engagement and all

interlinked dilemmas that will influence prospective amendments of the Auditing Act and the Companies Act.

## **2 The CSRD Directive Puts Light Onto the Auditing Profession**

As previously stated, the CSRD puts legislative provisions regarding sustainability information assurance engagement in place. The International Federation of Accountants (IFAC), in their framework, defines assurance engagement as an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria. The CSRD follows this idea (with the use of different terminology). The CSRD's sustainability information assurance engagement is an engagement in which the statutory auditor (a practitioner) expresses an opinion (a conclusion) designed to ensure credibility (to enhance the degree of confidence of the intended users) about the sustainability information or report (the subject of assurance engagement) against the European Sustainability Reporting Standards (the criteria). With sustainability assurance entities obtain legitimacy (O'Dwyer, 2011; Gillet-Monjarret, 2015). Additionally, a practitioner's conclusion helps ensure the connectivity between the entity's financial and sustainability information.

To following briefly outlines the main ideas in the CSRD regarding sustainability information assurance engagement. Sustainability information assurance engagement is mandatory from 2025 for the 2024 year-end sustainability reports. A practitioner that conducts an engagement must be an independent third-party practitioner. First, limited assurance engagement is put in place. Second, if eligible, the CSRD foresees a reasonable assurance engagement will follow limited assurance. This will require, in an assurance engagement, the conduct, assessment and verification processes similar to auditing processes for the sustainability information. Besides the difference in the level of assurance, the difference between limited and reasonable assurance engagements is in the practitioner's work and form of expressed conclusion (i.e., a negative form of assurance in the limited assurance engagement and a positive form of assurance in the reasonable assurance engagement). Sustainability assurance engagement differs from financial statements auditing. Nevertheless, the CSRD Directive stipulates that the statutory auditor of

the entity's financial statements is allowed to provide sustainability information assurance.

Nevertheless, there remain dilemmas in relation to assurance engagements in the field of sustainability reporting, especially in the forthcoming transitional period. These are systemic dilemmas. For example, who will be capable of doing sustainability assurance engagements (i.e., a person with a high level of technical and specialised expertise in the field of sustainability), which pronouncements in relation to sustainability assurance should be used, who should prepare them (i.e., who has the capabilities to prepare such pronouncements) what architecture should be established for education and training, by who, oversight dilemmas, etc. The following section presents the current state and a few prospective amendments to the Slovenian auditing pronouncements. The prospective amendments deal with the dilemmas in relation to sustainability information assurance engagements.

### **3 Slovenia: Current State and Prospective Changes to Auditing Pronouncements**

In Slovenia, the Auditing Act (ZRev-2) sets up the legislative frame for the auditing profession. The Act pushes forward the legislative definition of auditing that is comprehensive and wider than the IFAC's definition of financial statements audit. Furthermore, the Act sets up organisations related to auditing and its surveillance (i.e., the Agency for the Public Oversight of Auditing), lists their responsibilities, authorities and tasks, defines various processes, among other matters, who is eligible to become a certified auditor, who conducts their surveillance, etc. On the other hand, the Companies Act (ZGD-1) has pronouncements in relation to an entity's statutory audit (i.e., financial statements audit). It lists entities that must have a financial statements audit, until when the audit should be performed, warrants when the obligation of an audit is not fulfilled, lists some of the elements an auditor's report must have, defines the auditor's legal liability for damages and sets up the process of appointing an auditor. Both Acts (ZRev-2, ZGD-1) are in accordance with the EU's pronouncements, except for the CSRD Directive.

In the following paragraphs, we outline a few prospective amendments that will alter current auditing pronouncements (i.e., in the Auditing Act and the Companies Act which represent Slovenian law). Amendments are stipulated to be prepared in the short term.

We start with the following. The first amendment will incorporate a definition of sustainability reporting (from the CSRD, Article 1, point 2.b) into the Companies Act with direct interoperability with the Auditing Act. Briefly, sustainability reporting represents reporting information regarding issues in the field of sustainability (i.e., environmental, social, and governance issues) in accordance with stipulated prospective European Sustainability Reporting Standards (ESRS Standards). Following the determination of sustainability reporting, again, both acts will incorporate a definition of assurance of sustainability reporting (from the CSRD, Article 3, point 2). Again briefly, sustainability information assurance represents assurance engagement in which a practitioner expresses a conclusion about the outcome of the evaluation of sustainability information against ESRS Standards and other legislative pronouncements (from the CSRD, Article 3, point 18). Subsequently, new terms will be placed at least in the Auditing Act. These are key sustainability partner and independent assurance service provider (IASP) (from the CSRD, Article 3, point 1). The following definitions will be altered, which is extended to include matters in relation to sustainability information assurance under CSRD Directive requirements that sustainability information assurance engagements are going to be conducted by an auditor of financial statements. These definitions are statutory auditor, audit firm, third-country audit entity, third-country auditor, and group auditor (from the CSRD, Article 3, point 2). A statutory auditor (in Slovenia subsequently further defined in Auditing Act as a certified auditor) is going to be a practitioner that can express a conclusion on a sustainability information assurance engagement. A statutory auditor will take the role of key sustainability partner as a person with the responsibility of carrying out sustainability information assurance engagement and signing the auditor's assurance report on the entity's sustainability reporting (from the CSRD, Article 3, point 2). To put it simply, the term independent assurance service provider will be incorporated into pronouncements under the condition that a political decision will be made that other providers than an auditor of financial statements could also conduct sustainability information assurance engagements. Any practitioner will have to follow the standards adopted by the European Commission. Since the CSRD Directive requires

that IASP have equivalent educational qualifications and examination of professional competence, ethical requirements (i.e., independence requirements) and quality assurance as are stipulated for statutory auditors (from the CSRD, Article 3, points 3–8), it is in our opinion considering all circumstances in relation to the auditing framework in Slovenia less likely that this political decision will be made.

At the same time as the amendment regarding statutory auditor, the amendments concerning licence (approval) to carry out the task of a certified auditor will be placed. These will dissolve the dilemma of who has the capabilities to conduct sustainability information assurance engagements. Currently, a certified auditor must meet the following three conditions (note: there are three more requirements): at least a second-level study programme (i.e., master's degree), a minimum of three years of experience in auditing and at least five years of work experience cumulatively, passed examination of professional competence for a certified auditor. In relation to the examination of theoretical knowledge, a prospective certified auditor (for sustainability information assurance engagements) will have to pass an examination in courses in (a) legal requirements and standards relating to the preparation of sustainability reports (i.e., demonstrate knowledge of national pronouncements in relation to sustainability, ESRS Standards and other standards, frameworks and guidelines in relation to sustainability reporting); (b) sustainability analysis; (c) due diligence processes in relation to sustainability issues; and (d) legal requirements and standards in related to conducting sustainability information assurance engagements (from the CSRD, Article 3, point 5). Furthermore, in relation to practical training requirement, a prospective certified auditor (for sustainability information assurance engagements) will have to carry out at least eight months of practical training on sustainability information assurance engagements or sustainability-related services (from the CSRD, Article 3, point 6). Both requirements, the examination of professional competence and practical training, shall guarantee the necessary level of theoretical knowledge and the ability to apply such knowledge in practice. Requirements will be equal for a certified auditor who previously conducted auditing of financial statements and will want to gain an additional licence for carrying out sustainability information assurance engagements (from the CSRD, Article 3, point 9). There are transitional provisions in place but are not explained in detail in this paper.

## 4 Conclusion

The CSRD Directive stipulates that the statutory auditor of the entity's financial statements will provide sustainability information assurance. Sustainability information assurance engagement differs from financial statements auditing. Therefore, there are dilemmas that are systemic in nature, especially in the forthcoming transitional period. The first concluding remark is the following. It cannot be concluded without the feeling that in the current rush to ensure some form of sustainability assurance, the approach is more an ad hoc approach (not being carefully thought through) than it is a systemically thoroughly planned approach. There is a missing decision on the final system, structure and form of the sustainability information assurance engagement system and how to enable and achieve envisioned system. The current ad hoc approach resembles the work of a bulldozer: first, the existing financial statements auditing system will be amended, and if necessary, the system will be later changed.

The second conclusion is the following. The CSRD Directive does not stipulate any new institutes regarding auditing. The existing financial statements auditing provisions are amended with matters in relation to sustainability information assurance engagements. Third conclusion. The CSRD stipulates an assurance related to the credibility of the sustainability information or reporting. Nevertheless, the level of assurance is limited assurance. It can be expected that this will cause a growth in the expectations gap regarding sustainability assurance. This gap could be enormous in the first few years of CSRD's sustainability information assurance engagements.

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