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Date	Re	Our Ref	Attachment
17 July 2024	Responses to CEAOB's request for comments	24/MJZ/119355	-

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Dear Messrs. Prodromides, Gentner, Mrs. Doblado,

The NBA (the Royal Netherlands Institute of Chartered Accountants) welcomes the opportunity to respond to the questions on the Consultation of the draft CEAOB non-binding guidelines on limited assurance on sustainability reporting. Unfortunately, the technical limitations to the survey prevented us from providing you with all of the inputs we wanted to share, hence this letter.

Koninklijke Nederlandse  
Beroepsorganisatie  
van Accountants

### Executive summary

The NBA is highly supportive of sustainability reporting and fully agrees that there is a need to provide guidance to contribute to the harmonization of assurance practices within the EU/EEA, especially since a European standard for limited assurance is expected to be available in 2026. In order to achieve that goal, we feel that any guidance should be clear on its status and authority as well as on the target audience for the guidance. Furthermore, we deem it crucial that the guidance is clear on the expectations regarding limited assurance (as compared to reasonable assurance, with which many auditors and stakeholders are much more familiar) and that it is sufficiently specific to assurance over sustainability reporting (as compared to audit/assurance over financial reporting). We also would like to share some other observations and suggestions with you.

Our observations below will explain that we are of the opinion that the proposed guidance doesn't meet these expectations in full. We have included some suggestions for the CEAOB to further enhance and improve the guidance before issuing it.

### Status and authority as well as target audience of the guidance

As set out in the recitals of the *Corporate Sustainability Reporting Directive*, this guidance is intended to be non-binding, which is reinforced by the statement that the guidance is not intended to be a standard. The 'Context' section of the guidance reiterates this notion.

However, the 'Objectives' section hints at the possibility of this guidance being imposed, which results in the guidance being ambiguous regarding its status. We strongly urge the CEAOB to adhere to the intended non-binding nature of the guidance.

Furthermore, the guidance also sometimes describes the work effort using the verb 'should' (for instance in the second and third paragraphs of section 8 on the 'process carried out by the entity', where both the work by the practitioner and the content of the assurance report are explained using 'should'). The verb 'should' is regularly used to describe obligations and duties; a word-count shows that occurs 67 times in the guidance. It appears to us that the frequency by which the guidance uses the verb 'should' is indicative of mandatory requirements being addressed, instead of non-binding guidance. We urge the CEAOB to only use 'should'; when referring to existing legal requirements, for instance when referencing requirements stemming from CSRD. In other cases, we suggest it would be more appropriate



to describe the guidance in an active manner or to use verbs like 'may' to describe how the practitioner may address certain situations.

Finally, the NBA suggests that itemized lists more clearly convey the notion of including a number of optional items. This can be done by including the word 'or' at the end of the penultimate item in the list.

The NBA is also concerned that the guidance is unclear about the target audience. Based on CSRD, we would understand that the guidance is aimed at the practitioners performing assurance engagements for sustainability reporting, whether they are auditors or Independent Assurance Services Providers. However, we observe that the terminology used strongly resembles the terminology of the extant auditing and assurance standards as issued by IAASB. This gives the impression that this guidance is only aimed at auditors, who will likely be highly familiar with the notions included in this guidance. There is a highly likelihood that independent assurance services providers will interpret this guidance in a different manner.

Also, we observe that in some places the guidance appears also to be addressed at regulators and oversight bodies, for instance in the section on the Objectives.

The NBA asks the CEAOB to amend the guidance to solely aim at all practitioners performing sustainability assurance engagements, making sure that also practitioners who do not have a background in auditing will be able to fully understand the expectations.

### **Limited versus reasonable assurance**

When developing CSRD, a deliberate choice was made to initially only require limited assurance. Reasonable assurance will be required at a later stage, only if certain conditions are met. The NBA therefore considers it a pre-requisite that the guidance appropriately differs the work effort for limited assurance from what would be "normally" expected for a reasonable assurance engagement. The NBA provides you with the following examples where we are of the opinion that this objective is not sufficiently met:

- Whilst the first paragraph of section 4 notes that the work will be less than for a reasonable assurance engagement, this paragraph does not explain in which areas or to what extent the work effort can be less.
- Section 5 on material misstatements does not explain whether in a limited assurance engagement, materiality could be different than in a reasonable assurance engagement. In our assessment, this would not be the case, and we therefore suggest to indicate that there is no distinction in materiality between limited and reasonable, and that the difference between the two levels of assurance rather stems from the different work effort. This would appear a very important clarification.
- Section 6 on fraud and non-compliance sets out that practitioners are expected to 'remain alert'. This language is also used in the ISAs (for example, refer ISA 250 paragraphs 8 and 16, and ISA 550 paragraph 15) and in ISQM 1 paragraph 19. Since the ISAs and also ISQM1 are aimed at reasonable assurance, it appears that the intention conveyed by this guidance is that the work effort in this area is expected to be at the level of a reasonable assurance engagement. We suggest that the CEAOB clarifies where the work effort on fraud and non-compliance is different for a limited assurance engagement.
- The procedures for risk assessment as per section 7 also include that practitioners may use for instance physical observation and inspection. Whilst there may be situations in which the practitioner would intend to do so, we are of the opinion that such procedures would not normally be expected for risk identification and assessment in a limited assurance engagement, whilst it would normally be part of the risk procedures for a reasonable assurance engagement. We suggest to take these examples out and to highlight better the distinction between the levels of assurance.
- Similarly, the procedures suggested in section 9 to respond to risks are very similar to those in a reasonable assurance engagement. We strongly urge the CEAOB to provide further (non-binding) guidance on how the mix of these procedures can be implemented to obtain limited assurance. The guidance now only notes that this is a matter of professional judgement, and by that it does not give any useful guidance.
- Also, we suggest section 9 to be expanded to explain when substantive procedures may not be needed for a specific disclosure. In the context of a limited assurance engagement it seems highly likely that for some disclosures, there is no risk identified that these are materially misstated, which would lead to a conclusion that sub-



stantive procedures may not be needed. Furthermore, we are of the opinion that this section is somewhat ambiguous on whether sampling is an expected procedure for limited assurance engagement. This is because the guidance does not state the distinction in sample sizes, which may be understood as an expectation that sampling is an expected procedure in a limited assurance engagement. In our view, the guidance should specify that sampling may be appropriate in certain circumstances, but should never be deemed as a mandatory procedure.

- Sections 10 and 11 respectively on forward looking information and on estimates, fail to guide practitioners to the work effort expected for limited assurance. Rather, these paragraphs set out what is not required, and then leave it to the practitioner to figure it out.
- Finally, section 17 on the assurance report allows for the use of key assurance matters. We are strongly opposed to that. These were developed as part of audit engagements in order to provide more insights to users of the auditor's report. This could be done because of the work effort that is needed for a reasonable assurance engagement. Implementing such paragraphs into a limited assurance report gives rise to unjustified expectations of users that the practitioner is giving reasonable assurance, which is not the case. Given the challenges for users to appreciate the level of assurance of a limited assurance engagement we strongly urge the CEAOB not to confuse users through adding elements to the assurance report that hint at reasonable assurance.

We do suggest, however, that section 17 would address the *Other matter* paragraph as an optional means for the practitioner to report other matters than those reported in the sustainability information that the practitioner deems, based on professional judgement, relevant for the users of the assurance report.

### Specific to assurance on sustainability reporting

It goes without saying that the implementation of assurance over sustainability reporting in the EU will impact many companies as well as the practitioners providing assurance. Many of these practitioners are likely to have a background in auditing financial statements, and will therefore be familiar with assurance and the related procedures to be performed in general. Because the subject matter of this assurance is different than financial reporting, and also because practical experience with assurance on sustainability reporting is limited, the NBA reiterates the importance of guidance being specific to assurance over sustainability reporting. Below, we provide a number of areas in which we are of the opinion that the guidance could be more tailored to assurance over sustainability reporting, thus increasing the value-added of the guidance:

- In particular for those practitioners who are not familiar with the ethics, engagement acceptance and quality control requirements applicable to audit, section 3 of the paper will not be sufficient. We propose that this section addresses more detail on what is expected following the relevant provisions in the Audit Directive and Regulation, bearing in mind that CSRD sets out that the requirements in articles 21 to 24a of the Audit Directive apply *mutatis mutandis*.
- Whilst section 5 (on materiality) notes that the materiality for the practitioner is linked but not similar to 'double materiality' per CSRD, it is not specific on the impact of the practitioner's materiality and 'double materiality' are dissimilar, or how the link between assurance materiality and double materiality can be understood.
- Section 6 on fraud fails to address the issue of greenwashing. We are of the opinion that, given the widespread concerns over greenwashing, it is a missed chance of being specific to sustainability reporting.
- Section 7 on risk procedures addresses analytical procedures. In addition to our earlier comments on how this would apply differently to limited assurance compared to reasonable assurance, we are also of the opinion that this section warrants more explanation. The nature of sustainability reporting is much more narrative than that it is numerical/financial. This limits the ability of implementing analytical procedures. We are of the opinion that guidance specific to sustainability assurance should at least cover how analytical procedures could be implemented effectively against this backdrop.
- Similar concerns apply to section 9, where no explanation is given of how various techniques can be implemented for sustainability information. We emphasize that the different nature of the information to be reported requires that the techniques will be adjusted to account for these differences. In our opinion the guidance would be highly relevant if this were addressed.



- Whilst section 10 on forward looking information sets out at a very high level what the ESRSs require to be included in the sustainability reporting, this section does not sufficiently set out what response could be expected in order to address the risks of misstatement regarding the forward-looking. This would be highly relevant in our opinion, considering that forward looking information is much more abundant in sustainability reporting compared to financial reporting.
- Section 13 on accumulation and consideration of misstatements includes the notion that misstatements cannot be accumulated to a single total amount. The NBA agrees with that notion. However, the section fails to provide guidance on how to deal with misstatements. We urge the CEAOB to provide meaningful guidance on how to determine whether misstatements identified will lead to the need to modify the opinion or not. A few practical examples of situations wherein a practitioner could conclude that a modified opinion is warranted versus situations where the practitioner continues to conclude that no matters have come to the attention to cause them to believe that the sustainability reporting is materially misstated.
- Subsection 4 of the section on the assurance report references the summary of procedures performed. In order to achieve the objective of harmonization, as set out in the beginning of the guidance, some examples would be really useful. Apart from the notion that this summary would be part of the report, the document does not provide any guidance at all.
- Section 24 addresses 'incorporation by reference'. We suggest that this section also gives guidance on the extent to which the practitioner is expected to perform procedures to assess whether the use (by the entity) of incorporation by reference is justified in the circumstances and whether the requirements per the ESRS are met.
- Section 27 on value chain information should be expanded to discuss the question whether or not the practitioner could seek an assurance report on value chain information, and if such assurance report exists, how to deal with those in the assurance engagement.

#### **Other observations**

Section 18 of the proposed guidance addresses limitations in the scope of the assurance work that may impact the conclusion. We urge to clarify that when limitations are imposed by management, the practitioner will first take additional steps in analogy to the steps taken in financial audits as prescribed by ISA 705 paragraphs 11-14. Obviously, limitations posed by facts and circumstances beyond the control of management or the practitioner can lead to the need to modify the conclusion in the assurance report. This approach should, in our view, be similar to the approach regarding limitations in audit.

Also, we suggest that the paragraph on communication between the practitioner and other professionals also includes reference to how CSRD delineates the responsibilities of the auditor of the financial statements and the assurance provider for the sustainability information, and where overlap can be expected. This also to explain better the need for communication. Furthermore, it would be helpful to reference the provisions in the audit directive and regulation that deal with professional secrecy and confidentiality for the practitioner and the auditor, and explain how these provisions allow for the expected communications.

Additionally, we observe that many companies already liaised with initiatives such as the Science Based Targets Initiative (SBTI) or the Roundtable on Sustainable Palm Oil (RSPO). Some of these initiatives have mechanisms in place to assess or certify compliance with related sustainability requirements. It could be useful if the CEAOB guidance could address how practitioners can use the efforts undertaken by these initiatives in the assurance work. For instance, maybe the practitioner could use this information in a similar manner as auditors currently use information prepared by a 'management expert' in an audit engagement. We ask the CEAOB to further explore these issues.

Finally, we observe that Section 1 of the guidance states that for financial years as of 1 January 2024, large companies will need to draw up sustainability reporting. This appears inconsistent with Article 5 of Directive (EU) 2022/2464 that explicitly only requires reporting from 1 January 2024 for large entities that are Public Interest Entities, and not (yet) for large entities under the definition of Directive 2013/34/EU (as amended). We ask you to amend the reference in Section 1 accordingly.



**Closing Remarks**

We would be keen to discuss our concerns and on avenues to address these concerns with you, if you wish so. For further information, please contact Martijn Duffels ([m.duffels@nba.nl](mailto:m.duffels@nba.nl)).

Yours sincerely,  
NBA, the Royal Netherlands Institute of Chartered Accountants,

Anton Dieleman,  
Chair of the Dutch Assurance and Ethics Standards Board  
NBA

