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## **Postulates of audit firms – members of PIE Auditors Platform – regarding the Omnibus Simplification Package**

Our organization comprises 13 leading audit firms in Poland which have been supporting Polish enterprises, owners, and shareholders in this year's non-financial reporting process. It is with great interest and anticipation that we are following the proposals regarding CSRD (Corporate Sustainability Reporting Directive), as announced by the European Union authorities within the Omnibus Simplification Package. The Omnibus proposal seeks to significantly simplify sustainability reporting requirements.

While we acknowledge and support the concept of simplifying the regulations and relevant sustainability reporting standards, we want to emphasize the very importance of sustainability reporting as such. Introducing coherent, standardized, comprehensive yet understandable regulations concerning both the scope of sustainability reporting and the related assurance requirements will ensure that reliable reports are prepared and minimize the risk of presenting a distorted image – a practice known as 'greenwashing' or 'green marketing'. Reliable and regulatory-compliant information is fundamental for investors, financial institutions, and other market stakeholders. What is more, the expectations of widely understood stakeholders, including financial and public sector institutions, contractors, employees, and local communities, are continually increasing as regards corporate sustainability and reporting. Any change involving new duties, especially the addition of new and extended reporting elements, may cause systemic doubts and prompt calls to cancel, mitigate, or postpone the introduction of these requirements. Therefore, we wish to highlight that sustainability reporting is merely a reflection of the current status of transformation, and not its primary cause or result.

We recognize that the complexity of the relevant regulations and the manner in which they are introduced pose significant challenges for entities obliged to organize and prepare sustainability reporting. Therefore, we share the view that the relevant requirements need adjustment. However, these changes should be carefully considered and must not undermine or marginalize the very concept of sustainability reporting. Furthermore, we believe that it is crucial to further educate enterprises and their representatives, as well as to identify achievable goals and regulatory changes, so that they can drive companies to become more engaged in preparing and developing sustainability reporting.

Our detailed comments and postulates regarding the changes are presented below in three categories:

### **I. Pace of regulatory changes and key principles of lawmaking**

From the perspective of audit firms and, so we believe, also the entities that are subject to reporting requirements, it is crucial to develop final and solid legal rules in a manner that meets the fundamental principles of lawmaking at both the member states' level and the European Union level. These principles include:

- **Clarity and precision.** Priority should be given to developing informed and unambiguous requirements concerning the application of the law *per se* (defining who, how, when, to what extent, and at which level prepares sustainability reporting). According to the current version of the proposed amendments, certain entities that have already made preparations to meet specific requirements might not be subject to those requirements. This causes uncertainty and may discourage businesses from continuing their efforts towards sustainability reporting or even from initiating any such efforts.
- **Consistency and harmonization.** Uniform adoption of these regulations across the European Union may also become a crucial issue. Many member states have yet to transpose the original version of the directive, necessitating individual analyses of the laws at the country level in those member states that have already carried out such transposition. This can lead to varying interpretations (for example, when applying an exemption from sustainability reporting at the consolidated level in a country that has not yet implemented the CSRD directive). We propose that the rule of maximum harmonization without the need for transposition into national laws be taken into consideration.
- **Effective application of the law.** The established regulations, both in defining the requirements and the scope of disclosures, should be clear, comprehensible, and standardized for all users. The complexity of these standards poses a significant challenge for the market and for many enterprises, resulting in additional costs that are necessary in order to meet the requirements (e.g., creating the appropriate teams, infrastructure for acquiring and processing data, or consultancy costs). Additional elements, such as complicated processes linked with implementation efforts and the FAQs frequently published and made available to entities fulfilling reporting duties, further testify to the high complexity of the regulations. This lack of clarity in interpretation and practical implementation leads to difficulties for audit firms in interpreting data indicators, ultimately affecting the quality of the disclosures themselves.
- **Predictability and confidence.** It is crucial that the revised regulations are final and leave little room for ambiguity. Any changes or opportunities for alternative interpretations can destabilize the process of meeting requirements (sustainability reporting) and, consequently, the assurance process itself.

As a association of the audit firms that has always supported building confidence in the Polish economy for years, we kindly urge decision-makers to consider slowing down the rapid pace of implementing numerous legislative changes. The issue lies not within the scope or objective of disclosures but in the speed at which the changes have been and are being introduced. We believe that insufficient preparation time, given the complexity and the need to combine various competencies, is systemically unfavourable both to entities subject to sustainability reporting requirements and to audit firms themselves.

In response to the situation described above, we recommend:

1. **Reducing the pace of legislative changes:** Avoid speeding up changes to laws and standards. For example, start post-implementation reviews only after five years of the new ERS standards being in effect. The proposed simplified package should be the definitive version, incorporating the features mentioned above.

2. **Harmonizing and unifying regulations across the European Union:** Ensure uniform regulations to reflect the operational practices of enterprises with organizational structures that often span multiple EU countries. This will help limit the confusion caused by varying implementation and modification speeds in individual member states.
3. **Developing practical application guidance at the EU Level:** Create model examples of disclosures, double materiality assessment documentation, and sample IROs. This guidance should address a range of topics and issues that companies face in understanding and applying the directive after it has been transposed into national laws. We recommend drawing on the experiences of countries that have already implemented these changes to ensure that re-transposition of the revised requirements at the local level addresses all identified ambiguities.

## II. Complexity of sustainability reporting requirements and implementation support

We believe that the CSRD regulations and ESRS requirements (European Sustainability Reporting Standards) are highly complex, posing difficulties for all users, particularly for the businesses that are subject to these requirements and for audit firms.

Nevertheless, it should be highlighted that many of such entities, along with the audit firms, have been building competent teams and investing in technological solutions to meet the requirements for years now. As a result, multiple companies have already incurred significant costs to adjust to the new obligations. This holds true for both companies in wave 1, which are to prepare and publish their reports in 2025 (for the year 2024), and companies in wave 2 and wave 3, which are to present their non-financial data in subsequent years.

We do recognize the need to simplify the regulations so as to reduce the burden and associated costs of sustainability reporting. Everyone wants the reporting process to be straightforward and meaningful, not an unnecessary burden or just an administrative task. In this context, we call for the development of effective incentive mechanisms for other market stakeholders (such as government institutions, contractors, and the financial sector) to promote enterprises that integrate sustainability goals into their operations and address so-called relevant impacts, risks, and opportunities (IRO).

In view of the above, we propose and recommend the following:

1. **Developing model guidelines:** Clarify and refine the principles related to the practical application of the CSRD/ESRS requirements, such as a model process for double materiality assessment, a model report and disclosures for specific standards.
2. **Simplifying ESRS standards:** Simplify ESRS standards, including requirements for EU Taxonomy reporting, especially in the context of assessing technical criteria. We agree with the general recommendation to simplify and reduce the number of disclosures. In our view, disclosures should mainly include numerical and qualitative data (current and historical), with only limited future-oriented figures, as this area poses the greatest challenge for companies due to the lack of input data. Additionally, we recommend verifying the materiality thresholds for taxonomy disclosures to ensure that this element of reporting (which – in our opinion – is a key information source for external stakeholders) is not entirely marginalized.
3. **Presenting mandatory and voluntary requirements clearly:** Clearly delineate (with practical and model examples) the requirements that are mandatory, and those that are

optional (recommended) and may be voluntarily included in sustainability reporting, providing the reporting entity adheres to the prescribed rules when making such voluntary (recommended) disclosures.

4. **Re-evaluating proposed reporting thresholds:** Re-assess the proposed thresholds and deadlines for reporting in view of the costs that many entities have already incurred. One possible solution is to further diversify the market and thresholds, while at the same time simplifying the non-financial reporting requirements. Proper adjustment of the thresholds is critical to avoid eliminating the concept of sustainability reporting entirely and to ensure that each EU country maintains a significant number of enterprises required to report locally. These enterprises would then act as promoters, leaders, and models for other market participants. We believe it is worth reassessing whether the number of employees should remain the primary criterion, and, if so, whether the threshold should be set as above 1,000. If this criterion is maintained, many significant entities will be excluded from reporting obligations. For example, real estate companies and funds often have few employees but possess substantial assets and revenues which translate into significant environmental and social impacts.
5. **Establishing local legislative and non-legislative mechanisms:** Develop local legislative mechanisms motivating companies to pursue sustainability goals and prepare credible reports (e.g., through the tax system solutions). Additionally, establish non-legislative codes of good practice based on the comply-or-explain methodology (e.g. recommended tender criteria) or oversight mechanisms (e.g. regulator recommendations for the banking sector regarding credit risk assessment or guidelines on the inclusion in stock market indices).

### III. Sustainability reporting assurance

Sustainability reporting assurance is not a new concept for audit firms. Many have been building teams and developing expertise, investing in technical and technological competencies to support the assurance process. However, until now, assurance has been voluntary and not mandated by law. It must be stressed that the role of the auditor and the verification process itself are crucial for users of sustainability-related information – users such as government bodies, investors, and representatives of the financial sector. To standardize, improve quality, and enhance transparency in sustainability reporting, the CSRD directive has introduced mandatory assurance. Given the complexity of its requirements, we are aware that the challenges in preparing non-financial reports directly translate into challenges in the assurance process. Therefore, we propose the following:

1. **Extending the period for limited assurance or setting it as the final requirement:** Extend the period during which limited assurance is required, or alternatively, establish limited assurance as the final requirement for sustainability reporting.
2. **Mandatory assurance for voluntary sustainability reporting:** Consider whether entities not bound by statutory reporting obligations which prepare sustainability reports as part of their annual reporting or investor communications should not be required to undergo assurance procedures. Without mandatory assurance or an alternative verification mechanism, there could be inconsistencies between companies that are required to report and those reporting voluntarily, thereby increasing the risk of greenwashing.
3. **Adopting the Omnibus package:** The Omnibus proposal will lead to establishing binding guidelines for auditors and regulators in local markets. In our opinion such guidelines are

critical, particularly for limited assurance, as limited assurance often leaves room for interpretation regarding the scope and number of procedures involved (the relevant guidelines could be developed collaboratively between assurance providers and regulators).

Moreover, we recognize that sustainability reporting assurance often overlaps with financial reporting assurance (this may concern joint procedures to understand the entity and its control environment, combined tests of correlated areas such as employee-related matters versus payroll costs, verification of the consistency of assumptions regarding the climate strategy and the analysis of the impairment of fixed assets). Potential cooperation between different audit firms verifying financial and non-financial data separately should be appropriately regulated. Additionally, guidelines in this respect would benefit large capital groups operating in multiple countries. We are aware that financial data are governed by appropriate auditing standards that mandate such cooperation frameworks (e.g., ISA 600 – Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)).

## Final conclusion

As responsible market participants interested in achieving the sustainable development goals and actively engaged in ensuring that information about our clients' progress in achieving these is a faithful reflection of reality while being credible, useful and relevant to stakeholders, we submit the above postulates, believing that their adoption will ensure that such information meets the desired characteristics listed and at the same time its preparation and assurance will become less burdensome. The postulates submitted are of a general nature but we express our readiness to develop and specify them in the debate with key stakeholders.

*This document has been developed by the Platform of Audit Firms conducting audits in public interest entities (abbreviated as **PIE Auditors Platform**) which operates within the structures of the Employers of Poland organization. PIE Auditors Platform comprises 13 audit firms that audit public interest entities, including entities that operate in Poland and belong to international networks, as well as large local corporations. Collectively, the members of PIE Auditors Platform hold a leading share in the Polish audit services market. This prominent position is reflected in various metrics: the total value of services provided, as measured by fees for auditing all entities subject to audit; the market share in auditing public interest entities, as measured by the number of audited entities; and the value of fees, capitalization, or revenues of the audited entities. Information about our activities can be found on the [PIE Auditors Platform website](#).*

*The document has the status of "near final draft", which means that its content has been initially accepted by the members of the JZP Platform for sharing and discussions with interested parties. The effects of such discussions may affect the content contained in this document. Questions and comments on the document can be sent to the Secretary of PIE Auditors Platform - [m.lewanowski@pracodawcyrp.pl](mailto:m.lewanowski@pracodawcyrp.pl)*