

Thesis

*Enhancing Audit Quality in the Era of Non-Financial Reporting: A
System-based Regulatory Framework Perspective*

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Preface

The copyright of the master thesis rests with the author. The author is responsible for its contents. RSM is only responsible for the educational coaching and cannot be held liable for the content.

Acknowledgements

Before you lies my master thesis “Enhancing Audit Quality in the Era of Non-Financial Reporting: A System-based Regulatory Framework Perspective”. This thesis has been written to fulfill the graduation requirements of the Global Business and Sustainability (GBS) master program at the Rotterdam School of Management, Erasmus University. The research and writing of this thesis took place between February 2024 to July 2024.

My interest in sustainability accounting began during my bachelor International Business and Management at Hogeschool Rotterdam, where I followed the minor Sustainable Finance & Accounting with the passionate guidance of Drs. RC. J. van Slooten. This experience motivated me to pursue the GBS master program, eventually leading to a six-month study focusing on the new sustainable accounting framework known as the Corporate Sustainability Reporting Directive (CSRD).

After my initial meeting with my thesis coach Dr. Ing. (Martin) M.A. de Bree, it became clear that we shared an interest regarding governmental interventions for sustainability. He connected me with (Martin) M. Dees, strategic advisor at the Algemene Rekenkamer, who provided valuable insights and knowledge about the accountancy sector. I still remember the first meeting with Dr. Ing. (Martin) M.A. de Bree and (Martin) M. Dees in which I felt both challenged and inspired to extend my knowledge on this topic, for which I am profoundly grateful. Furthermore, I would like to thank my co-reader (Aurélie) A. Sapa Furaha for the excellent guidance, support, and feedback during the entire thesis process, and all the respondents who were willing to participate in this research. Finally, I would like to end with a big thanks to my family and friends for listening to an unfamiliar subject and still provide me with all the support I needed to complete my master thesis. Without your encouragements, I would not have been able to maximize my personal and professional growth.

I absolutely enjoyed writing my thesis and am excited to work within this dynamic sector!

Sophie van der Zandt (Rotterdam, July 5th 2024)

Abstract

The accountancy sector seeks to enhance the quality of audits for non-financial information mandated by the Corporate Sustainability Reporting Directive (CSRD). This study aims to identify the conditions under which the Autoriteit Financiële Markten (AFM) can use System-Based Regulation (SBR) to influence audit quality, addressing both social and academic concerns about the effectiveness of current regulatory practices by the AFM. Based on a literature review, this research employed qualitative methods in the form of interviews with various stakeholders associated with CSRD assurance (e.g., statutory (OOB) auditing firms, non-statutory (non-OOB) auditing firms, other service providers, experts in audit quality, and experts in sustainability assurance). The data collected from these interviews provided in-depth insights into the current practices and challenges in auditing non-financial information. The analysis of interviews demonstrated that SBR aligns well with the systemic needs of auditing non-financial information. Key findings include a necessity for trust-building, open communication, continuous professional development trainings, and cooperative regulatory approach from the AFM. Finally, the results indicate that SBR has the potential to enhance audit quality for non-financial information mandated by the CSRD, under the assumption that both the AFM, auditing firms, and regulatory environment addresses the identified conditions. Further research is needed to explore the long-term impact of SBR on audit quality when the CSRD matures towards reasonable assurance.

Keywords: System-Based Regulation (SBR), Audit Quality, Non-Financial Information, Corporate Sustainability Reporting Directive (CSRD)

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List of Abbreviations

AFM	Autoriteit Financiële Markten
AP	Dutch Data Protection Authority
AQIs	Audit Quality Indicators
CSRD	Corporate Sustainability Reporting Directive
CTA	Commissie Toekomst Accountancysector
DHYCI	Dutch Health and Youth Care Inspectorate
EFRAG	European Financial Reporting Advisory Group
ESG	Environmental, Social, and Governance
ESRS	European Sustainability Reporting Standards
EU	European Union
GDPR	General Data Protection Regulation
GHG	Greenhouse Gas
GRI	Global Reporting Initiative
MKBs	Medium-Sized Enterprises
NBA	De Nederlandse Beroepsorganisatie van Accountants
NFRD	Non-Financial Reporting Directive
Non-OOB	Non-statutory auditing firm
NVCI	Nederlandse Vereniging Certificerende Instanties
OKB	Opdrachtgerichte kwaliteitsbeoordeling
OOB	Statutory auditing firm
SBR	System-Based Regulation
SRA	Samenwerkende Registeraccountants en Accountants-Administratieconsulenten

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1. Introduction

“The quality of audit services is defined to be the market-assessed joint probability that a given auditor will both (a) discover a breach in the client’s accounting system, and (b) report the breach” (DeAngelo, 1981, p. 186)

This globally used definition of DeAngelo (1981) underlines the fundamental role of auditors in upholding integrity and trust in financial reporting. Even though the landscape of financial auditing is constantly evolving, driven by the imperative for transparency, accountability, and sustainability in corporate practices, at the core of this evolution lies the concept of audit quality. Over the years, numerous studies have contributed to our understanding of audit quality, emphasizing its multifaceted nature and the various factors influencing its assessment. Recent research by Detzen & Gold (2021) highlights the diverse perspectives on defining audit quality, suggesting the need for standardized Audit Quality Indicators (AQIs) to evaluate the effectiveness of audit services. Building upon this foundation, regulatory bodies such as the Commissie Toekomst Accountancysector (CTA) & Kwartiermakers (2021) have developed AQIs tailored to the Dutch accountancy market, aiming to enhance transparency and accountability in the audit process. The integration of AQIs into legislative proposals by the Dutch Ministry of Finance (2023) signifies a crucial step towards improving reporting standards and fostering trust in financial disclosures.

The auditors, acting as representatives of statutory (OOB) auditing firms and non-statutory (non-OOB) auditing firms, should ensure the accuracy and reliability of their reports. These assessments are then communicated to the Autoriteit Financiële Markten (AFM), prompting transparency and accountability within the auditing process. The OOB and non-OOB auditing firms collaborate closely with associations such as De Nederlandse Beroepsorganisatie van Accountants (NBA) and Samenwerkende Registeraccountants en Accountants-Administratieconsulenten (SRA) to facilitate continuous education and training programs for auditors. These programs aim to equip auditors with the essential skills required to navigate the dynamic landscape of auditing effectively. Furthermore, the ongoing development and refinement of AQIs serve as concrete evidence of collective dedication between the AFM, Kwartiermakers, and CTA to enhance audit quality and fostering trust in financial disclosures.

However, the audit landscape is facing a paradigm shift catalyzed by the introduction of the Corporate Sustainability Reporting Directive (CSRD). Mandated by the European Union (EU) as part of the Green Deal initiative, the CSRD imposes obligatory reporting requirements for organizations, extending beyond financial disclosures to encompass detailed information on sustainability practices. The transition towards non-financial reporting introduces complexities in assessing organizational practices, emphasizing Environmental, Social, and Governance (ESG) aspects (Jansen, 2023). While the CSRD represents a pivotal step in steering organizational practices towards sustainability and assurance, it underscores the need for regulatory bodies to adapt their oversight mechanisms accordingly. OOB and non-OOB auditing firms are now entrusted with a double materiality assessment of ensuring the accuracy of financial statements and assurance with CSRD standards. This shift from a traditionally used rules-based approach in financial materiality towards a principle-based approach in non-financial materiality could lead to significant challenges of the desired quality of audits (Van der Meer and De Waard, 2023). For instance, while a principle-based approach promotes flexibility and professional judgement, a rules-based approach has a strict set of prescribed guidelines and procedures. Additionally, in reporting their evaluations to the AFM, auditing firms will primarily look at the AFM for guidance on measuring and evaluating their audit quality, particularly with regards to the integration of non-financial reporting into existing auditing protocols.

As the AFM commits to ensure fair and transparent financial markets to enhance audit quality and prevent fraud, questions arise whether more regulations rather promote decoupling (De Bree & Stoopendaal, 2020), meaning the “gap between formal and actual behavior” (De Bree & Stoopendaal, 2024, p. 247). Therefore, suggestions for recoupling based on the System-based Regulation (SBR) could act as a proactive approach for auditing firms to align their organizational objective, management systems, practices, and actual outcomes. SBR focuses on the management system of regulated organizations, fostering a shared understanding of decoupling. The study by De Bree and Stoopendaal (2020) on the Dutch Health and Youth Care Inspectorate (DHYCI) demonstrates SBR's effectiveness in identifying and addressing decoupling, supporting direct recoupling, and advocating for a shift towards meta-regulation. Interestingly is that the AFM and DHYCI are both part of the government as public and private regulators. Therefore, the applicability of SBR at the AFM within the context of the CSRD warranted further exploration.

1.1 Research Question, Objectives, and Scope

To fill the research gap and examine SBR by the AFM on non-financial reporting in the context of the CSRD, the following research question is proposed:

“How and under which conditions can the AFM use System-Based Regulation (SBR) to influence the quality of audits of non-financial information mandated by the CSRD (sustainability information)?”

Sub-questions:

- 1. What specific characteristics of sustainability information and related auditing principles and procedures are relevant to this application of SBR?**
- 2. Which conditions at AFM and at the audit firms should be satisfied for a fruitful application of SBR to influence the quality of audits of sustainability information?**
- 3. In how far are these conditions met in practice?**

This study provides relevant knowledge for stakeholders involved within maintaining audit quality for the CSRD such as the AFM, OOB and non-OOB auditing firms, EFRAG, Kwartiermakers, NVCI, and academics.

1.2 Relevance

1.2.1 Theoretical relevance

The principal focus of this study provides relevance around the applicability of SBR at the AFM to influence the quality of audits for non-financial information mandated by the CSRD. The literature describes SBR to enhance regulatory effectiveness and promote organizational recoupling (Bree & Stoopendaal, 2020). Especially with the developments of the CSRD, the rules-based approach of the AFM raises concerns about the maintenance of audit quality (Van der Meer & de Waard, 2023). The phenomenon of audit quality has been evolving over decades with definitions such as integrity (DeAngelo, 1981), assurance levels (Palmrose, 1988), organizational sizes (Krishnan and Shauer, 2000), and independence (Ghosh and Mood, 2005). However, due to various violations of auditing firms, the pressure on the definition of audit quality for financial information led to the legislative proposal of AQIs (Detzen & Gold, 2021). Moreover, as the existing body of literature focuses on audit quality for financial information, this study addresses the literature gap in understanding how audit quality for non-financial information can be influenced through adaptations in regulatory oversight.

1.2.2 Practical relevance

Practically, this study supports the accountancy sector in maintaining audit quality in their transition from financial auditing to non-financial auditing leading to a double materiality assessment. This knowledge moves away from traditional and strict auditing practices and focuses on a new regulatory framework such as SBR. In relation, politicians have recognized an emphasize on the necessity of regulators to take a supportive and pragmatic approach in the initial years of the CSRD (Accountancy Europe and the European Contact Group, 2024). Consequently, these SBR opportunities could translate into a more cooperative and supportive approach improving the relationship with auditing firms resulting in trust and shared learning in the evolving landscape of CSRD assurance.

Therefore, this study contributes, based on the data and literature, to the specific conditions needed for an effective application of SBR within the AFM. On a more practical level, the study provides an illustration on how the results of the necessary conditions links with the conceptual framework and follows up on the recommendations required.

2. Literature Review

To initially assess audit quality, particularly focusing on non-financial reporting, secondary sources have been consulted to gain a preliminary understanding. The subsequent sections will delve into various themes related to audit quality, CSR, and SBR that emerged during the initial literature search.

2.1 Audit Quality

Audit quality, the cornerstone of financial reporting integrity, has been the subject of extensive scholarly inquiry over several decades. DeAngelo (1981) laid the foundation by defining audit quality as the auditors' pivotal role in upholding the integrity of an organization's financial materiality. Palmrose (1988) expanded upon this definition, introducing the concept of audit quality in terms of the level of assurance provided, correlating higher levels of assurance with fewer instances of material failures within financial statements. Building upon DeAngelo's work, Krishnan and Schauer (2000) identified additional factors influencing audit quality beyond the size of the audit firm and level of compliance. They highlighted the significance of factors such as the size and financial health of the client organization to determine the audit quality outcomes.

This perspective challenges the notion that audit firm size alone determines the quality of audit services. Ghosh and Mood (2005) brought attention to potential threats to audit quality, particularly concerning the independence of long-serving auditors. They suggested that auditors might compromise their independence to maintain close relationships with clients, raising concerns about the integrity of audit processes. Recent revelations of independence violations among Big Four firms further emphasize these concerns, highlighting the need for enhanced regulatory oversight and compliance measures (Foley, 2024). A recent example is the \$25 million fine for KPMG Netherlands for exam fraud and misinforming investigators, being the largest penalty ever issued by the PCAOB in cooperation with the AFM (PCAOB, 2024). In response to systemic quality issues within the auditing profession, regulatory bodies such as the Monitoren Commissie Accountancy (van der Veer et al., 2020) has called for structural changes to address underlying deficiencies. Detzen & Gold (2021) proposed the implementation of AQIs as a means of standardizing assessments and providing greater transparency in audit quality evaluations. Based on this study, the Kwartiermakers Toekomst Accountancysector (2021) developed AQI's for the Dutch accountancy market. The AQIs are structured in three

levels to improve audit quality and the performance of audit firms (Table 1). At the **control quality level**, AQIs focus on audit performance, such as the involvement of the external auditor, identified deficiencies in audits and financial statements, and trending subjects such as fraud. The **quality management system level** addresses the internal mechanisms that audit firms employ to maintain and stimulate audit quality. This includes the implementation of quality improvement measures such as independent reviews and consultations, and the effectiveness of the quality control system as indicated by internal and external reviews. Lastly, the **context level** focusses on broader organizational and environmental factors that influence audit quality. This includes cultural aspects such as employee engagement, planning adequacy, innovation and investments in new technologies, exceeding budgets, and training hours on ESG-subjects. In the end, external client satisfaction is essential to provide a holistic view of audit quality.

Table 1 AQIs (Kwartiermakers Toekomst Accountancysector, 2021)

Level 1: File Quality	1. Involvement of external accountant
	2. Errors in the financial statements
	3. Fraud and continuity
Level 2: Quality Control System	4. Quality improvement measures
	5. Quality control system
Level 3: Context	6. Culture
	7. Turnover in audit team
	8. Innovation readiness
	9. Budget overruns
Chain	10. Client satisfaction

However, criticisms regarding the AQIs have been raised by De Raad van State expressing frustrations over the introduction of additional rules in an already highly regulated sector (Weerdenburg, 2022). However, the inclusion of AQIs in legislative proposals signals progress towards greater transparency and accountability in audits (Kwartiermakers Toekomst Accountancysector, 2021). The involvement of stakeholders beyond auditors, such as OOB and non-OOB auditing firms and regulatory bodies like the AFM, demonstrate the collaborative effort within the accountancy sector to enhance audit quality. As the relationships between the different stakeholders involved within the financial reporting system is quite complex, a visualization is provided (Figure 1).

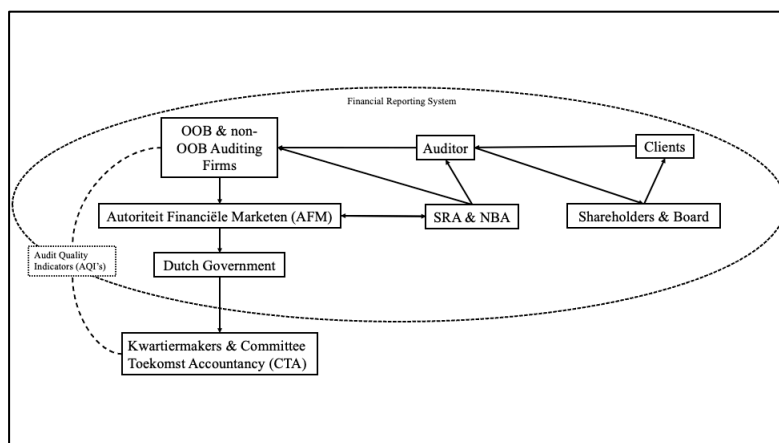


Figure 1 Financial Reporting System

In the context provided, **clients** represent organizations obligated to have their financial statements audited by **auditors** who share their findings with the **shareholders and board** of the audited organization. **OOB and non-OOB auditing firms**, play a critical role in overseeing the quality and accuracy of audit reports. They evaluate auditors and report their assessments to regulatory bodies like the **AFM**, ensuring transparency and accountability in financial reporting. The AFM conducts final checks on compliance and since 2022, the scope of AFM significantly widened with an expansion of more than 250 additional audit firms under direct AFM supervision, increasing the responsibility to ensure accuracy (AFM, 2023). Additionally, the OOB and non-OOB auditing firms collaborate closely with stakeholders such as the **NBA and SRA**. These entities facilitate ongoing education and training programs for auditors, enhancing their audit skills within the evolving regulatory landscape. Finally, the AFM is controlled by the **Dutch government** and extended research on the financial reporting system to **Kwartiermakers and CTA**, collectively working to continually enhance audit quality. The dotted line represents an indirect link of the proposed legislation of **AQIs** created by the Kwartiermakers and CTA to the OOB & non-OOB auditing firms demonstrating the commitment in improving reporting standards and fostering trust in financial disclosures.

2.2 Corporate Sustainability Reporting Directive (CSRD)

The CSRD stands as a pivotal policy initiative within the EU broader sustainability agenda, aiming to enhance corporate transparency and accountability regarding ESG matters. This literature review provides a comprehensive analysis of the CSRD, examining its background, objectives, implementation challenges, implications for auditing practices, and evaluation frameworks for audit quality.

The CSRD emerges from the imperative to address pressing environmental and social challenges while fostering sustainable economic growth (The European Green Deal, 2021). Rooted in the EU's commitment to becoming the first climate-neutral continent, the directive builds upon the foundation laid by the Non-Financial Reporting Directive (NFRD). The NFRD's limitations prompted the development of the CSRD, which seeks to strengthen and standardize corporate sustainability reporting practices across the EU (Dinh et al., 2022). By mandating comprehensive disclosure of non-financial information, the CSRD aims to facilitate informed decision-making by investors, stakeholders, and policymakers, thereby fostering sustainable investments and preventing greenwashing. The CSRD forms part of a broader package of policy initiatives aimed at advancing sustainability within the EU (European Commission, 2021). Collaborative efforts with key stakeholders such as the European Financial Reporting Advisory Group (EFRAG) have led to the development of European Sustainability Reporting Standards (ESRS), which serve as the basis for CSRD compliance (European Financial Reporting Advisory Group, 2021) (Table 2). These standards aim to harmonize sustainability reporting practices and ensure consistency, comparability, and reliability of reported information across EU member states. Notably, organizations already adhering to established global reporting frameworks such as the Global Reporting Initiative (GRI) are well-positioned to comply with CSRD requirements, facilitating the transition to the new reporting regime (Dinh et al., 2022).

ESRS 1	General Requirement
ESRS 2	General Disclosure
ESRS E1	Climate Change
ESRS E2	Pollution
ESRS E3	Water and Marine Resources
ESRS E4	Biodiversity and Ecosystems
ESRS E5	Resource Use and Circular Economy
ESRS S1	Own Workforce
ESRS S2	Workers in the Value Chain
ESRS S3	Affected Communities
ESRS S4	Consumers and End-Users

Table 2 ESRS (Commission Delegated Regulation EU, 2023)

The implementation strategy of the CSRD demonstrates an approach towards broadening its reach and influence overtime. Focusing on large, publicly listed organizations, the intention is to progressively extend its coverage including medium-sized enterprises (MKBs) and non-EU entities operating within the jurisdiction of the EU (PricewaterhouseCoopers, 2024). This expansion highlights the escalating significance of sustainability reporting as an integral component of mainstream corporate governance practices. Moreover, this approach

acknowledges the need for a phased transition to allow businesses to adapt and comply with evolving regulatory requirements effectively.

Although the original timeline for an implementation of the CSRD standards was planned for 2024, practical considerations have necessitated a two-year delay (Council of the EU, 2024). European Parliamentarians advocate for an inclusion of eight sector-specific standards. This proposal underscores a fundamental shift towards a more tailored approach in sustainability reporting, one that acknowledges the diverse operations across various industries (Guillot, 2024). The two-year delay will provide EFRAG the time to develop quality standards and organizations with additional time to concentrate on implementing the initial set of ESRS's, ensuring a more comprehensive and effective integration of sustainability principles to their operational frameworks.

2.3 Challenges for Upholding Audit Quality for the CSRD

2.3.1 From Rule-Based to Principle-Based Approaches

In the constant evolving landscape of audit quality, the integration of the CSRD presents significant challenges, particularly for accountants accustomed to traditional financial reporting methodologies. As demonstrated by several academic studies, defining audit quality regarding financial reporting integrity undergoes an evolution, fueled by ongoing challenges leading to structural changes within the auditing paradigm. To visualize how the non-financial reporting system will interact with the current financial reporting system, an overview was created (Figure 2).

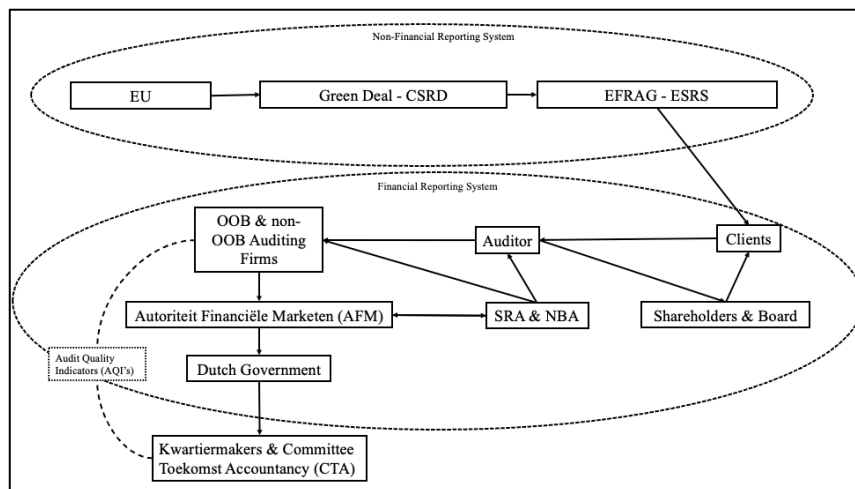


Figure 2 Non-Financial Reporting System

The illustration demonstrates the interaction with the **CSRD** and **ESRS** developed by the **EU** and the organizations (**clients**) that are mandated to report on the non-financial information. When auditing reported information, **auditors** traditionally used rules-based approach with detailed requirements and thresholds for financial information (Van der Meer and De Waard, 2023). However, with the CSRD auditors favor a principle-based approach. This approach stimulates a holistic view for auditors and delves deeper into the reported information avoiding box-ticking compliance. However, regulators such as the **AFM** lean more towards a rules-based approach. This form of supervision raises concerns about potential compromises in audit quality, especially as auditors are threatened with translating qualitative standards into quantitative measures to justify assurance decisions.

2.3.2 System-based Regulation (SBR) in the Dutch Financial Market

Therefore, a transition in principle-based auditing requires an effective regulatory supervision including a collaborative approach between regulators and regulated organizations (Van der Meer and De Waard, 2023). A study by De Bree & Stoopendaal (2024) overlaps with such requirements presenting a modern regulatory strategy focusing on the effectiveness of management systems within organizations rather than a strict approach to detailed rules, as with financial materiality. This is presented as the SBR representing a proactive and preventive approach to regulatory supervision and focusses on the importance of aligning management systems with organizational practices (Figure 3). With the SBR a recoupling of such a misalignment is encouraged by “walking their talk” (De Bree & Stoopendaal, 2024, p. 247) again rather than being punished.

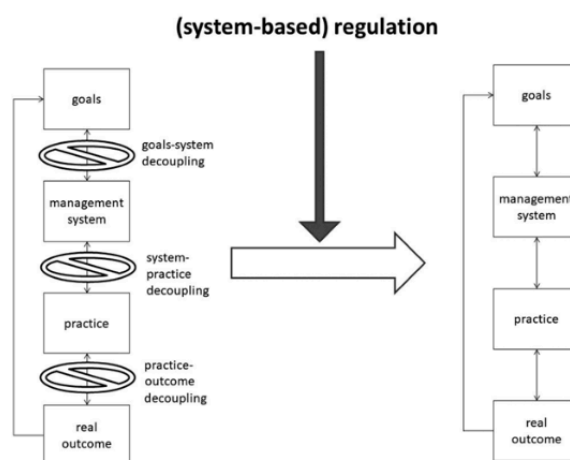


Figure 3 Illustration of SBR (De Bree and Stoopendaal, 2024)

Within the study, the SBR approach identifies several characteristics for regulators to be essential. Firstly, organizational integrity is essential for trust, reliability, and legitimacy. A consistency in connecting actions with moral codes, establishes harmony between what is thought, said, and done. Secondly, as regulation is traditionally recognized as a top-down process focusing on compliance and specific rules, its evolving more into a dynamic approach with self-regulation, considering the underlying objectives and the “spirit of the law” (De Bree & Stoopendaal, 2024, p. 245) rather than strictly following the rules. Additionally, as a regulator you can support recoupling by identifying and addressing decoupling within organizations.

An empirical study, conducted by de Bree and Stoopendaal (2020) on the Dutch Health and Youth Care Inspectorate (DHYCI), provide insights into the effectiveness of SBR in practice. By shifting focus from quality and safety indicators to the management systems of regulated organizations, the DHYCI observed three forms of decoupling between 1) goals and systems, 2) systems and practices, and 3) practices and outcomes. These forms of decoupling indicate the gaps where organizational goals are not effectively translated into practices and outcomes. The application of SBR led to recoupling, where organizations took action to align their management systems and practices with their objectives. This process was observed to contribute significantly to quality improvements and patient safety. Additionally, SBR was found to stimulate triple-loop learning by encouraging organization to realign their goals, systems, and practices, and challenging organizations to manage the recoupling process more effectively. This application of SBR within the context of government agencies like the AFM and DHYCI demonstrates its potential for enhancing regulatory effectiveness and promoting organizational recoupling.

These principles of SBR hold relevance for the development and implementation of the CSRD with a principle-based approach to auditing practices. The approaches align with a shared emphasis on professional judgement and correcting misalignments ensuring regulatory principles are effectively implemented stimulating compliance. This connection creates a regulatory environment where auditors and regulators work together towards common objectives of the CSRD.

2.4 Summary

To summarize, audit quality has been extensively researched over decades from defining audit quality as a form of integrity (DeAngelo, 1981) to an extension with assurance levels (Palmrose, 1988), organizational sizes (Krishnan and Shauer, 2000), and ultimately independence (Ghosh and Mood, 2005). Regulatory oversight for audit quality has been essential as examples of violations from auditing firms resulted in the largest penalty ever for KPMG issued by PCAOB in cooperation with the AFM (PCAOB, 2024). As the Monitoren Commissie Accountancy (van de Veer et al., 2020) called for structural changes, Detzen & Gold (2021) proposed AQIs. In the end, the stakeholders involved in audit quality, form a collaborative effort aiming to continually enhance audit quality and foster trust in financial disclosures.

The CSRD is part of the Green Deal and derives from the NFRD, mandating disclosures of non-financial information to facilitate informed decision-making by investors, stakeholders, and policymakers (European Commission, 2021). Collaborative efforts between the EFRAG and the EU have led to the development of ESRS, harmonizing sustainability reporting practices. The two-year delay in implementation allows for the EFRAG to develop sector-specific standards, tailoring to diverse industry operations.

The integration of the CSRD provides challenges for traditional financial auditing. The tension between rules-based and principle-based approaches complicates regulatory oversight and auditing practices. Van der Meer and De Waard (2023) highlight the auditors' preference for principle-based standards, while regulators like the AFM prefer a rules-based approach. As the study suggests an effective regulatory supervision with limited oversight, a suitable modern regulation strategy is introduced focusing on the effectiveness of management systems rather than strictly following the rules, also described as SBR (De Bree and Stoopendaal, 2024). An empirical study by de Bree and Stoopendaal (2021) on the DHYCI demonstrated SBR's effectiveness in identifying and addressing decoupling between goals, systems, and practices, and promoting recoupling. SBR principles can be relevant for the AFM in transition towards non-financial information by addressing decoupling issues between quality management systems and actual practices of auditing firms.

2.5 Conceptual Framework

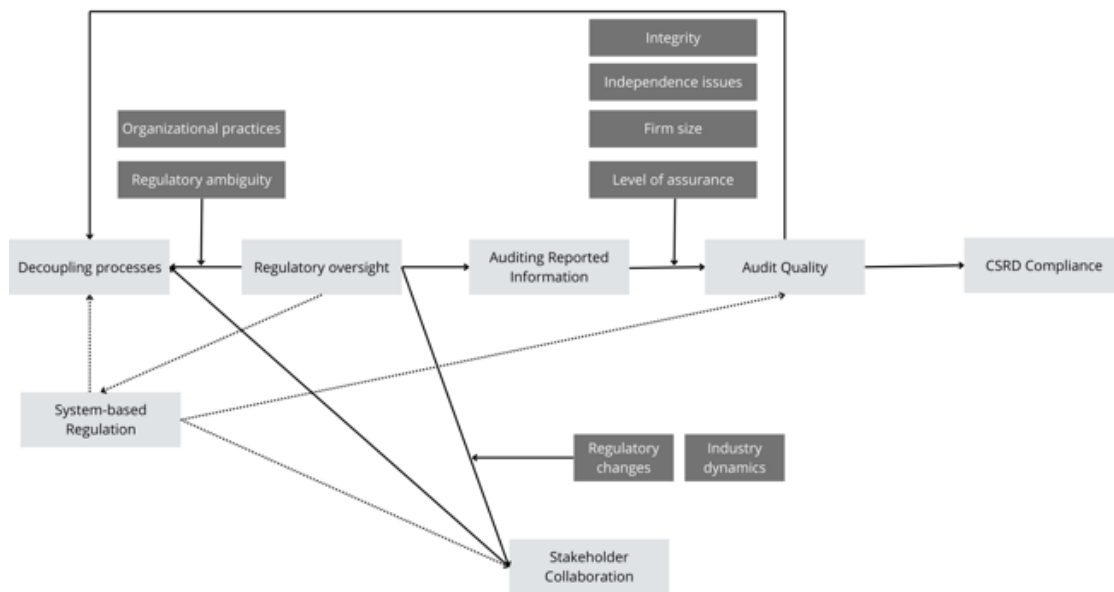


Figure 4 Conceptual Framework

Within this conceptual framework (Figure 4), **regulatory oversight** is recognized as the main factor influencing the de-/recoupling of processes within auditing firms, the auditing processes of reported information, affecting audit quality and CSRD compliance. Similarly, the **auditing of reported information** is subject to regulatory oversight and determines the approach (principle-based or rules-based). Furthermore, **audit quality** is challenged with complexity as its affected by factors such as integrity, independence issues, firm sizes (auditing firms or reported organizations), and level of assurance. Therefore, **CSRD compliance** represents the outcome influenced by regulatory oversight, auditing reported information, and audit quality. Meanwhile, **stakeholder collaboration** is affected by industry dynamics and regulatory changes and influenced by regulatory oversight and stimulating de-/recoupling processes. Additionally, the **de-/recoupling processes** is influenced by regulatory oversight and the collaborative efforts of stakeholders. Lastly, **SBR** (illustrated with a dotted line) influences the relationship between regulatory oversight, auditing reporting information, and eventually the audit quality.

To conclude, the conceptual framework demonstrates the relationship between SBR influencing de-/recoupling processes within auditing firms leading to improved audit quality and eventually CSRD compliance

3. Methodology

This chapter demonstrates the methodology applied within the study. The research design, data collection, data analysis, data quality, and ethical considerations are discussed.

3.1 Research Design

The aim of this study is to research the applicability of SBR for the AFM within the context of audit quality for non-financial auditing mandated by the CSRD. For this an inductive approach was applied to gain more information on the current practices of the AFM, to lead to the formation of SBR applicability. In line with this approach, qualitative research is conducted to generate in-depth insights. It has been chosen to apply a mono method, meaning that only qualitative research is used. This research will employ a grounded theory methodology (Glaser & Strauss, 1967). The methodology and data analysis approach for this study are structured by the framework of Saunders, Lewis, and Thornhill (2009) (Table 3).

Table 3 Data Structure

Structure	Description
1. Research Philosophy	Interpretivism
2. Research Approach	Inductive
3. Research Strategy	Grounded Theory
4. Choices Data Types	Mono method - Qualitative
5. Time Horizon	A certain point in time
6. Techniques and Procedures	<ul style="list-style-type: none"> • Data Collection Method: Semi-Structured Interviews • Sampling Method: Self-selection of Stakeholders and Purposive Sampling with Snowball Sampling • Data Analysis: Content Analysis • Materials: ATLAS.ti

3.2 Data Collection

For the data collection, semi-structured interviews were conducted with three OOB auditing firms, four non-OOB auditing firms, two Kwartiermaker's, one board member of the NVCI, and one professor and advisor in ESG governance, assurance, and reporting. The participants

were selected based on stakeholders related to audit quality for financial and non-financial information. Throughout the data collection, purposive sampling together with snowball sampling occurred as other suitable participants were recommended. For instance, after an interview with OOB auditing firm A, an academic was recommended who eventually participated within the study. Besides, next to the collection of primary data, secondary data was collected regarding the evolution of audit quality and its transformation with the inclusion of auditing practices for non-financial information (Chapter 2). The interviews took place from March 26th, 2024, and ended April 19th, 2024.

3.2.1 Sampling method

As aforementioned, the sampling method used in the study was purposive sampling. Various stakeholders related to the context of audit quality for both financial and non-financial auditing were selected (Cresswell & Plano Clark, 2011). Specific criteria for participants included working at AFM, OOB auditing firm, non-OOB auditing firm, NBA, SRA, Kwartiermaker, NVCI, EFRAG, or involved in quality maintenance focused on the transition from financial auditing to non-financial auditing, such as academics.

In total, 74 participants were contacted through LinkedIn, email, or personal network (Appendix 1); of these, 25 declined, 22 did not respond, and 12 referred to their colleagues, resulting in 15 participants who ultimately joined the study. Especially OOB and non-OOB auditing firms and other stakeholder such as Kwartiermaker's, EFRAG, and NVCI were very eager to participate. However, despite multiple attempts to approach the AFM directly and indirectly through interviews, they were unable to participate in the study which was very unfortunate for the verifiability of the results.

3.2.2 Semi-Structured Interviews

As aforementioned, a semi-structured interview aligns with the qualitative method and provided the interviewer to ask predetermined questions with space for flexibility to touch upon other topics that deem important (Adeoye-Olatunde & Olenik, 2021). Before the interview, an initial interview guide based on the literature was constructed (Appendix 2). However, the interview guide was adapted throughout the data collection process for possible emerging themes identified during the interviews (Appendix 3). Similarly, additional interviews were used to verify information. For instance, the interview with a board member of the NVCI provided valuable information as being the competition of auditing firms, strengthening or

weakening statements made by other participants. At a certain point in the data collection, the point of data saturation was reached (Glaser & Strauss, 1967). Although the AFM could not participate in the study, the OOB and non-OOB auditing firms, Kwartiermakers, NBA, EFRAG, academics, and the NVCI enabled a reach of saturation.

3.2.3 Interview procedure

For this study, 15 interviews were conducted with three OOB auditing firms, four non-OOB auditing firms, two Kwartiermaker's, one board member of the NVCI, and one professor and advisor in ESG governance, assurance, and reporting (Table 4). These semi-structured interviews took place over the course of one month March 26th, 2024, and ended April 19th, 2024. Before the interviews took place, the interviewee and interviewer agreed on a physical or online place to conduct the interview. Additionally, the interviews were held in two languages of which thirteen interviews were held in Dutch, and two interviews were held in English.

Table 4 Interviews

Organization	Function	Language	Duration	Setting
OOB Auditing firm A	Senior Manager Audit & Assurance	Dutch	49:59	Physical
	Partner Audit & Assurance	Dutch	33:52	Teams
	Partner Audit & Assurance	Dutch	30:33	Teams
OOB Auditing firm B	Senior Manager Specialist ESG Assurance and Reporting	Dutch	49:46	Teams
	Partner Sustainability/Decarbonization	English	22:15	Teams
OOB Auditing firm C	Audit Supervisor	Dutch	36:37	Teams
Non-OOB Auditing firm A	External Auditor & Sustainability Reporting	Dutch	32:36	Teams
Non-OOB Auditing firm B - Alfa	Advisor Sustainability	Dutch	24:05	Teams
Non-OOB Auditing firm C	Manager Audit & Impact Reporting	Dutch	42:49	Teams

Non-OOB Auditing firm D	Sustainability & Audit Partner	Dutch	21:34	Teams
Kwartiermaker A	Kwartiermaker	Dutch	43:16	Teams
Kwartiermaker B	Kwartiermaker	Dutch	15:52	Teams
Professor & Advisor ESG	Professor and Advisor ESG governance, assurance, and reporting	Dutch	30:39	Teams
NVCI	Board Member	Dutch	55:21	Teams
EFRAG	Member of Secretariat	English	47:54	Teams

Before the interviews were conducted, the interviewees were asked to sign an informed consent to assure them of their anonymity and preference how the interviews were allowed to be recorded. Before the start of the interview, a small introduction was provided, and the interviewee's understanding of the study was explained with more elaboration on SBR. Then, the recording started, and questions were asked according to the interview guide (Appendix 2). At the end of the interview, interviewees had the opportunity to add a final remark of on how they aim to maintain quality during the auditing of non-financial information. As this question was intended to be very open, it provided a thoughtful ending of the interviews.

However, throughout the interview challenges remained in the explanation of SBR and how it could possibly be applicable for the AFM. This was due to a lack of knowledge from the interviewees and the struggle of the interviewer to provide a good explanation of SBR. Therefore, the interviews changed over time to get a good structure in the explanation of SBR (Appendix 3). In further research, it is therefore recommended to provide a clear illustration and more information of SBR before the start of the interviews.

3.3 Data Analysis

After the data collection, the interviews were transcribed. Following the grounded-theory approach, the interviews were transcribed, coded and analyzed using the online software of ATLAS.ti (Glaser & Strauss, 1967). As the study explored the conditions necessary for an effective applicability of SBR for the AFM, the data was segmented, conceptualized, and categorized.

3.3.1 Method used and applied

The method used for the data analysis is the Gioia method (Gioia et al., 2012). As the research was focused on the conditions needed for the AFM to use SBR to influence the quality of audits for non-financial information, the current auditing principles and nature of sustainability with relevance to SBR, the conditions necessary, and the conditions currently met in practice for the AFM, auditing firms, and the regulatory environment, were coded following three phases: 1st-order coding, 2nd order themes, and the generation of dimensions. The codes in the first phase provided an interpretation of the quotation. Within the second phase these interpretations for the first were categorized based on their similarities. Finally, the various categories and their potential relationships were reconstructed into dimensions.

All three phases were developed during and after data collection process to allow for data triangulations. During this data analysis and by coding every transcript, new insights emerged from the data, leading to an adaptation in coding scheme (Appendix 5). In total 15 documents lead to 346 quotations categorized under 36 codes. A summary of the results of moving from the 1st-phase to the 2nd and to the 3rd is illustrated in Appendix 6.

3.4 Data Quality

Data quality is assessed through credibility, dependability, transferability, and confirmability (Stenfors et al., 2020). First, the credibility of the research was enhanced as triangulation was reached by using data from interviews with different perspectives (Verhoeven, 2015). For instance, the board member of the NVCi provided a different perspective towards CSRD assurance than OOB and non-OOB auditing firms. Additionally, sources from different times and places were conducted as the non-financial auditing system is constantly evolving. For instance, on the 10th of June the Dutch government decided that only accountants are authorized to sign off on the sustainability reports mandated by the CSRD, leading to an increase in pressure for accountants (Bresson, 2024).

Secondly, the dependability was ensured by following an iterative process of the grounded theory approach leading to transparency of the study (Lincoln, 1995). For instance, Appendices 4 and 5 include the initial and adjusted interview guides allowing other researchers to replicate the study. Besides, the transcripts of all interviews were gathered in a separate document titled

“MSc GBS Thesis – Sophie van der Zandt – Transcripts ONLY” and made available to the thesis coach and co-reader to improve transparency.

Thirdly, with transferability various stakeholders influencing audit quality for non-financial information, were interviewed creating a diversity in stakeholders (e.g., OOB auditing firms, non-OOB auditing firms, Kwartiermaker’s, EFRAG, NVCI, and a professor and advisor on ESG) (Stenfors et al., 2020). However, the AFM was unable to participate within the study, limiting the construct validity of the study and leaving out the perceptions of the research elements that are central to the research (Verhoeven, 2015).

Lastly, confirmability is emphasized by aiming not to allow personal values to interfere with the research and findings including not steering the participants towards any theoretical viewpoint (Stenfors et al., 2020). Therefore, the internal validity was assured leading to unbiased conclusions for the study (Verhoeven, 2015).

3.5 Ethical Considerations

When conducting the study, several ethical considerations were addressed to ensure the integrity of the research. A visualization is demonstrated (Table 5).

Table 5 Ethical Considerations

Concept	Description	Ensured by:
Informed Consent	Participants are made aware of the characteristics of the study before agree/decline to participate	<ul style="list-style-type: none"> • Participants are informed about why the research takes place, what it requires, and how it will be conducted • The informed consents were obtained from each participant before the interview. This gave them the opportunity to provide permission on their preference of conducting the interview and how their data should be used. For instance, one interviewee didn’t want the researcher to copy the references made towards persons or organizations. Afterwards this was changed within the informed consent.

Confidentiality and Anonymity	To protect the identities of the participants and ensure the confidentiality of information shared, all data is anonymized.	<ul style="list-style-type: none"> • Files are protected and stored in a locked map. • Any personally identifiable information is known to selected persons • Any identifying information was removed from the transcripts and reports. • Only coach and co-reader can access data. Raw data is deleted at latest one month after final grade is received.
Potential for harm	Sources of harm to participants are considered and minimized	<ul style="list-style-type: none"> • Information has been completely anonymized. • Ensuring the interview questions were respectful and non-intrusive, and that participants felt comfortable and safe throughout the process. • Being sensitive to the potential impact of discussing professional practices and regulatory environments, taking care to approach these topics in a non-judgmental and supportive manner.
Description	In some contexts, it is beneficial to alter characteristics of a study to avoid priming and reduce bias	<ul style="list-style-type: none"> • Not applicable to the particular research. In contrast, participants are made aware of certain definitions and given examples to support their understanding and overcome the fragmented knowledge base on SBR.
Fair Representation	The study aimed to fairly represent the perspectives and experiences of interviewees.	<ul style="list-style-type: none"> • Efforts were made to include a diverse range of stakeholders, including OOB auditing firms, non-OOB auditing firms, Kwartiermakers, EFRAG, NVCi and a professor specialized in ESG. This diversity supported the comprehensiveness of the findings, reflecting the broader context of CSRD auditing practices. • However, an ethical consideration of the representation is the absence of the AFM.

4. Results

This chapter describes the findings from the interviews. It is divided in three parts, that were all separately discussed in the literature review. The first part is about current auditing principles and procedures that can be used to check non-financial information correctly, the second part discusses the conditions and changes that should be made to apply SBR fruitfully, and the last part describes the conditions that are already met in practice.

4.1 Sustainability information and auditing principles and procedures for SBR

This section demonstrates the results of the specific characteristic of sustainability information and examines the evolving auditing principles and procedures that are relevant to SBR.

4.1.1 Sustainability Information

Challenges and complexities in sustainability information vary from a range of data points and qualitative aspects that organizations shall report on to meet the regulatory requirements of the CSRD and stakeholder expectations. As the EFRAG plays a crucial role in developing the standards for the CSRD, an interviewee from the EFRAG explained, *“The CSRD is a directive and based on this directive EFRAG has started developing the first set of ESRS where we incorporated the delegated act in December 2023 and are applicable to all large undertakings so listed and non-listed.”* The interviewee further emphasized the difference between the CSRD and the previous NFRD increasing the level of comparability, *“We know that there were some programs about the previous framework so hereby I refer to the NFRD so in that case the non-financial statement uses some kind of flexibility in the adoption of some standards. So, you can have a different combination of different standards in your non-financial statement. However, this decreased the level of comparability of the data that is disclosed in the non-financial statements. With the CSRD the expectation is of course that they prepare the data in the new sustainability standard to make it more comparable. Because we have created a system in the ESRS that are very precise in terms of the structure. So, we expect that this will increase the level of the quality and comparability of the data including the sustainability statement”.* Additionally, the interviewee describes the importance of sector-specific standards, *“We have identified 40 sectors that we need to develop. 40 standard specific standards in two years.”* This tailored approach ensures that challenges and impacts of different industries are addressed. Finally, according to the interviewee there is a constant refinement and support towards

organizations about these sustainability standards, *“The European Commission suggested that EFRAG would be focused on providing some kind of guidance to help and facilitate companies and focus on the preparation for the first year of the sustainability statement.”*

4.1.1.1 Types of Sustainability Information

Several types of sustainability information are recognized by the interviewees. First, the **measurement of greenhouse gas (GHG) emissions**. An interviewee from non-OOB auditing firm A described the continuous improvement of measuring GHG emissions, *“We measured our greenhouse gas emissions last year using method X, we are now finding out that method Y is much better, so we are adjusting next year's numbers as well after method Y, meaning we are going to get error recovery”*. This underlines the reality that as new, more accurate methods develop, organizations shall adjust their reporting accordingly leading to a change of previous results. The interviewee from the EFRAG emphasizes that the CSRD sets a priority on organizations with a high GHG emissions, *“The priority are based on the sector that have a high level of emissions for the GHG emissions”*.

Secondly, **materiality** in sustainability reporting is recognized by four interviewees as an essential type of sustainability information. According to an interviewee from non-OOB auditing firm A, *“a lot of different materiality concepts are going to emerge... if you start looking at whether you're emitting 1120 tonnes of CO2 or greenhouse gas or 1130 tonnes, you know, as far as I'm concerned, those numbers are much more about. What is the client's plan?”*. Similarly, OOB auditing firm A recognizes materiality as an important theme, *“the dual materiality aspect becomes a theme where there's extra focus”*.

With materiality the **engagement with stakeholders** is essential according to two interviewees to determine the relevant sustainability information for a specific organization. The interviewee from the EFRAG explained, *“We need to consider that the prepare of the reporting entity is that they have to disclose information in not only their own operation, but we need to collect data of site of their own operation”*. OOB auditing firm A further explains, *“... it's up to you, in consultation with your stakeholders, what falls under effective communities for instance. You will have to do that in consultation with your stakeholders and say, well, this way I will go along with the wishes of my stakeholders and this way I will not. But you should be transparent about those choices”*. This emphasizes the identification of material issues, requiring transparency and dialogues with stakeholders.

In the end, it's **transparency and accountability** themes that recur in discussions about sustainability information. OOB auditing firm B emphasized, *“What I say to my clients is that it's not about CSRD compliant, because it's not difficult at all to be compliant, because in the CSRD in particular ESRS mentions explain it or write it down, and if you don't comply explain why you don't comply. So as an organization, you can also just write down I'm working on it, and I to be ready then and there and that statement will be there or with certain comments to it”*. This underlines the expectation for companies to be transparent about their processes and progress towards the sustainability goals.

4.1.1.2 Complexity and Challenges in Reporting Sustainability Information

The complexities and challenges associated with sustainability information are diverse, involving issues related to knowledge, capacity, standards, and regulatory frameworks. Insights from interviews highlight several critical areas of concern.

A significant challenge identified during five interviews is the **lack of overall expertise** regarding sustainability reporting. Non-OOB auditing firm A mentioned, *“Where we see a challenge? Point one is that our customers lack knowledge and expertise”*. This knowledge gap requires auditors to step in and provide guidance, which can blur the lines between auditing and consulting. An interviewee from the NVCi demonstrates equal criticism, *“Auditing firms, of course, expressly intend to help companies set up the CSRD. They see that as a market and we have said that is not possible at all, because the framework is for us accreditation, but they do not fall under accreditation, they fall under the AFM. We are not allowed to audit a company where we ourselves have given advice”*. This concern is further explained by non-OOB auditing firm A, *“Very soon, we are at the level where, yes, we are actually involved in decisions. Well, if I were to do that as an accountant, I wouldn't be allowed to audit, because I can't audit my own work, so there's a challenge there”*. OOB auditing firm A provides an example for such a situation, *“When customers have to deliver their reporting, that has to be just a certain quality. If the customer, then delivers quality, let's say up to 70%. Yes, that last 30%, then you're working together to get to a 10. Yes, and it is of course pioneering together anyway, and it is new. So, then you do go on a bit of a journey together with your customer and you do get a bit of role mixing”*. This dual role presents a possible **conflict of interest and challenges the independence** required in auditing.

Another significant challenge identified by two interviewees is the increasing demand for professionals in CSRD auditing and the **lack of capacity**. OOB auditing firm A defines, “*the biggest challenge is capacity*”. The need for specialized knowledge in sustainability is pressured by the decline in the number of professionals entering the accountancy field, as non-OOB auditing firm C mentions, “*We don't have accountants that have the experience. We don't have methodology that is not experienced. We have a legislation that is not experienced. So, everything is new from a controlling perspective*”. Not only is this the case for auditing firms, but the same interviewee also expects this to be the case for the AFM, “*Do they have the capacity to be able to test? The AFM has got the mandate to supervise, but how are they going to do that? Do they have the people to supervise? There they have a capacity problem as well. That is obviously difficult especially in the first few years because we are missing a shortage of expertise*”.

As a consequence of a capacity lack, **time and resource constraints** are recurring themes during three interviews. An interviewee of non-OOB auditing firm A expressed concern about the time required to comply with new standards, “*Another challenge is definitely time. How are we going to do this with our clients in terms of time commitment? Do we have the people on board? How are we going to manage that?*”. Additionally, the interviewee mentions the **lack of final regulations** complicating the planning and implementation efforts, “*There is an international control standard in preparation, and it is now likely to come out by the end of this year. The ISSA 5000 in final form. So, for us it will probably still go, right. Because our clients are all in 2025 mandatory to report. But we do foresee a challenge with that. Yeah, what standard are you going to use in your operations now? So that's another challenge*”.

These challenges combined form, according OOB auditing firm A, the overall challenge of ensuring **accuracy and reliability** on sustainability data, “*the biggest risk is that we approve something that is not correct*”. The **legal consequence** of this risk is the described by two interviewees. For example, non-OOB auditing firm A mentions, “*That they issue a statement that turns out to be wrong and all kinds of lawsuits follow from it. So that's definitely something that we have to start taking into account as the accountant's disciplinary law is fairly low-key*”.

4.1.2 Auditing Principles and Procedures

The exploration of auditing principles and procedures for sustainability information demonstrates a complex landscape shaped by changing standards and methodologies.

4.1.2.1 Standards and Guidelines for Current Auditing Principles and Procedures

Non-OOB auditing firm C describes financial auditing practices to have been integrated within society for a long time, *“We have been giving assurance on non-financial information since the VOC. Since then, we have been reporting in the form of financial statements. That was 400 years ago and in 400 years we have gained a lot of experience on how to do it”*. Building upon these experiences, auditing firms maintain quality in their auditing process through various levels, ensuring comprehensive quality control. Three interviewees explain the **individual level** in which auditors receive educations and professional development. For instance, OOB auditing firm A explains, *“If you look at the individual, you have education. So, the accountancy course that you must follow with a part theory, bachelor's, master's post master's and a couple of years of practical internship that is attached to it, that is actually at the individual level. Once you are a registered accountant, you also have continuing education that you have to meet also that is regulated from the professional organization that you have to set learning objectives at the beginning of the year. What do you want to develop? How do you want to maintain the learning experience? This is what you have to describe”*. Kwartiermaker A includes in this level the organizational culture to develop as an individual, *“Is there a culture within an accountancy firm in which the accountants are stimulated that people dare to speak out, the space given to do work well. Or is there mainly a huge budget pressure to complete assignments quickly and bring in as much revenue as possible?”*

Secondly, four interviewees explain the **organizational level** of auditing firms implemented for their quality management systems. OOB auditing firm A mentions, *“For the organization ..., the quality control system is what you also need to have from the regulators and then also need to test that system. So how have you set up trainings? Is there sufficient time with sufficient resources? How do you monitor your capacity? How do you monitor expertise? So that's really more of an outline of how it works”*. Kwartiermaker A describes the second level of quality as, *“the quality system coming down to the fact that such a statutory audit is actually done in the context of an office of an organization and there must be a whole system of quality control in that organization so then you must also look at the level of quality control. Is there a PDCA cycle? Is there all that kind of preconditions is that providence is also set up?”*.

Lastly, five interviewees explain the **assignment level** of quality assurance involving several layered reviews and consultations. OOB auditing firm A describes the first instrument,

“At assignment level you can still have different types of instruments to quality measures ... The first is the use of experts. So, if you say as a control team, as a quality department, well this organization you are going to test has a specific profile ... Then we say, no, we prescribe the use of an expert”. For the second and third instrument OOB auditing firm A mentions, “The second instrument and the third, which are somewhat related to each other, are file reviews and file reviews can take place beforehand and can take place afterwards in the meantime. This is then called an assignment-oriented quality assessment and in our case, we also have a theme-oriented quality assessment. Assignment-oriented is really for the foreman who then makes the assignment where we have independent people from the Control Team looking at the right choices and you have to document those choices well and you also have to give the green light before you can issue your assurance report”. Kwartiermaker A describes the assignment level as the first level of quality, “if an auditor goes to a company, he must make a record of it and that record has to meet all the standards that the auditor himself has come up with and there the tests that have to be just right is the first level of quality. That's file quality”.

Besides, the systems within auditing firms, non-OOB auditing firm A explains the supervising role of the AFM, “The AFM also tests our framework to see if you have conducted the audit in line with your own framework”. A professor and advisor in ESG governance, reporting and assurance elaborates on this more extensively, “The AFM must fulfil its role because the AFM the regulator of the quality of the accountants' work, especially in the field of annual financial accounts. So, the AFM, is going to look, has the auditor done his work properly? So that should be the AFM which that looks at the quality system at auditing firms, have they all set it up properly”. However, over the years a lot of **criticism has been provided from the AFM towards the quality systems of auditing firms**. Kwartiermaker A explains, “In 2018 there have been quite a few big scandals, and the AFM had a number of critical supervisory reports. It showed that the big firms did not have their quality systems and the quality of statutory audits in order”. Kwartiermaker B elaborates further on this situation, “The problem is that there have been all sorts of scandals and mistakes in recent years, which have threatened confidence in that quality. The audit firms ... have introduced all kinds of systems. But the problem is that somehow it still proves insufficient every time and what we said in our report: Look, there is just a tension underneath. There is a kind of intrinsic tension in that profession, which means that sometimes due to time pressure or budget pressure, perhaps the quality is not delivered as well as one might expect”.

Three interviewees emphasize the **tensions between the regulatory body and the accountants**. For instance, OOB auditing firm A explains, *“In the beginning the AFM were not taken that seriously and because of that they, around the 10s they started taking a much stronger and firmer stance. And they maintain that pretty much to this day. It's now starting to get a bit more nuanced by now, but that does make, well, them very critical and much awake ... So maybe you have to shout louder to be heard. It is also their role, if they were only to say it is great and it is going well, then that is also difficult. It is part of the game”*.

Therefore, Kwartiermaker A emphasizes the need for more transparency through AQIs, *“transparency is needed on the various levels of quality, which is not yet the case. Therefore, we need the AQIs. There is a lot of discussion about these indicators. However, a regulator such as the AFM should supervise all three levels for quality in an audit firm. Meaning that the regulator not only looks at files, but also at how the organization looks and the system et cetera”*.

4.1.2.2 Standards and Guidelines in Transition to Sustainability Auditing

The transition from financial auditing to non-financial auditing under the CSRD necessitates the adaptation of existing auditing principles and procedures and involves a **redefinition of the relationship between auditing firms and the AFM**. This relationship is historically known as strict supervision and critical evaluations. However, three interviewees highlighted the necessity for the AFM to adopt a more collaborative and supportive role during the initial years of the CSRD. Non-OOB auditing firm A describes this as, *“I hope the AFM understands that not everything is perfect in the beginning and that they want to learn and think with us about how to do such an audit properly”*.

Next to that, auditing firms are using their current **quality assurance systems** to support the quality for auditing sustainability information. Five out of seven OOB and non-OOB auditing firms elaborated on the continuity of current accounting practices, with necessary adjustments to cover the qualitative part of the CSRD. Non-OOB auditing firm A mentions, *“We are indeed going to provide assurance in that form of reporting. True, the work is going to have a different depth, but the whole basis behind it. I don't expect we're going to make very many differences there”*. OOB auditing firm B describes the assessment of sustainability as, *“I think it's quite rule based for a lot of KPI's, but for social KPI's maybe not so much. It will never be as rule based financial information. It's not a number that the end of the day. So, it is*

more qualitative, yes, but really, based on the data checking principles that you would apply would be not very different to financial auditing”.

Four interviewees explained changes in the **level of assurance** is needed in the in the initial years of CSRD auditing. Non-OOB auditing firm A mentions, *“What the CSRD requires in the early years is limited assurance”*. This is a different approach than the current practices for financial auditing, being reasonable assurance. As the depth of assurance differs from financial materiality, four interviewees describe the auditing of non-financial information also necessitates an integration of **specialized knowledge** within audit teams. Traditional financial auditors often lack the expertise required to assess non-financial data. For instance, according to a sustainability advisor at non-OOB auditing firm B, *“Current accountants just don't know enough about what the sustainability data actually says, and I have more knowledge about that. They should actually bring that control and that knowledge of the data together”*.

4.1.3 Relevance to SBR

As auditing firms work to minimize complexities and challenges, their relationship with the AFM remains uncertain. An interviewee working at the NBA and non-OOB auditing firm C explains, *“As the NBA ESG working group, we have asked the AFM: Dear AFM come and visit us, because we have a problem. Namely, we are asked by the government to provide assurance on non-financial information. We would love to do, but we find it a bit difficult to carry out that work, because you are going to supervise soon. And what are you actually going to do, and how are you going to supervise us? The AFM said, I didn't speak to them myself but that's what I understood, they said: you'll hear about that”*. Five interviewees describe the necessity of the AFM to keep overview, be more engaged, and rule in what should be managed for CSRD auditing practices. For instance, OOB auditing firm A mentions, *“A lot of companies are sitting there inventing the wheel themselves, but if the AFM can already provide support at the front with the best practices, and stories we hear both in a report and in the processes”*.

However, another interviewee from OOB auditing firm A shares here concerns with regards to SBR for the AFM, *“I think that yes what you are suggesting could help of course. On the other hand, they are also supervisors and have a role to play, aren't they? Of course, they also have this role by law, so I do understand that this is perhaps more difficult from their perspective”*. Kwartiermaker B shares his concerns as well and believes more in cultural change, *“I don't think that's where the solution is going to come from and besides, I think it's a*

systemic change. I personally think it is very simple that the responsibility lies with the auditor. And the less the accountant lives up to that responsibility, the more the government or external bodies say they will interfere ... But first and last, that is the accountant's responsibility and again, then I said I don't think fiddling on the fringes of protocols and systems is the solution. I believe much more in training, in culture and things like that, because accountant is firmly a role to put.”.

4.2 Conditions at AFM and audit firms for SBR application

This section discusses the necessary conditions at the AFM and audit firms, as well as the regulatory and environmental conditions to facilitate a fruitful application of SBR to improve the quality of sustainability information audits.

4.2.1 Organizational conditions at AFM

According to three OOB and non-OOB auditing firms there is a desire for **shared learning**, *“I hope the AFM understands that and wants to learn and think with us about how to do such an CSRD audit properly”* (non-OOB auditing firm A). Furthermore, seven out of fifteen interviews highlighted the importance of a **cooperative and informal relationship** between the AFM and auditing firms to foster an open culture for discussing internal challenges and dilemmas. Non-OOB auditing firm A mentioned, *“I hope that the AFM will conduct cooperative supervision, would be nice is if they were to supervise much more like an (assignment-oriented quality assessment) OKB in those first years during the journey, instead of 1.5 years later”*. This approach allows guidance and adjustments, fostering a learning environment and improving audit quality and assurance over time. OOB auditing firm A, describes the importance of **trust**, *“What is still very important that me, is indeed building a relationship of trust with each other”*.

Simultaneously, four interviewees mentioned that the AFM should offer **more freedom and less formal oversight** especially during the initial years of implementation. Non-OOB auditing firm A describes this as, *“If the AFM thinks it is going to get everything perfect right away in the first few years and go in that way. Yes, then it becomes one. Is it going to be a disaster”*. Allowing **flexibility and innovation** within the regulatory framework can help address the challenges of sustainability reporting. OOB auditing firm B mentions, *“You just want to use AI,*

use data analytics... as long as we don't get the ability to do that from the AFM, then it's just not going to happen”.

Lastly, according to two interviewees the AFM has to change its behavior by to adopting a **balanced approach**, focusing on education and improvement rather than punitive measures with financial auditing, especially in the initial years of the CSRD. Non-OOB auditing firm C mentions, *“They need to be strict, but also reasonable ... strike a good balance”*. Therefore, the development and implementation of **clear and consistent standards** is crucial. This is emphasized by two OOB and a non-OOB auditing firm B, *“It is very important that proper guidelines from the AFM are put in place, before we are getting into trouble”*.

4.2.2 Organizational conditions at Audit Firms

Besides the conditions needed for the AFM, conditions for auditing firms also deemed important for a fruitful application of SBR. Firstly, it's essential for auditing firms *“to build the knowledge on sustainability auditing”* (OOB auditing firm A) and implement **continuous learning and development** trainings to keep their staff updated on sustainability auditing. Secondly, according to non-OOB auditing firm B **resources** such as experts' advice should become available to support auditors, *“So you see with the CSRD the discussion arises quite often whether accountants should be solely responsible for auditing CSRD reporting or should a sustainability expert, for example, always be involved in that as well, that you do two-pronged attack? One is really doing auditing and the other is really doing content auditing”*. Lastly, the **communications** within auditing firms are essential for the expectations regarding sustainability auditing, *“I think you have to start looking closely at that language. That everyone understands what is being asked and that you can therefore do it properly that way. I think that's the most important thing”* (OOB auditing firm B).

4.2.3 Regulatory Environmental Conditions

Finally, OOB auditing firm A describes the role of the AFM to facilitate the **public interest** and societal discussion *“In the end, it's about the quality of that report and whether it facilitates public discussion, and as far as I'm concerned, that should really be the role of a regulator and to keep an eye on the end goal”*. Similarly, a representative from the EFRAG emphasized the importance of increasing the level of discussion to enhance the quality of the control system for the disclosure, *“This is a way to increase the level of discussion in order to increase also the*

quality of the control system about the disclosures. This is a very crucial point in my opinion particular for this period of transition from one system to the other one. If this system would facilitate the sharing of different perspectives”.

Additionally, the representative of EFRAG encourages a common space where stakeholders can share their inputs and views. This is essential to foster a **collaborative regulatory environment**, *“it’s important that they can maybe provide their inputs and provide their views in a common space in which they can... understand better the purpose of something. They can share documents and views about specific points. At the moment, I will say that it is important that all the actors are more or less involved within the CSRD application”.*

4.3 Conditions met in practice

This chapter addresses the extent to which the conditions identified in sub question 4.3, for the fruitful application of SBR by the AFM in influencing the quality of sustainability audits under the CSRD, are met in practice.

4.3.1 Assessment of AFM’s Preparedness

4.3.1.1 Current State of AFM’s SBR-related policies and frameworks

Looking at the aforementioned conditions needed for a fruitful application of SBR, three interviewees mention that the AFM has incorporated SBR into its previous supervisory framework. OOB auditing firm A questioned during the interview, *“They are doing this even now, aren't they? They are actually doing both now. So, they focus on the system, and they just do diehard file reviews”.* Non-OOB auditing firm A emphasizes this as well but thinks it should be extended, *“The system-based what you mention, they actually already do that, so that should be extended ... but the system in itself I think they already have very much in their in their supervisory model on the audit firm”.* With an extension, the conditions of **shared learning** are described, *“So why doesn't the AFM go into a consultation with one of those auditing firms and walk along on such an CSRD assignment”.* However, OOB auditing firm A shares here concerns with such a method, *“I think really following along, is a bridge too far”.* Besides, OOB auditing firm B explains the current conditions of a **collaborative and informal relationship** between auditing firms and the AFM, *“We had a conversation about whether we should or shouldn't sit in that sandbox together and collaborate with what works and what doesn't work. At the time of the conversation, we all didn't know where we were going with the CSRD. So yes, in general,*

you notice that the AFM take a bit of a back seat, and maybe they need to do this in their role as supervisors”.

Additionally, for the condition of **trust** between the AFM and auditing firms, non-OOB auditing firm D shares his concerns when asked about the expectations of CSRD supervision by the AFM, *“I think in a general, the AFM should take a more open and less biased stance and be more constructive towards the sector. It’s now focused on checking, and I don’t think that contributes to mutual trust”*. When asked whether this has improved over the past few years the interviewee mentioned, *“that he sees very little of this in practice”*. Similarly, for the condition of **freedom and less formal oversight**, non-OOB auditing firm D describes its doubts due to the culture at the AFM, *“I don’t see it happening just yet. I would think SBR would be a good approach though but their culture and the fact that they really have to start working in a different way, I seriously doubt they would be comfortable with that”*. However, with the conditions of **flexibility and innovation**, OOB auditing firm B explains, *“after a few years the AFM introduced the purple card. So, now when we have an idea, we can always email the AFM with the subject: purple card innovative idea”*.

With the condition of a **balanced approach**, an ESG professor mentions, *“Maybe the AFM could install an improvement plan for the CSRD instead of going back to writing a report and putting it in the newspaper. Probably for sustainability there will be another report like that, with no added value at all. For instance, they did a little investigation last year and from that little investigation comes a warning finger at the accountant. The AFM immediately starts to take on that policeman role, so to speak”*. Still, by applying a balanced approach, there is a condition of **clear and consistent standards** formulated by the AFM. However, an interviewee from non-OOB auditing firm C and part of NBA working group ESG explained, *“We asked the AFM: how are you going to supervise us? And then the AFM said, I haven’t spoken to them myself, but I understood that they said: you’ll hear that later. So, they didn’t say, we’re going to be very strict, and they didn’t say we’re going to be very lenient. They simply said, we will let you know”*

4.3.1.2 Assessment of Audit Firm’s Preparedness

Looking at the aforementioned conditions for auditing firms, **continuous learning and development** are currently derived in a variety of levels among auditing firms, *“I think particularly at the Big Four firms, they’ve also been providing assurance on non-financial*

information on a number of KPIs for a while now, so there's quite a bit of practical experience there” (non-OOB auditing firm C). Additionally, six out of seven auditing firms described training programs to equip their staff with the necessary skills and knowledge for CSRD audits. Non-OOB auditing firm A mentions, *“We started this year with a 4-day program for basically all employees to give those a good foundation of what the CSRD requires”*. These initiatives aim to develop the expertise necessary to handle the complexities of sustainability audits, OOB auditing firm A mentions, *“We have the ESG Internal Academy through which you can also develop yourself”*. This specialization is critical to ensure that auditors gain specific knowledge required for different sustainability topics. This is also stimulated through a collaboration between OOB and non-OOB auditing firms, *“From the NBA, we do ensure that we are able to move together with all other firms and smaller firms. So, what I do like is that we, from OOB auditing firm B, did mention that we leave our door open so that we can share our knowledge with the NBA, so that soon all accountants can hopefully move in the right direction. Because yes, I would find it very unfortunate if soon there would be a lot of news that accountants don't understand a thing of the CSRD. That's not good for anyone, including the client”* (OOB auditing firm B).

Furthermore, another condition of available **resources** within auditing firms is explained by three auditing firms in which collaboration with sustainability experts are essential to enhance audit quality, *“We have also picked up some collaboration with some real sustainability consultants.... So how can we help each other a little bit”* (non-OOB auditing firm C). Another way of gaining the required knowledge is *“buying up all kinds of environmental firms to bring in that knowledge inside the organization. That's as far as it goes, isn't it?”* (Board Member NVCI). Additionally, technological infrastructures and tools are currently being implemented, *“soon you will also have special apps that contain work programs for CSRD assignments. Yes, and those assignments will soon, when they are completed, be reviewed”* (OOB auditing firm A).

Finally, the condition of effective **communications** within auditing firms on sustainability auditing remains challenging as there is a sense of caution among auditors in forming opinions on new information. OOB auditing firm A describes, *“It is quite difficult to let your own personal beliefs out, of course, you always have them, but you are also just a human being. You're not just a robot or an accountant... really do that discussion ultimately at society level because to be able to have that facilitated and that you are not the one who already says whether*

it is right or wrong. Other people have to do that ultimately. You can only say that what they write down and what it says is right or wrong and whether they made the right choices in that". Similarly, non-OOB auditing firm explains, *"We as accountants are not quite familiar with this new flow of information, so we start to formulate our opinion a bit more cautiously. As a result, various stakeholders' various participants of the public may well be disappointed in the organization and the accountant"*. According to a professor and advisor in ESG governance, reporting and assurance, there is a fear amongst accountants regarding the approval of sustainability reports, *"And if they write in their report that they have done their best, and that in their opinion there is no child labour in the chain. And the auditor approves that? Well, just keep in mind that the organisations like Amnesty, they find out within a week whether that is true or not? I mean, it's all yet to happen, but I think there's a whole other group of stakeholders interested in this reporting"*. However, non-OOB auditing firm C has a different expectation, *"I don't expect many stakeholders to value the first year because the first year is new for everyone"*.

4.3.1.3 Regulatory and Environmental Preparedness

Looking at the aforementioned conditions of stimulating **public interest** and a **collaborative regulatory environment**, an interviewee from non-OOB auditing firm D describes the *"interest groups as one of the biggest challenges which could be environmental organizations or investors"* as they can pressure the CSRD compliant organizations to meet higher standards of transparency in their sustainability reporting. Moreover, *"the market will soon judge reporting organizations when you perform worse than your peers. This is the whole system Europe has in mind with that taxonomy, among other things. With XBRL reporting for the CSRD, we create transparency and make companies properly comparable"* (non-OOB auditing firm D) stimulating the societal discussion further. However, two interviewees mentioned an **improvement needed in the degree of uncertainty**, *"we did create a culture of judgement with each other, where it has to be good all at once and if you are not good enough, you're immediately cancelled. But I think we have to be patient with each other. After all, we cannot go to Champions League level in a year. We will first have to play basement-class football with each other with a hangover for a while on Sunday morning and promote to a to the level we find acceptable as soon as possible"*. In line with this, there the **willingness for collaborations together with certified institutions** was mentioned several times by different auditing firms, non-OOB auditing firm A mentions, *"I'm totally fine if, for example, an ISO agency will also grab this opportunity because it's quite a lot of overlap, also between the ISO"*

standards and the CSRD". Similarly, OOB auditing firm B requires a same level playing field, "it would be okay if you allow service providers too. But then make sure they can also be severely punished when things go wrong. Not that I'm a favor of punishment, but I think it should be a fair playing field". A board member of NVCI explains his enthusiasm to work together, "Let's sit down with the RvA, the AFM and NVCI around the table. And see where do we get equivalence? Because with us it's about equivalence, level playing field". Kwartiermaker B incentivizes the **competition among accountants improving audit quality**, "So I think if you have more incentives, so the accountant also gets more competition on CSRD auditing, that could work quite well".

5. Discussion

This chapter presents the key findings of the study, an interpretation and the implications of the results are discussed in relation to the existing literature. Finally, the limitations of the study combined with the recommendations for future research and practices is presented.

5.1 Interpretation of Results

5.1.1 Specific Characteristics and Their Relevance to SBR

The findings align with the existing knowledge on audit quality but extend the application to non-financial information. Previous literature on audit quality demonstrated various definitions on audit quality going from upholding integrity in financial statements (DeAngelo, 1981) to assurance levels (Palmrose, 1988), size of audit firms, level of compliance, and the financial health of an organization (Krishnan and Schauer, 2000). The data provides further in-depth insights on the different levels of audit quality systems within auditing firms focusing on individual, organizational and assignment level. However, according to Foley (2024) the quality systems of auditing firms had numerous violations enhancing regulatory oversight and increasing tensions between the AFM and auditing firms. This was further emphasized by OOB auditing firm A, *“In the beginning the AFM were not taken that seriously and because of that, around the 10s, they started taking a much stronger and firmer stance and they maintain that pretty much up to this day”*. As a solution to these underlying tensions (van der Veer et al., 2020), structural changes are proposed through AQIs (CTA & Kwartiermakers, 2021), in which *“transparency is needed on the various levels of quality”* (Kwartiermaker A). These levels differ from as aforementioned quality levels implemented by auditing firms being control quality level, quality management system level, and context level (CTA & Kwartiermakers, 2021).

Nevertheless, with the introduction of the CSRD, a new tension is acknowledged between the predominantly used rules-based approach for financial information and the increased principle-based information for non-financial information (Van der Meer and De Waard, 2023). Even though the study argues the CSRD to be mainly principle-based, OOB auditing firm B describes that non-financial auditing would not be very different from financial auditing, *“It will never be as rule based financial information. So, it’s more qualitative, yes, but really, based on the data checking principles that you would apply, it would not be very different from financial auditing”*. The data suggests other auditing firm to rely on established

methodologies as well while acknowledging the need for changes in accounting practices. For instance, the qualitative principle-based approach needs more **professional judgement** and **subjectivity** (Van der Meer and De Waard, 2023). However, a dual role presents a possible conflict of interest and challenges with the independence required in auditing sustainability information (Ghosh and Mood, 2005), *“If the customer, delivers quality, let's say up to 70%. Yes, that last 30%, then you're working together to get to a 100%. It's of course pioneering together, and it's new. So, then you go on a bit of a journey together with your customer and you do get a bit of role mixing”* (OOB auditing firm A). Besides, the data suggested other challenges in professional judgement and subjectivity in the form of **capacity issues**, **time** and **resource** constraints, and a **lack of regulations** leading to a risk in ensuring **accuracy and reliability** on sustainability data, causing **legal consequences** for auditors.

Moreover, the aforementioned tension between the AFM and auditing firms remains present as the AFM leans more towards a rules-based approach for CSRD auditing (Van der Meer and De Waard, 2023). The literature emphasizes further that the need for effective regulatory supervision with limited oversight by the AFM is needed. Therefore, SBR emphasizes the importance of **systemic oversight** rather than strict compliance checks (De Bree & Stoopendaal, 2024). The study provides new insights into the relevance of SBR on the quality of sustainability audits, necessitating the AFM to keep overview, be more engaged, and communicate what should be managed for CSRD auditing practices, *“A lot of companies are sitting there inventing the wheel themselves, but if the AFM can already provide support at the front with the best practices, and stories we hear both in a report and in the processes”* (OOB auditing firm A). However, the data raises concerns about the implementation of SBR by the AFM as interviewees highlight the need for cultural changes and the fulfillment of a specific supervisory role.

5.1.2 Conditions for Effective Application of SBR

5.1.2.1 Conditions AFM

The results support the literature of De Bree & Stoopendaal (2020) on the importance of organizational integrity for trust, reliability, and legitimacy. The data suggest the importance of **shared learning**, and a **cooperative, informal relationship** between the AFM and auditing firms, *“I hope the AFM understands that and wants to learn and think with us about how to do such an CSRD audit properly”* (non-OOB auditing firm A). This is further substantiated by the

Accountancy Europe and the European Contact Group (2024) who emphasized the necessity of regulators to take a supportive and pragmatic approach in the first years of the CSRD. This highlights the need for the AFM to **foster an open culture** for discussing internal challenges and dilemmas while building a relationship of **trust**, *“What is still very important that me, is indeed building a relationship of trust with each other”* (OOB auditing firm A). The SBR approach suggested by De Bree & Stoopendaal (2020), focusing on objectives and the “spirit of the law” (De Bree & Stoopendaal, 2024, p. 245) rather than strictly following rules, resonates with the interviewees’ desire for **cooperative supervision**, *“I hope that the AFM will conduct cooperative supervision, would be nice is if they were to supervise much more like an OKB in those first years during the journey, instead of 1.5 years later”* (non-OOB auditing firm A). Additionally, the data suggest **more freedom and less formal oversight** including more **flexibility and innovation**, *“If the AFM thinks it is going to get everything perfect right away in the first few years and go in that way. Yes, then it’s going to be a disaster”* The literature describes a consistency in connecting actions with moral codes and the establishment of harmony between what is thought, said, and done (De Bree & Stoopendaal, 2024). In line with this, the data suggest a **balanced approach** for the AFM, focusing on education and improvement rather than punitive measures with financial auditing, especially in the initial years of the CSRD, *“They need to be strict, but also reasonable ... striking a good balance”* (non-OOB auditing firm C). Lastly, as a regulator you can **support recoupling** by identifying and addressing decoupling within organizations (De Bree & Stoopendaal, 2024). However, the data emphasizes that before support can be provided, the development and implementation of **clear and consistent standards** tend to be crucial, *“It is very important that proper guidelines from the AFM are put in place, before we are getting into trouble”* (non-OOB auditing firm B).

5.1.2.2 Conditions Auditing Firms

As with the empirical study conducted by de Bree & Stoopendaal (2020), organizations need to take action to align their management systems and practices with their objectives. With the SBR a recoupling of such a misalignment is encouraged by “walking their talk” (De Bree & Stoopendaal, 2024, p. 247) again rather than being punished by the regulator. The data suggest auditing firms to implement **continuous learning and development trainings** “to build the knowledge on sustainability auditing” (OOB auditing firm A). Besides, resources such as experts’ advice should become available to support auditors, *“One is really doing auditing and the other is really doing content auditing”*. Lastly, **communications** within auditing firms

are essential for the expectations regarding sustainability auditing, *“everyone understands what is being asked and that you can therefore do it properly that way”*.

5.1.2.3 Regulatory and Environmental Conditions

Recoupling within organizations is influenced by SBR for the maintenance of public interests (Bree & Stoopendaal, 2024). In line with the theory, the results demonstrate the importance of the AFM to address this societal discussion surrounding sustainability reporting, *“In the end, it's about the quality of that report and whether it facilitates public discussion, and as far as I'm concerned, that should really be the role of a regulator and to keep an eye on the end goal”* (OOB auditing firm A). Therefore, a regulatory environment containing continuous dialogues and exchange of ideas is essential for the improvement in audit quality. Additionally, the EFRAG encourages this common space as well for stakeholders to share their inputs and views in a **collaborative regulatory environment**, *“it's important that they can maybe provide their inputs and provide their views in a common space in which they can... understand better the purpose of something”*.

5.1.3 Condition in Practice

5.1.3.1 Assessment of AFM's Preparedness

During the study the expectation was set on SBR not yet applied within the regulatory framework of the AFM. However, the results emphasized a current implementation of a **systemic overview** by the AFM, *“They are doing this even now, aren't they? They are actually doing both now. So, they focus on the system, and they just do diehard file reviews”* (OOB auditing firm A). However, it can be questioned whether these interviewees understood the questions and the approach of SBR correctly. Over the years, the AFM has indeed fulfilled its role of supervising audit firms by both investigating the design and the operation of the quality control system as well as the quality of audits based on auditing files (Meer et al., 2020). Still, when looking explicitly at the results for the conditions necessary, not everything is met in practice. Firstly, with the condition of **collaborative and informal relationship** the results demonstrate a reserved attitude from the AFM. The same accounts for the condition of **shared learning** whereby the level of involvement is questioned, *“I think really following along, is a bridge too far”* (OOB auditing firm A). Additionally, as the core of organizational integrity and SBR is **trust** (Bree & Stoopendaal, 2024), the results demonstrate concerning doubts about *“mutual trust”* (non-OOB auditing firm D) between auditing firms and the AFM. Similarly,

there are doubts regarding the condition of **freedom and less formal oversight** as “... *their culture and the fact that they really have to start working in a different way, I seriously doubt they would be comfortable with that*” (non-OOB auditing firm D). Moreover, the results demonstrated for the condition of **flexibility and innovation**, “*the AFM introduced the purple card. So, now when we have an idea, we can always email the AFM with the subject: purple card innovative idea*”. With the condition of a **balanced approach** and providing **clear and consistent standards** there are still doubts how the AFM will fulfill this condition, “*They simply said, we will let you know*”. Similarly, there are limited sources available about the approach of the AFM. Nevertheless, a job vacancy from the AFM for supervisor CSRD assurance describes, “*You schedule reflection interviews to clearly indicate the AFM's observations and findings. Based on facts, you explain why quality assurance should be organized differently or better. You will also make an assessment with colleagues about how you can best influence the organization to make improvements*” (De Wilde, 2024, p. 1). While this demonstrates some characteristics of SBR, the SBR focuses on a more balanced approach with an even deeper level of addressing decoupling within an auditing firm (Bree & Stoopendaal, 2020).

5.1.3.2 Assessment of Audit Firm's Preparedness

The literature suggests SBR to identify decoupling related to organizational goals, management systems, practices, and actual outcomes (Bree & Stoopendaal, 2020). However, as the AFM can identify decoupling through SBR, auditing firms should actively be prepared to recouple a potentially gap in their performance. Therefore, with the condition of **continuous learning and development** the results demonstrate the emphasize of auditing firms on training programs, “*We started this year with a 4-day program for basically all employees to give those a good foundation of what the CSRD requires*”. Additionally, a **collaboration** between OOB and non-OOB auditing firms has an added value to the condition, “*from OOB auditing firm B, did mention that we leave our door open so that we can share our knowledge with the NBA, so that soon all accountants can hopefully move in the right direction*”. Furthermore, these initiatives further address potential gaps between organizational goals and auditors' capabilities, reducing decoupling in this area (Bree & Stoopendaal, 2020). Moreover, to stimulate the recoupling process further, the **resources available** are recognized to be an essential condition (Bree & Stoopendaal, 2020). The results demonstrate the current resources used in terms of sustainability experts, “*We have also picked up some collaboration with some real sustainability consultants*” (non-OOB auditing firm C) and technological infrastructure and tools, “*soon you*

will also have special apps that contain work programs for CSRD assignments” (OOB auditing firm A). These conditions stimulate recoupling between audit practices and organizational goals. However, the challenges remain in the condition of **effective communication** with auditing firms, *“It is quite difficult to let your own personal beliefs out, of course, you always have them, but you are also just a human being. You're not just a robot or an accountant”*. This demonstrates a difficulty in ensuring auditors to align with the objective of sustainability auditing and indicating a potential area of decoupling between practices and outcomes. This is influenced by the results on the cautious behavior of auditors when forming opinions on new information, *“We as accountants are not quite familiar with this new flow of information, so we start to formulate our opinion a bit more cautiously”*. The data demonstrates that this may lead to stakeholder disappointment if the expectations are not managed properly, highlighting the condition of clear and consistent communication to bridge the gap between practices and actual outcomes.

5.1.3.3 Regulatory and Environmental Preparedness

The concept of **public interest** is emphasized by the literature of (Bree & Stoopendaal, 2020) in which regulatory practices should prioritize public goals and values. This aligns with the results, *“In the end, it's about the quality of that report and whether it facilitates public discussion, and as far as I'm concerned, that should really be the role of a regulator and to keep an eye on the end goal”*. Furthermore, the literature suggests addressing decoupling within organizations we can reduce the **uncertainty** and improve regulatory outcomes. Similarly, the data demonstrated, *“we did create a culture of judgement with each other... After all, we cannot go to Champions League level in a year. We will first have to play basement-class football with a hangover for a while on Sunday morning”*. These results call for a **balanced approach** to regulatory supervision allowing organizations time to adapt and improve their practices. Lastly, an interesting point of discussion is the willingness from the accountancy sector to collaborate with certified institutions. The results demonstrate the openness of auditing firms for, *“an ISO agency grabbing this opportunity as there is quite a lot of overlap, between the ISO standards and the CSRD”* (non-OOB auditing firm A). However, as a surprise, the Dutch government recently decided that only accountants are authorized to sign off on the sustainability reports mandated by the CSRD (Bresson, 2024). This decision contradicts the preferences of VNO-NCW and the AFM, favoring other independent parties such as certified institutions to potentially reduce costs for the organizations that need to report. Additionally, the results emphasized the fact that competitive pressure motivates the accountancy sector, *“So I think if*

you have more incentives, so the accountant also gets more competition on CSRD auditing, that could work quite well” (Kwartiermaker B). However, the government’s restriction to accountants could limit competition by narrowing the pool of qualified assurance providers.

5.2 Theoretical and Practical Implications

By examining the theoretical and practical implications, an understanding is provided on how the study contributes to the existing body of literature and influences the field of auditing concerning the quality of audits for non-financial information mandated by the CSRD.

5.2.1 Theoretical implications

The conceptual framework constructed in the literature review (Chapter 2) described how the previous empirical study by Bree & Stoopendaal (2020) demonstrates its potential for enhancing regulatory effectiveness and promoting organizational recoupling through SBR. This strikes the relevance in examining SBR within other regulatory bodies. Especially, with the recent developments of the CSRD, the current rules-based supervision of the AFM raises concerns about potential compromises in audit quality (Van der Meer & De Waard, 2023). Therefore, the implications of the study mainly contribute to the applicability of SBR by providing answers on how and under which conditions the AFM can use SBR to influence the quality of audits of non-financial information mandated by the CSRD. The results build on existing evidence that SBR aligns with the systemic needs of maintaining audit quality for non-financial information. However, its fruitful application depends on specific conditions varying from three identified levels: AFM, auditing firms, and regulatory environment. An illustration and description of the theoretical implications is provided (Figure 5).

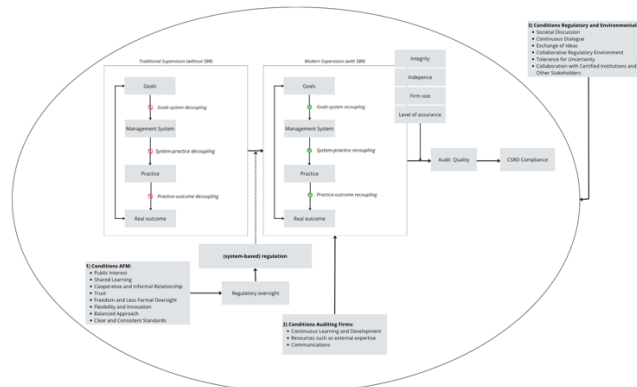


Figure 5 Illustration of theoretical implications

5.2.1.1 Implications for the AFM

The existing body of literature and the conceptual framework demonstrated regulatory oversight to be recognized as the main factor influencing the de-/recoupling of processes within auditing firms and the auditing processes of reported information, eventually affecting audit quality and CSRD compliance.

Over the years, the AFM has employed a strict and critical approach to supervise auditing firms with a focus on compliance of financial auditing standards (Van der Meer and De Waard, 2023). This approach involves inspections and evaluations to verify whether the auditing firm is aligned with their quality management system. Due to the several scandals and critical supervisory reports, tensions increased between the AFM and auditing firms (Foley, 2024). However, with the introduction of the CSRD a shift in the AFM's regulatory approach is necessary to comply with demand from auditors to change the rules-based approach into a more cooperative supervision focusing on continuous improvement rather than punitive measures (Van der Meer and De Waard, 2023).

Therefore, the data contributes to a clear understating that SBR addresses the limitations of traditional approaches. The results implicate that with the challenges (e.g. capacity and knowledge issues, time and resource constraints, and lack of regulation) faced by auditing firms for CSRD auditing, it's important that a cooperative and informal relationship is established between the AFM and auditing firms to foster continuous improvement of audit quality. Additionally, the results implicate more **conditions for the AFM (1)** to be essential to influence the quality of audits for non-financial information mandated by the CSRD: public interest, shared learning, cooperative and informal relationships, building trust, freedom and less formal oversight, flexibility and innovation, maintaining a balanced approach, and ensuring clear and consistent standards for regulatory expectations. These conditions support the redefinition of the relationship between the auditing firms and the AFM, creating a collaborative approach towards systemic oversight to achieve reasonable assurance and high-quality audits for the CSRD compliance.

5.2.1.2 Implications for Auditing Firms

As the findings provide theoretical implications on how the AFM can use SBR to influence the quality of audits for non-financial information, additional conditions arise for auditing firms. As aforementioned in the literature review, SBR supports auditing firms to “walk

their talk” (De Bree & Stoopendaal, 2024, p. 247) and can maintain audit quality by ensuring to recouple their decoupled processes. By addressing the decoupling identified by the regulator at different levels – goals-system, system-practice, and practice-outcome – SBR ensures that auditing firms can align their practices with regulatory expectations. Besides the aforementioned challenges of auditing firms, decoupling with regards to CSRD auditing could occur with regards to the risk in integrity (DeAngelo, 1981) to an extension with assurance levels (Palmrose, 1988), organizational sizes and financial wealth related to both auditing firms and reporting organizations (Krishnan and Shauer, 2000), and ultimately independence (Ghosh and Mood, 2005). The results especially implicate the risk of a dual role (consulting and auditing) presenting a possible conflict of interest and challenges the independence required in auditing. Therefore, the main **conditions for auditing firms (2)** for SBR to be effective include continuous learning and development trainings, resources such as external expertise, and effective communication within the organization to align objectives, management systems, practices and outcomes.

5.2.1.3 Implications for Regulatory Environment

Finally, besides the implications of the conditions needed at the AFM and auditing firms for SBR to influence the quality of audits of non-financial information, additional conditions arise for the regulatory environment. By creating a culture of compliance and accountability, a continuous improvement in audit practices is realized leading to higher standards of audit quality and ensuring that non-financial information is reliable and accurate. Therefore, implications demonstrate that the AFM should keep in mind the public interest with a collaborative and supportive **regulatory environment while meeting the conditions (3)** of societal discussion, continuous dialogue, exchange of ideas, tolerance for uncertainty, and a collaboration with certified institutions and other stakeholders.

5.2.1.4 Implications Summarized

To summarize, the illustration (Figure 5) demonstrates the implications of the conditions necessary for the AFM to use SBR and to influence the quality of audits of non-financial information mandated by the CSRD. Additionally, the data contributes a clear understanding of additional conditions needed at auditing firms and regulatory environment to further stimulate the effectiveness of SBR leading to recoupling, increase in audit quality, and eventually CSRD compliance.

5.2.2 Practical Implications

There are practical implications for regulatory bodies, audit firms, and the broader regulatory environment. The implications gathered from this study provide actionable recommendations for an effective adoption of SBR and to improve audit quality mandated by the CSRD.

5.2.2.1 Practical Implications for the AFM

Several practical implications are identified for the AFM. First, the AFM and auditing firms should **collaborate** through workshops and trainings to discuss challenges and build a mutual understanding and trust concerning the best practices of CSRD audit quality. Additionally, a **balanced approach** from the AFM will support the expertise and knowledge of auditing firms regarding non-financial information instead of punishing them. For instance, developing a platform or an event where supervisors of the CSRD guide less experienced auditors. Furthermore, the AFM should **communicate clear and consistent standards** for all auditing firms to align auditing practices across the sector. For instance, the AFM can develop communication channels including regular updates on standards for the CSRD, newsletters, and platforms to discuss trending topics. Additionally, the AFM should conduct **reviews and assessments** of CSRD assurance reports as soon as possible to facilitate auditing firms with constructive feedback and align them with the standards set by the AFM.

However, a challenge in this transition is to overcome the **cultural resistance** within the AFM. As previous studies demonstrated the preferred rules-based regulatory frameworks for financial auditing, the results implicate that a collaborative and system-based approach with CSRD auditing is more effective. Therefore, implementing **cultural change initiatives** within the AFM stimulating the mindset to flexibility and adaptability. For instance, this could include training programs about change management, collaboration, and system thinking. Lastly, the implementation of **technology, data, and artificial intelligence** can stimulate the efficiency and effectiveness of non-financial audits further providing more insights to further improve audit quality.

5.2.2.2 Auditing Firms

The practical implications for auditing firms requires commitments towards **continuous learning and development** focused on non-financial auditing. For instance, the implementation of regular training programs and workshops focused on non-financial auditing. Besides, the results indicate that there is insufficient expertise due to a lack in capacity. This is

pressured further by the decision of the Dutch government to restrict CSRD signoffs to accountants. Having the challenges in mind that auditing firms are already facing, such as lack of time, resources, regulations, auditing firms should **collaborate with external expertise** to support their own auditors. For instance, a collaboration with specialized sustainability consulting firms or hire a freelance sustainability expert. Besides, the practical implication of **communication** is essential to manage and align efforts of the organizational goals, management systems, practices, and real outcomes. For instance, organize internal meetings and updates to align efforts with objectives or invest in an internal communication platform.

5.2.2.3 Regulatory and Environmental Implications

As the AFM has an essential role in creating an environment, of trust and transparency they should emphasize an **open communication and collaboration** fostering a continuous dialogue, exchange ideas, and increased tolerance for uncertainty. For instance, organize regular stakeholder meetings to discuss the challenges and developments with regards to non-financial auditing, develop a knowledge-sharing platform for best practices, and encourage experimentation and innovation in auditing practices. Finally, **partnerships between regulators and stakeholders** such as certified institutions can enhance the overall effectiveness by working together to improve audit practices and ensure compliance with the CSRD. For instance, collaborate on training programs, form alliances with certified institutions, and jointly work on improving audit practices to ensure CSRD compliance.

5.3 Limitations and Recommendations for Future Research

Despite the valuable insights gained from this study, several limitations should be acknowledged to provide a clear overview of what can and what cannot be concluded.

5.3.1 Research Design

The study relied on interviews with a limited number of relevant stakeholders with regards to CSRD audit quality such as OOB and non-OOB auditing firms, Kwartiermakers, EFRAG, NVCI, and a professor specialized in ESG. This sample may not entirely represent the diverse perspectives and practices within the entire accountancy sector as the AFM was not able to participate in this study. However, given the AFM's responsibility to maintain high standards and address issues towards auditing firms its strict stance is understandable. Future research could benefit from a larger and more diverse sample including insights from the AFM, to

enhance the generalizability and provide a better understanding of influencing audit quality with the CSRD. Additionally, the study was mainly focused on the Dutch regulatory environment. While this provides a detailed insight into the context of the Netherlands, it limits the applicability of the findings to other member states of the EU that have with different regulatory frameworks and auditing practices for the CSRD. Comparative studies across different jurisdictions could add more value to the global applicability of SBR. Lastly, future studies should include the views of other stakeholders such as clients, investors, or NGOs providing a holistic view of the non-financial auditing system.

5.3.2 Methods or Samples

The data collected through interviews are subject to the biases of the interviewees. Their responses might reflect their personal opinions, experiences, and interpretations of audit quality for non-financial information rather than an objective view of the broader accountancy sector. This subjectivity can impact the accuracy and reliability of the findings. For instance, the interview with the NVCi included some misstatements about the maintenance of audit quality within the accountancy sector maybe due to the competitive willingness to provide assurance upon the CSRD as well. Additionally, while the study describes the implementation of resources at auditing firms, it does not deeply analyze the specific impacts and effectiveness of these of these tools in improving audit quality. Future research could focus on the role of technology in more detail assessing how specific tools contribute to addressing the challenges of sustainability auditing.

5.3.3 Obstacles Emerged During Research

The regulatory environment of the CSRD is rapidly evolving. The findings of the study may quickly become outdated as new regulations and standards are introduced. Continuous research is needed to keep track of these changes and their implications for audit practices. For instance, during the study, new sector specific standards were discussed by the EFRAG which changes potentially the way of auditing. Additionally, on the 10th of June a final decision was made that the accountants are the only one who can sign off the CSRD. Evolutions that are still up for discussion are the AQIs potentially becoming mandatory for auditing firms as well optimizing the audit quality. Therefore, future research could delve further into the linkages between SBR and AQIs. Additionally, the study captures a snapshot of practices and perspectives at a specific point in time, mainly during the early stages of CSRD implementation. The long-term effectiveness of the identified practices and the full impact of SBR on audit quality can only be

assessed over a longer period in collaboration with the AFM. Future studies are recommended to evaluate the outcomes of these regulatory approaches.

5.3.4 Credibility and Validity

Despite the limitations, the results are nonetheless valid for the purpose of answering the main research questions. The study provides a detailed understanding of the conditions necessary for the effective application of SBR to influence the audit quality of non-financial information mandated by the CSRD. It is beyond the scope of this study to address the question of long-term impacts of SBR within other regulatory environments. However, the insights gained throughout the study demonstrate a groundwork for further research and practical application of maintaining audit quality for the CSRD. By acknowledging these limitations, future research can build more relevance in addressing these gaps. This will providing applicable insights into the effective implementation of regulatory oversight by using SBR in the for the control of the CSRD.

6. Conclusion

This research aimed to identify how and under which conditions the AFM can use SBR to influence the quality of audits for non-financial information mandated by the CSRD. Based on a qualitative data analysis derived from interviews with various stakeholders associated with the CSRD, it can be concluded that SBR presents a feasible framework to enhance audit quality. Even though the absence in participation of the AFM limits the generalizability of the results, a modern regulatory approach through SBR aligns well with the systemic needs of auditing non-financial information. Therefore, a fruitful application of SBR requires several conditions for the AFM, auditing firms, and the regulatory environment. First, the AFM should move from strict compliance towards a more cooperative and supportive approach improving the relationship with auditing firms resulting in trust and shared learning in an evolving landscape of sustainability assurance. Secondly, auditing firms should demonstrate their willingness to practice what they preach by managing, aligning, and recoupling their organizational objectives, management systems, practices, and outcomes to influence the auditing quality. Moreover, the regulatory environment needs to focus on the public interest of society by facilitating societal discussions and enhancing a tolerance for uncertainty for the first years of the CSRD.

Based on these conclusions, practitioners should consider the question whether the current regulatory culture is prepared for a more flexible and adaptive environment with CSRD auditing. To better understand the implications of these results, future studies could address the long-term impact of SBR on audit quality for the CSRD while examining the challenges of implementing SBR in different regulatory contexts within the EU and investigate the role of technology in supporting SBR practices. Finally, the study addressed the problem statement of maintaining audit quality with the transition from financial towards non-financial auditing mandated by the CSRD. As necessary conditions of an effective application for SBR within the AFM was examined, insights were provided on how audit quality can be influenced in this transforming environment. This addressed the literature gap in understanding how audit quality for non-financial information can be influenced through adaptations in regulatory oversight. As the findings challenge the assumption of strict rules necessary for maintaining audit quality, the results of the study confirm the effective mitigation of decoupling within auditing firms when the conditions for implementation are met.

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Appendices

Appendix 1: Interview Invite

English:

Dear [...],

Based on your experience as Partner Risk Advisory at Deloitte, I would like to interview you for my graduate study at Erasmus University, MSc Global Business and Sustainability. This study focuses on how the Financial Markets Authority (AFM) and auditing firms within the Netherlands can ensure audit quality when auditing the new regulation: Corporate Sustainability Reporting Directive (CSRD).

The CSRD puts pressure on external auditors, audit committees and regulators such as the AFM to ensure the accuracy of non-financial statements and compliance with CSRD standards. My research aims to understand how to improve the quality of audits for sustainability disclosures. To this end, I would like to suggest a modern form of regulatory strategy called System-Based Regulation (SBR), which focuses on the effectiveness of management systems rather than strict compliance with detailed rules, as with financial materiality. This promotes a collaborative approach between regulators and regulated organizations, where trust and integrity are essential in an open and informal environment.

I am particularly interested in your insights on current approaches to quality assurance and how they will evolve in the future with new regulations such as the CSRD.

The interview is expected to last approximately 30-45 minutes and can be conducted via Zoom, Teams, Google Meets, mobile or in person, depending on your preference. All information shared during the interview will be kept confidential and your identity will remain anonymous in my research report. Furthermore, you are always welcome to ask questions or make comments during the interview.

Please let me know if you are interested in participating in my research and when you may be available.

Thank you very much for considering this invitation. I greatly appreciate your contribution to my research and look forward to discussing this more interesting topic with you!

Kind regards,

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Dutch:

Geachte ...,

Vanwege uw ervaring als ... bij ... zou ik graag een interview met u willen afnemen voor mijn afstudeeronderzoek aan de Erasmus Universiteit, MSc Global Business and Sustainability. Dit onderzoek richt zich op hoe de AFM en accountantskantoren de kwaliteit van audits kunnen waarborgen bij het controleren van de nieuwe regelgeving: Corporate Sustainability Reporting Directive (CSRD).

De CSRD legt externe accountants, auditcommissies en regelgevende instanties zoals de AFM een druk op om de juistheid van niet-financiële verklaringen en naleving van de CSRD-normen te waarborgen. Mijn onderzoek is erop gericht om te begrijpen hoe de kwaliteit van audits voor duurzaamheidsinformatie kan verbeteren. Hiervoor wil ik een suggestie doen voor een moderne vorm van reguleringsstrategie genaamd System-Based Regulation (SBR), die zich richt op de effectiviteit van managementsystemen in plaats van strikte naleving van gedetailleerde regels, zoals bij financiële materialiteit. Dit bevordert een gezamenlijke aanpak tussen regelgevers en gereguleerde organisaties, waarbij vertrouwen en integriteit essentieel zijn in een open en informele omgeving.

Ik ben met name geïnteresseerd in uw inzichten over de huidige manier van kwaliteitswaarborging en hoe deze zich in de toekomst zullen ontwikkelen met nieuwe regelgevingen zoals de CSRD.

Het interview zal naar verwachting ongeveer 30-45 minuten duren en kan worden afgenomen via Zoom, Teams, Google Meets, mobiel of persoonlijk, afhankelijk van uw voorkeur. Alle informatie die tijdens het interview wordt gedeeld, wordt vertrouwelijk behandeld en uw identiteit blijft anoniem in mijn onderzoeksrapport. Verder bent u altijd welkom om vragen te stellen of opmerkingen te maken tijdens het interview.

Ik verneem graag of u geïnteresseerd bent in deelname aan mijn onderzoek en wanneer u eventueel beschikbaar bent.

Hartelijk dank voor het overwegen van deze uitnodiging. Ik waardeer uw bijdrage aan mijn onderzoek ten zeerste en kijk ernaar uit om dit interessanter onderwerp met u te bespreken!

Met vriendelijke groet,

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Appendix 2: Initial Interview Guide

Introduction - Current Situation

1. Could you provide insights into the operational activities of your organization, along with your personal experience within the context of accountancy and auditing?

Current Audit Quality Assurance

2. Could you elaborate on the strategies and initiatives currently employed by your organization to uphold the standards of audit quality?
3. Can you explain current collaborations or interactions between your organization and regulatory bodies (such as the AFM), or other relevant stakeholders?

Changes in Reporting through CSRD

4. Considering the recent introduction of non-financial reporting standards like those mandated by the CSRD, how is your organization approaching the integration of non-financial information into audit procedures?
5. What are the anticipated challenges or considerations in aligning with new reporting standards, particularly concerning the preservation of audit quality?

Understanding SBR

6. How familiar are you with the concept of System-Based Regulation (SBR)?
7. Which aspects of SBR do you perceive to overlap with existing audit principles and processes?

Integration SBR

8. How do you envision the potential integration of SBR into regulatory oversight practices, particularly concerning the level of regulatory bodies like the AFM?
9. What potential impacts do you foresee SBR having on audit quality and regulatory compliance within the auditing profession?

Challenges and Considerations

10. Are there specific expectations or concerns that you may have regarding the integration of SBR into regulatory frameworks?
11. How does your organization intend to address these challenges or contribute to mitigating potential challenges within the integration of SBR into regulatory practices?

Essential Feedback for Transition

12. Based on your experience and expertise, what recommendations or feedback do you propose for stakeholders within non-financial auditing systems concerning the potential adoption of SBR?

Future Directions and Research Opportunities

13. What are potential areas that require further research or exploration concerning the potential application of SBR within regulatory frameworks?

Appendix 3: Final Interview Guide

Introduction - Current Situation

1. Could you provide insights into the operational activities of your organization, along with your personal experience within the context of accountancy and auditing?

Current Audit Quality Assurance

2. Could you elaborate on the strategies and initiatives currently employed by your organization to uphold the standards of audit quality?

Changes in Reporting through CSRD

3. Considering the recent introduction of non-financial reporting standards like those mandated by the CSRD, how is your organization approaching the integration of non-financial information into audit procedures?
4. What are the anticipated challenges or considerations in aligning with new reporting standards, particularly concerning the preservation of audit quality?

Pain Points Auditing CSRD

5. What pain points do you expect when the CSRD is not properly audited?
6. Based on these pain points what kind of supervision should this entail for the AFM? Should this be a strict supervision or less strict?

Integration SBR

7. (After an explanation of SBR) - Do you envision a possible integration of SBR into supervision, especially at the level of regulators such as the AFM?

Essential Feedback for Transition

8. Based on your experience and expertise, what recommendations or feedback do you propose for stakeholders within non-financial auditing systems concerning the potential adoption of SBR?

Appendix 4: Initial Coding Scheme

Thrid order codes	Second order codes	First order codes
1. Characteristics of Sustainability Information and Auditing Principles	Nature of Sustainability Information	Types of sustainability information
		Complexity and challenges in reporting sustainability information
	Auditing Principles and Procedures	Standards and guidelines for auditing sustainability information (CSRD requirements) - assurance
		Specific audit procedures and techniques for sustainability information
	Relevance to SBR	How SBR can address unique aspects of sustainability audits
		Alignment between SBR and sustainability auditing standards
2. Conditions for SBR application at AFM and Audit Firms	Organizational Conditions at AFM	Internal policies and frameworks supporting SBR
		Resources and expertise within AFM
		Collaboration and communication mechanism with audit firms
	Organizational Conditions at Audit Firms	Readiness and willingness to adopt SBR
		Training and competencies of audit staff
		Technological infrastructure and tools
	Regulatory and Environmental Conditions	Legal and regulatory support for SBR
		Industry-wide acceptance and implementation
		External factors influencing SBR application
3. Practical Assessment of Conditions	Assessment of AFM's Preparedness	Current state of AFM's SBR-related policies and frameworks
		Strengths and weaknesses in AFM's approach
	Assessment of Audit Firm's Preparedness	Current practices and readiness for SBR
		Barriers and facilitators in audit firms (assurance)
	Gap Analysis	Comparison between ideal and current conditions
		Identification of gaps and areas for improvement

Appendix 5: Final Coding Scheme

Third order codes	Second order codes	First order codes
1. Characteristics of Sustainability Information and Auditing Principles	Nature of Sustainability Information	Types of sustainability information
		Complexity and challenges in reporting sustainability information
	Auditing Principles and Procedures	Standards and guidelines for auditing sustainability information (CSRD requirements) - assurance
		Specific audit procedures and techniques for sustainability information
	Relevance to SBR	How SBR can address unique aspects of sustainability audits
		Alignment between SBR and sustainability auditing standards
2. Conditions for SBR application at AFM and Audit Firms	Organizational Conditions at AFM	Internal policies and frameworks supporting SBR
		Resources and expertise within AFM
		Collaboration and communication mechanism with audit firms
	Organizational Conditions at Audit Firms	Readiness and willingness to adopt SBR
		Training and competencies of audit staff
		Technological infrastructure and tools
	Regulatory and Environmental Conditions	Legal and regulatory support for SBR
		Industry-wide acceptance and implementation
		External factors influencing SBR application
3. Practical Assessment of Conditions	Assessment of AFM's Preparedness	Current state of AFM's SBR-related policies and frameworks
		Strengths and weaknesses in AFM's approach
	Assessment of Audit Firm's Preparedness	Current practices and readiness for SBR
		Barriers and facilitators in audit firms (assurance)
	Assessment of Regulatory and Environmental Preparedness	Comparison between ideal and current conditions
		Identification of gaps and areas for improvement

Appendix 6: Overview of Results

Sub Research Question 1

Nature of Sustainability Information	
<ul style="list-style-type: none"> Types of Sustainability Information 	<p><u>GHG emissions (scope 1, 2 and 3)</u> “So, I would say now, I do not work with this specific sector but, we have of course the oil and gas, coal and mining, motorbike, transportation. These are the first with a high level of emissions. We are also working now with financial institutions for the importance of relevance of financial institutions ANL. To provide a green based or vision based for specific sectors. So, this is more or less the framework at the moment” (EFRAG)</p> <p>“You could also have said, if everyone brings scope 1 and scope 2 to zero as an organization who’s somewhere else in scope 3. So, if I am at zero, the scope 3 at another organization is automatically also zero” (non-OOB auditing firmA)</p> <p>“Now for the sustainability information at CO2 emissions is a good example of it. I mean, nobody is going to tell you whether your revenue is good or bad, right? It is what it is. Similarly, or CO2 emissions are what they are. It is very. Need the greenhouse gas protocol has very strict rules on what are you calculate those greenhouse gas emissions and it's quite clearly prescribed what your target should move towards, which is 1.5°C align targets in the CSRD, which essentially translates to a 40 percent, 50% reduction in your greenhouse gas emissions” (OOB auditing firmB)</p> <p><u>Materiality</u> “We need to spend a lot of time to invest time in the first one to two years on the quality assurance of materiality assessment” (EFRAG)</p> <p>“For instance, if you look at the double materiality assessment, for instance, how long does it take companies to do it? Well, that's two, two and a half years in advance, you really should have taken a big step. Then companies should already be very far along, and you see that that's just ultimately In practice, for many companies themselves it's also difficult, Because it's still the rules are relatively vague or for their own interpretation they don't know what to do either” (OOB auditing firmC)</p>
<ul style="list-style-type: none"> Complexity and Challenges in Reporting Sustainability Information 	<p><u>Lack of overall expertise</u> “Not all customers have started off equally enthusiastic. So, the challenge is of course also when a client doesn't deliver quality. Yes, then it becomes hard work as an accountant to come up with a good end product together with your client and then you end up with a kind of role mixing. So, I can also see independence issues, because if a client doesn't know what to do and we start giving instructions, then of course at some point we are judging our own meat” (OOB auditing firmA)</p> <p>“So, in a moment, someone who is not an expert on CSRD or sustainability information has to go and test someone who is an expert” (non-OOB auditing firmC)</p> <p>“Yes, I think the AFM will have challenges with capacity as well” (non-OOB auditing firmD)</p> <p><u>Time and resource constraints</u></p>

	<p>“ideally would do all 300 at once, but But quite honestly, We don't have the people for it, we don't have the resources for it, we don't even have the time to do it all at once. So We have to make choices in that and then we choose the one where we can make the best impact.” (OOB auditing firmA)</p> <p>“If the AFM is going to supervise, yes, how are they going to do that? Because do they have enough People to start supervising? Because all the experts are at the big 4 firms and the smaller firms to do the assignments. There is already a capacity problem there too” (non-OOB auditing firmC)</p> <p><u>Accuracy and reliability</u> “so that we say there is a CO2 emission of 200 tonnes but it is 2000 tonnes. So that the company is actually much more polluting than they demonstrate. So we approve something which is not correct or that they say, we don't use child labour. You never know that for sure, so you can never write that down. But that we do say, no, that's alright that's the biggest risk, isn't it? That something is written down or something is reported, which is not correct” (OOB auditing firmA).</p> <p><u>Legal consequence</u> “One time someone is going to file a complaint against an auditor who has approved a sustainability report and afterwards it turns out that there was child labor somewhere after all. Whereas the company had reported that they did not record that. So the accountants at the moment are also quite a bit fearful of the claiming risk” (professor and advisor in ESG governance, reporting and assurance)</p>
<p>Auditing Principles and Procedures</p>	
<ul style="list-style-type: none"> Standards and Guidelines for Current Auditing Principles and Procedures 	<p><u>Individual level</u> “if you join our organization, you start as a junior where you have little practical experience. But fortunately, you can look to colleagues who do have 15-20-30 years of working experience in the field, so you can lean on a lot of practical experience from people who have made flying hours with regard to the subject matter” (non-OOB auditing firmC)</p> <p><u>Organizational level</u> “over the years, a methodology has been developed on how to audit information, and that methodology is built on the basis of standards, auditing standards, and that is called the further regulations on auditing and other standards, the NVKOS. That is a kind of handbook, written by the professional association of auditors, copied from the international standards that describes how to give assurance, how to audit financial information, well that methodology, you copy that and you translate that into a practical methodology”. OOB auditing firmB describes their quality system as, “the accountants, they have a lot of quality systems, and they can guarantee that this information can actually be trusted. So well, for example, we have internally a, we call it IQR, but in it the Dutch environment it is called OKB.” (Non-OOB auditing firmC)</p> <p>“In assignment-oriented quality assessments we have practice reviews internally. We have externally the AFM who do our reviews. We have externally well, depending on the type of assignment, but also the SCI and the PCOB and so we have a lot of companies who look at us and check us. Which also allows us to say that we can guarantee a certain level of quality towards the client, of cours” (OOB auditing firmB)</p> <p><u>Assignment level</u> “As an accountant, that standard is the regulations. And if there are complexities in that, which you have to deal with. For example, you have to deal with a high-risk assignment, there are also additional safeguard measures added. Namely a second account that can look at your file. Or a mandatory review by the professional technical agency that we have who specializes in the subject who knows how we should check” (non-OOB auditing firmC)</p>

	<p>“The IQCRP (or ECOCRP) that is someone who gets involved from the very beginning ... you have your audit team, so that's a trainee or intern up to partner level and you see on quite a lot of engagements there's an ECO CRP involved, so that's an engagement quality review partner and what they do is actually, is that so a partner from another office another region looks along as an independent party who has nothing to do with the audit and hasn't been involved. He looks along with how the file and everything is put together, how the work is actually done” (OOB auditing firmC)</p> <p>“QPR (Quality ... Review). I don't know exactly where the paper is, but effectively what it boils down to is that you then have a team from OOB auditing firmC, ... These are then also partners who have been trained for this purpose. They then actually come and review your file and select certain topics that are particularly sensitive ... things with a lot of subjectivity. And they then zoom in on that and start asking a lot of critical questions to assess the quality of your file” (OOB auditing firmC)</p> <p>“We have very comprehensive quality system where; indeed, we also have OKBs. We have the OKBs, so to speak, assignment-oriented quality assessments. In addition, we have internal quality reviews, so these are also done periodically with the accountants” (non-OOB auditing firmD)</p> <p><u>Tension relationship auditing firms and AFM</u> “certainly, the big firms, the so-called OOB firms. They have introduced extensive systems also under pressure from the regulator, including that independent quality control, of which OKB was recently reported in the newspaper that the AFM had made a report that it was insufficient” (Kwartiermaker B)</p> <p>“It is fair to say that, of course, accountants generally perceive the AFM as difficult. It's as simple as that. And look, of course we want to learn from them, but it's not fun to read those critical reports every time. And if you ask that average accountant then they will really agree. If you know all that has changed in the last 10, 15 years and then, we've really already made so many steps” (OOB auditing firmA)</p> <p>“It is now I think still fairly focused on auditing and controlling and yes, I think this does not contribute to the mutual trust, I would almost say between auditors and the AFM” (non-OOB auditing firmD)</p>
<ul style="list-style-type: none"> Standards and Guidelines in Transition to Sustainability Auditing 	<p><u>Redefining relationship auditing firms and AFM</u> “I would personally like it if that supervisor was also at the front or thinking along from time to time, but that's just not how it is” (OOB auditing firmB)</p> <p>“The relationship between the AFM and the sector has been alright again for a couple of years but before that it was very bad. If it means that a relationship is just fine, it is also fragile. So, if the AFM in its supervisory relationship with audit firms takes a very harsh tone of voice the moment there is greenwashing or the auditor has not done the audit well and that the AFM starts pointing the finger, then you actually lose all the positive efforts that have been made in restoring trust and in restoring the relationship” (Kwartiermaker A)</p> <p><u>Maintenance of quality assurance systems</u> “Yes, if you talk about the assurance on the CSRD reports, that same system will also apply, that's right, yes” (OOB auditing firmB)</p> <p>“Yes, if you talk about the assurance on the CSRD reports, that same system will also apply to that” (non-OOB auditing firmD)</p> <p>“With the CSRD that basis will be exactly the same. Won't be any different, except that of course it does require some different expertise, but there too you will see that on some assignments. So you will get a quality measure that someone is looking with you” (OOB auditing firmA)</p>

	<p>“the big difference what there is that the CSRD which is a different way of checking, because it's a bit more subjective, less harsh” (OOB auditing firmA)</p> <p>“I think it also comes a bit more towards what we actually do with the management report under standard 27 where we actually say, it is compatible with the financial statements. But I think otherwise the whole house, just pretty much will be the same, because it will still be assurance work” (non-OOB auditing firmA)</p> <p>“this is going to be exactly the same with the CSRD simply because you have to follow the standards IQS. Those are the international quality standards and there you need to have certain safety things in place at your audit organization to guarantee that quality ... But yes, I expect that's going to be exactly the same with Sustainability or CSRD regulation” (OOB auditing firmC)</p> <p><u>Limited assurance</u> “The NBA is the professional body for accountants. That has a working group on ESG Assurance where we think with all kinds of other firms. How are we ultimately going to provide assurance on that information?” (non-OOB auditing firmC)</p> <p>“I don't know exactly what level of assurance we really give, but as low as possible because we just don't have a guideline yet and that's why we don't want to give a firm guarantee on that yet either” (non-OOB auditing firmB)</p> <p>“If there really are claims from management, very black and white he, we have no child labour in any possible way. Yes, you give limited assurance or reasonable assurance on that as an auditor ... limited so indeed a lower level so you don't need as much depth either” (OOB auditing firmA)</p> <p><u>Specialized knowledge</u> “We are getting some training on what to expect with the CSRD, for example. What it will look like, especially for the customers who obviously have to be first” (OOB auditing firmC)</p> <p>“It's normally done, by a team, because financial auditors typically don't understand emissions data or biodiversity data, for example. So, it's often in our team that we have accountants who have been working on sustainability data for a long time and they are typically the ones that review this data” (OOB auditing firmB)</p> <p>“If you start looking at control teams, they are hugely used to fixed checklists. Well, we're just not going to have those. We have to think again, we have to think again just like okay, we have a KPI for fatal accidents at work. How are we going to grasp that, how are we going to do that?” (non-OOB auditing firmA)</p>
<p>Relevance to SBR</p>	
<ul style="list-style-type: none"> Feeling about SBR 	<p>“As the AFM, contact the Financial Daily or something and just start explaining positively how you are going to take this up together with the accountant shields. Constructively, because all this always whining afterwards that it wasn't right. That doesn't help us at all” (professor and advisor in ESG governance, reporting and assurance)</p> <p>“... but with the CSRD there should be more engagement. More of an open mindset shall I say” (non-OOB auditing firmD)</p>

	<p>“Probably a lot of different accountants organisations will look at the CSRD differently, but then you expect more from the AFM that they will be ruling in seeing okey, this is the way that it really should be managed” (OOB auditing firmB)</p> <p>“What we can do is exactly what SBR outlines. Is there a system-level methodology, in what way, how you execute those controls. Is there any department within your organization that does spot checks and if those findings come out, how are they shared with that particular auditor? But perhaps even better, how are those findings translated to the rest of the practice so that learning takes place (in the learning profession category) How is learning from the mistakes of others?” (non-OOB auditing firmC)</p>
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Sub Research Question 2

Organizational conditions at AFM	
<ul style="list-style-type: none"> Internal policies and frameworks supporting SBR 	<p><u>Shared learning</u> “During the journey just immediately on board we can give immediate feedback on the plan or on the work programmes we are using or the methodologies we are using. Immediate feedback on the trade-offs that we make in that process, right? Because what is available? What is not available?” (non-OOB auditing firmA)</p> <p>“Can we find a model where the well a number of supervisors from the AFM will just actually kind of play a OKB role in those early years? I think that would really be much more valuable supervisory addition than yes” (non-OOB auditing firmA)</p> <p>“AFM looks very carefully at how things are at auditing firms. The client an assignment, acceptance and the knowledge and skills and accreditation arranged. And what is the review policy and what are the learning points from this and how is this incorporated in new assignments? Look, the AFM who also just review files, right? Yes, I can also imagine that they will do the same with CSRD” (OOB auditing firmA)</p> <p><u>Cooperative and informal relationship</u> “Facilitating supervision to actually bring the sector and, also customers, along in the professionalisation that we have to make in this area. And not so much in (yet) the right and wrong spectrum” (OOB auditing firmA)</p> <p>“In general, I think the AFM could be more open and less biased, so to speak. And also, a bit more constructive towards the sector” (non-OOB auditing firmD)</p> <p>“The AFM, which simply has to check whether we have done our job properly. So whether we have carried out the audit of those sustainability reports with sufficient depth. And in accordance with the rules” (non-OOB auditing firmD)</p> <p><u>More freedom and less formal oversight</u> “I don't know if that's in strict and less strict, but different Because I think you're going to do these checks you're also going to look at it differently you're going to look at it differently, so the AFM will also have to supervise differently” (OOB auditing firmA)</p> <p><u>Flexibility and innovation</u></p>

	<p>“You have to look much more at trends. A declining trend, is that correct that it is also a declining trend? Yes, and whether that's 10 or 15% more or less, that shouldn't matter. That requires a different way of supervising” (OOB auditing firmA)</p> <p><u>Clear and consistent standards</u> “I think their role should probably be around setting the tone for what is non-compliance, what happens then during non-compliances. How do your harmonies what's being done across different accounting bodies?” (OOB auditing firmB)</p>
<ul style="list-style-type: none"> Resources and expertise within AFM 	<p><u>Cooperative and informal relationship</u> “The AFM, the first no idea 3 years is 4 years, just has to go along with it because also the AFM has not really looked into sustainability all these years, just like all these other like accounting firms. Of course, they have done something, but this is pretty new for the AFM as well. It's a breeze now at the end of 2024 to go and have a quick look at the first assignment and you're bound to find 10/20 things that could have been done better. And then I think, I totally agree, that the AFM should take a slightly different attitude and just go round the table with the accountant and say, hey, we've seen this. We've seen that. Maybe you could put an improvement plan on that instead of going back to writing another report and putting it in the newspaper” (professor and advisor in ESG governance, reporting and assurance)</p> <p><u>Shared learning</u> “Yes, and I think if the AFM would like to find something about it, they will also have to go and see it first, but how does it actually work? How does something like that work in practice?” (non-OOB auditing firmD)</p> <p>“The AFM is really a financial regulator. Whether they are able to check accounts for CSRD verification, I honestly wonder, because where are the people who know have the knowledge at the AFM? They have a very different training” (NVCi)</p>
<ul style="list-style-type: none"> Collaboration and communication mechanism with Audit Firms 	<p><u>Cooperative and infomatal relationship</u> “I think we just have to very much realise that we are on a certain journey together, yes, in which we have to be in learning mode and discover a lot of things. And if a regulator can do representative benchmarking huh, which we can then all learn from, so you can also learn from other offices. Of course, that would be very nice if you could do a test survey at a number of firms and the AFM could also share. What are best practices and what often goes wrong? Well, that you can take that on board as an office” (OOB auditing firmA)</p> <p>“Communication is important, and we have to go through the sour apple together” (non-OOB auditing firmC)</p> <p><u>Balanced approach</u> “if you're always told is, you're not doing it right, then you're not going to develop. In the beginning, the AFM will have to have a much more positive critical attitude by sharing best practices, having examples, but also playing a role in what is the role of the accountant now? That that sustainability is accountability and also what is the role of companies in that area? And I hope they want to pick up that role in particular and not the Financial Audit role, because in the beginning that would also become very easy shooting without contributing anything actually” (OOB auditing firmA)</p> <p>“AFM starts directly acting like a policeman, and they should not do this” (professor and advisor in ESG governance, reporting and assurance)</p> <p><u>Clear and consistent standards</u></p>

	<p>“Maybe in terms of process it doesn't even have to be so much different, but in terms of mindset. And, and how to do this now? And, yes, what can you also expect? From an accountant in this, yes, can you also expect from an accountant? Yes, think that's very important to have that conversation with each other” (OOB auditing firmA)</p> <p><u>More freedom and less formal oversight</u> “If I were the AFM, I would really appoint people to rotate in an audit in consultation with those firms and their clients. I would just kind of make an agenda with those accounting firms of what steps are we going to take? And we understand. It's new and for everyone and then agree on a period of time... That would be good if the AFM did that also communicate transparently about it. Get in touch as AFM with the Financial Telegraph or the Financial Dagblad or something and just go and explain positively how you are going to pick this up together with the accountant shields. Constructively, because all this always whining afterwards that it wasn't good. That doesn't help us at all” (professor and advisor in ESG governance, reporting and assurance)</p>
<p>Organizational conditions at Audit Firms</p>	
<ul style="list-style-type: none"> • Readiness and Willingness to adopt SBR 	<p><u>cooperative and informal relationship</u> “I need a supervisor who moves with me” (non-OOB auditing firmA)</p> <p>“I think in the beginning really a more positive tone to improve with each other, that you also really express with each other we want to improve with each other. Yes, we don't all know yet what is perfect and what is good so We are learning and making mistakes” (OOB auditing firmA)</p> <p><u>More freedom and less formal oversight</u> “If you are offered that space, it will be easier to give your own interpretation and not immediately give a core space for mistakes. But I do think that if you can set something up yourself, it will gain support more quickly because you are behind it yourself rather than having someone or some organisation set certain guidelines above you. And that you have to comply with them, so to speak” (non-OOB auditing firmB)</p> <p>“Yes system-based at least sounds better than rules-based If that's what you mean. But I don't know if the AFM can do that” (OOB auditing firmB)</p> <p><u>Clear and consistent standards</u> “The language it is then used in it. That a logical language and understandable, measuring is knowing they also say. But this is more than just information and that's where I think another challenge lies that we are automating too much. So if you then implement it properly, I think you have to start looking closely at that language. That everyone understands what is being asked and that you can therefore do it properly that way. I think that's the most important thing” (OOB auditing firmB)</p>
<ul style="list-style-type: none"> • Training and Competencies of Audit Staff 	<p><u>Training programs</u> “We started this year with a 4-day programme for basically all employees” (non-OOB auditing firmA)</p> <p>“But that is yes that That is definitely a risk and that that we can partly cover that by having a good work programme at the front by training our auditors. By indeed also applying engagement-oriented quality assessment” (non-OOB auditing firmA)</p> <p>“We need to build the knowledge” (OOB auditing firmA)</p>

	<p>“And for partners with final responsibility, we are going to create three different training programmes” (OOB auditing firmA)</p> <p>“We have a very extensive training programme we are now working out to also get our people ready to do that soon” (non-OOB auditing firmD)</p> <p>“I also know plenty of accountants who are better off not having this done, as they would rather continue the old way” (OOB auditing firmB)</p> <p><u>Sustainability experts</u></p> <p>“When it really comes to very technical things, yes, I do need an engineer or a specialist so I think it's also going to be a quality measure in the future that you see audit teams have lots of specialists” (OOB auditing firmA)</p> <p>“So you also see with such CSRD the development arises just that and that discussion also arises quite often of Should Accountants be solely responsible for auditing CSRD reporting or should a sustainability expert, for example, always be involved in that as well that you do two-pronged attack? One is really doing auditing and the other is really doing content auditing” (non-OOB auditing firmB)</p>
<ul style="list-style-type: none"> • Technological infrastructure and tools 	<p>“In implementation, of course, the specialist team is now very busy studying the laws and regulations and translating them into templates, but also into work programs for control programs that are built into our tool. This is called APT, so soon you will also have special apps that contain work programmes for CSRD assignments. Yes, and also those assignments will soon, when they are completed, also be reviewed” (OOB auditing firmA)</p>
<p>Regulatory and Environmental Conditions</p>	
<ul style="list-style-type: none"> • Legal and regulatory support for SBR 	<p>“This of course is a very broad package of measures which is in that Green Deal from Europe, so the CSRD is so yes actually Via reporting try to bring about a yes a change of behaviour and yes tentatively it seems to be working” (non-OOB auditing firmA)</p> <p>“if I understood it correctly from you, this is a way to increase the level of discussion in order to increase also the quality of the control system about the disclosures. This is a very crucial point in my opinion particular for this period of transition from one system to the other one. If this system would facilitate the sharing of different perspectives because ofcourse if this system works in a way that allows different organizations ofcourse it means a different perspectives. So it’s important that they can maybe provide their inputs and provide their views in a common space in which they can... the other factor involved in this system they can understand better the purpose of something. They can share documents and views about specific points. At the moment I will say that it is important that all the actors are more or less involved within the CSRD application, they can try to understand better the complete escape. This is something that is quite new in Europe. In Europe we created a system that is quite different from other legislations. Looking at the double materiality assessment, this is a particular challenge for some particular actors. Maybe they are focused on financial side so they need to approach differently to talk about the preperations and check of the sustainability statements” (EFRAG)</p>
<ul style="list-style-type: none"> • Industry-wide acceptance and implementation 	<p>“And if they write in their report that they have done their best, but that in their opinion there is no child labour in the chain. And the auditor approves that? Well, just keep in mind that the organisations like Amnesty, they find out within a week whether that is true or not? Yes, and there, there is a fear there for auditors of what are we going to approve later and how there is a whole other group. That's my assessment, isn't it? I mean, it's all yet to happen, but I think there's a whole other group of stakeholders interested in this reporting” (professor and advisor in ESG governance, reporting and assurance)</p> <p>“I don't expect many stakeholders to value the first year because the first year is new for everyone” (non-OOB auditing firmC)</p> <p>“And in those first 3 years, we can let each other get used to that. And after 3 years, we can say, okay, if you're scoring like this now, then we know based on historical data that you're not performing well enough. So, we're going to check that off you, so we're going to say, we're not going to invest in you</p>

	anymore or I'm not going to work for you. Or I won't buy any more products from you or with whatever profit you as a stakeholder wish to do" (non-OOB auditing firmC)
<ul style="list-style-type: none"> External factors influencing SBR application 	<p>"One of the biggest challenges will be interest groups and that could be environmental organisations or investors indeed" (non-OOB auditing firmD)</p> <p>"It's just that the market will soon judge you if you perform worse than your peers. And that, of course, is the whole system Europe has in mind with that taxonomy, among other things. And that XBRL reporting to create transparency there and make companies properly comparable. Yes, and that's where if it's good, is it going to matter to society whether it's good enough or not?"</p> <p>"You need to understand that which kind of information you are able to share because when you have different users in this place it is a common space, we need to consider that the confidentiality of some information is something that is important to consider" (EFRAG)</p> <p>"I'm actually very afraid with CSRD that you shoot into a certain reflex from shareholders. So imagine Shell has seen your CSRD information that turns out not to be quite right or not quite right then there's a reflex from the shareholders who are going to say oh this is not good that needs more assurance. The accountant says let's go and have a look and because he's discredited, he tends to be very formalistic in his approach, so there's a huge check of the box approach, so we'll see that all the rules have been followed very strictly and then he'll be even stricter in his ears, you know, so you get a kind of vicious circle in which they only focus on the perfect rules instead of getting the spirit completely out of it" (Kwartiermaker A)</p> <p>"So I think if you have more incentives, so the accountant also gets more competition on this, that could work quite well" (Kwartiermaker B)</p>

Sub Research Question 3

Assessment of AFM's Preparedness	
<ul style="list-style-type: none"> Current state of AFM's SBR-related policies and frameworks 	<p>"That I think the AFM does what you describe with System Based Regulation. They look at the quality system when checking accounts. And they also do file reviews, so afterwards." (professor ESG)</p> <p>"They actually do thematic surveys these days" (OOB auditing firmA)</p> <p>"so that is really singling out a subject and often going to spend even more time in that investigation than the auditor normally devotes to that. The topics that he looks at when you single one out, anything that you give attention to that grows, and therefore that actually provides insights" (OOB auditing firmA)</p> <p>"If all goes well, the AFM already looks at our quality control system and asks: how have we set it up and what does it look like? Yes, you can extend that one on one to the non-financial information and there I would now in the beginning put the focus partly on the quality instruments, but largely as far as I am concerned on the training instruments" (OOB auditing firmA)</p> <p>"Periodically, there are just conversations on various topics with the AFM and they do that with policymakers. We don't have anything to do with that in practice. We don't notice anything about it either. For such an investigation, such a report, they simply select a number of files per office. Well, what I say, I was one of the lucky ones" (OOB auditing firmA)</p>

	<p>“And there and traditionally, the AFM kept the supervision relatively at a distance and now I think that has become much sharper because all sorts of misery has happened” (Kwartiermaker B)</p>
<ul style="list-style-type: none"> Strengths and weaknesses in AFM’s approach 	<p>“But I would especially review that afterwards file. Yes, that, that's just going to be too late. Because often you see that they don't start a review until two years after the fact. Yes, then by now we're on the third year” (non-OOB auditing firmA)</p>
<p>Assessment of Audit Firm’s Preparedness</p>	
<ul style="list-style-type: none"> Current practices and readiness for SBR 	<p>“That Systems-based review. Indeed, I think first the basics have to be in order, what do you think about that? Critical thinking about what they have seen can you apply that? Or if you don't do it be my guest, but better risks and the threats how do you overcome them? And, also in society of the first role lies with the company to produce a good report. A lot of companies are inventing the wheel themselves, but if you can provide support at the front end, well, these are best practices, these are stories we hear both in a report and in the processes.” (OOB auditing firmA)</p> <p>“So, I think because we're dealing with a situation where the client is putting up something that we say, well no idea if it's right. We don't have enough comfort to say, well what we're going to do, we're confident about that that we're going to do it right, so we come to a correct opinion, so think a lot of accountants are going to be careful in their opinion stance and maybe still just say, we're going to issue a disclaimer of opinion, because we just don't know. Because we can't” (non-OOB auditing firmC)</p>
<ul style="list-style-type: none"> Barriers and facilitators in audit firms 	<p>“We as auditors are not quite senang with this new flow of information we start to formulate our judgement a bit more cautiously. As a result, various stakeholders various participants of the public may well be disappointed in The drafting company and accountant duo. Perhaps indeed, what you say. Then we invested in a company that is completely fantastic and now suddenly see the accounts and say, yes, the auditor has also given a qualified opinion or a disclaimer of opinion and I also find the client's reporting disappointing. So it can be the first audit year, so to speak. It will be an exciting year, because everyone is curious to see what the final outcome will be” (non-OOB auditing firmC)</p>
<p>Assessment of Regulatory and Environmental Preparedness</p>	
<ul style="list-style-type: none"> Comparison between ideal and current conditions 	<p>“That really is a multi-year journey too, isn't it? It won't be totally perfect the first year right away” (OOB auditing firmA)</p> <p>“A lot of companies are sitting there inventing the wheel themselves, but if you can already provide support there at the front end well, these are best practices, these are stories we hear both in a report and in the processes” (OOB auditing firmA)</p> <p>“I think it is indeed important to look at the front end later on of how have account firms trained their people to do this work. And yes, I think that is actually the most crucial thing for now” (non-OOB auditing firmD)</p>
<ul style="list-style-type: none"> Identification of gaps and areas for improvement 	<p>“Partly due to the vicissitudes of the AFM, accountants have become very internally focused over the past 10 years, focused on checklists, on recording quality in dossiers for that broad social view and accounting for that: are we doing anything right, what are we doing less well and what are we doing? This is called the expectation gap, and I see this as perhaps the biggest threat. Together with society those and accountability documents.” (OOB auditing firmA)</p>

	<p>“We have to accept a lot more uncertainty and that also applies to sustainability information and so you see precisely for CSRD that you can't say this here that that is with certainty or that that information is 100% reliable so you also have to accept as an investor or as a society that so the coming period is a learning period for the more serious that reports also to learn from how should we do that” (Kwartiermaker A)</p>
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