



EFAA PUBLICATION

EMERGENCE OF SUSTAINABILITY REPORTING:
IMPLICATIONS FOR SMPS AND EFAA RESPONSE

MARCH 2022

BY

SALVADOR MARIN, EFAA PRESIDENT

ESTHER ORTIZ, EC GCE COUNCIL MEMBER
& MEMBER OF EUROPEAN LAB PTF-NFRS/PTF-ESRS

PAUL THOMPSON, DIRECTOR, EFAA

ABOUT THE AUTHORS

The authors are **Salvador Marín**, EFAA President,
Esther Ortiz, EC GCE Council Member & Member of European Lab PTF-NFRS/PTF-ESRS,
and **Paul Thompson**, Director, EFAA

ABOUT EFAA

The European Federation of Accountants and Auditors for SMEs ("EFAA") represents accountants and auditors providing professional services primarily to small and medium-sized entities ("SMEs") both within the European Union and Europe as a whole. Constituents are mainly small practitioners ("SMPs"), including a significant number of sole practitioners. EFAA's members, therefore, are SMEs themselves, and provide a range of professional services (e.g. audit, accounting, bookkeeping, tax and business advice) to other SMEs.

EFAA - European Federation of Accountants and Auditors for SMEs
International Non-Profit Organisation

4, Rue Jacques de Lalaing, B-1040 Brussels - Enterprise number: 0524.824.834

Transparency Register Identification Number: 002077217226-17

T +32 2 736 88 86 - W www.efaa.com

E-Mail: secretariat@efaa.com Twitter: @EFAAforSMEs

Introduction

Sustainability is not just about the environment. The [UN Sustainable Development Goals \(SDGs\)](#) define sustainability as “a commitment to eradicate poverty and achieve a sustainable world by 2030 and beyond, with human well-being and a healthy planet at its core.” Sustainable development is a core principle of the Treaty on European Union and a priority objective for the Union’s internal and external policies.



Small- and medium-sized enterprises (SMEs) collectively account for a significant, if not majority, share of environmental and social impacts by private sector business. Consequently SMEs, and the small- and medium-sized accountancy practices (SMPs) that provide professional services to them, stand to play a vital role in making economies worldwide sustainable. The focus on business resilience and survival has become even more critical due to the Covid-19 pandemic, which has also contributed to putting certain social issues further in the spotlight.

This article examines the implications of the sustainability agenda, and the rapid emergence of sustainability reporting, for SMPs. These implications include their capacity to prepare and provide assurance on sustainability reports as well as their ability to compete in the market for sustainability reporting and assurance services. It then goes on to chart EFAA's response which is focused on awareness raising and advocacy, shaping policy and standards, and helping SMPs build the capacity to offer high quality sustainability reporting and assurance services.

Implications For SMPs

Capacity

Regardless of the final shape and form of the [Corporate Sustainability Reporting Directive \(CSRD\)](#), in the coming few years, sustainability reporting and assurance will grow exponentially in its incidence and sophistication. And whether SMEs like it or not, they will be impacted as larger companies in their value chain, and banks extending them credit, demand sustainability information to fulfil their own reporting obligations. The upshot is that SMPs, the preferred business advisors and preparers of financial reports of SMEs, look set to witness exponential growth in demand from SMEs for support: advising on how to make sustainable transition and how to adapt information systems to provide sustainability information; preparing sustainability reports for SME clients; and providing assurance on sustainability reports.

This is an enormous opportunity: to expand the SMPs suite of professional services offered to SMEs. However, it presents an equally large challenge for SMPs. The foremost challenge is building the capacity to provide high quality sustainability reporting and assurance services. SMPs have the necessary core competences and ethical compass, thanks to their robust education and training, their continuing professional development (CPD) and their commitment to an ethical code. But they will need to develop new skills and competences – developing subject matter expertise in ESG and sustainability as well as honing soft skills, such as their ability to lead and collaborate. They will also need to attract and retain new talent. But more than that: they will need to transform their practice.

This is an enormous opportunity: to expand the SMPs suite of professional services offered to SMEs. However, it presents an equally large challenge for SMPs.

Competition

Closely connected to the issue of capacity is that of competition in the market for sustainability reporting and assurance services. Competition comes from sustainability consultants, large firms, and others. This competition will doubtless intensify given the strong commercial incentives. And some competitors lack the necessary skills and competences and the commitment to ethics.

Specifically in relation to the market for sustainability reporting assurance EFAA cites the IFAC report 'The State of Play in Sustainability Assurance', published in June 2021. The market for financial statement audit is highly concentrated in many EU member states. Often a few firms dominate the market resulting in a lack of competition and choice. EFAA fears the same will emerge in the market for sustainability reporting and assurance. EFAA believes, *ceteris paribus*, that this will be detrimental - to the health and prosperity of SMPs as well as to the choice, quality, and cost of such services for SMEs. If SMPs do not build the capacity to offer high quality sustainability reporting and assurance services, then the situation will be exacerbated.

EFAA Response

EFAA, in collaboration with our member organisations, is the champion of SMPs in Europe. EFAA is the voice for SMPs. EFAA speaks on their behalf in the corridors of power in Brussels and wherever else policy and regulation impacting SMPs is developed. EFAA helps SMPs anticipate and prepare for the future - a future that promises disruption and challenges but also immense opportunity. EFAA helps shape the form and content of professional standards on audit, assurance, ethics, financial and sustainability reporting to ensure they are relevant and scalable for SMPs and SMEs. And EFAA helps SMPs continually adapt and transform to stay competitive and relevant. It is vital they are future proof, future ready. Their future success rests on their ability to transform their practices.

But what is EFAA doing specifically to help SMPs support sustainability? EFAA's response is three-fold: advocacy and awareness raising; shaping policy and standards; and capacity building.

Advocacy and Awareness Raising

EFAA has invested considerable effort in advocacy and awareness raising around the role of SMPs in supporting sustainability. Our website has a new and fast-growing section dedicated to 'SMPs Supporting Sustainability'. There you will

find news, resources, policy statements and more.

In July 2021 we issued a 'Call to Action: SMPs Supporting Creation of the Sustainable Economy' in which we stress the opportunities - to expand their range of services - as well as the challenges of building the capacity and expertise

to offer high quality services. On 15 December 2021 the 'EFAA-IFAC Webinar: Sustainability Offers New Opportunities for SMPs' examined more closely the opportunities: see the event recording here. EFAA hopes that SMPs will be inspired to seize these opportunities and tackle the challenges. And we hope SMEs will appreciate how SMPs can support them in their sustainable transition.

As SMEs emerge from the pandemic SMEs, the clients of SMPs, are challenged to 'build back better' by making the dual transition of becoming digital and sustainable. SMPs stand to play a crucial role in helping SMEs recover from the coronavirus crisis, build their resilience, and ensure their digital and sustainable transition. SMPs need to be ready to help SMEs create, protect, and report on value creation while leveraging digital technologies. But for SMPs to fulfil this role they themselves will need to transform their practices and make the same digital and sustainable transition as their SME clients. This will demand accelerating their adoption of digital technologies and broadening their services – digitalize and diversify.

An integral part of EFAA's awareness raising around SMPs supporting sustainability is the e-newsletter *Latest from Brussels* which includes regular updates on key developments as well as a section 'EFAA Sustainability' that catalogues relevant readings and resources (these are uploaded to a [resource center](#) on the website). The November 2021 issue of this newsletter was a [special edition on sustainability](#).

Policy and Standards

EFAA is also active in the policy and standard setting arena. In April 2021 EFAA published a [position statement](#) in response to the proposed CSRD. While broadly welcoming the proposals EFAA does have some concerns – notably

trickle-down effects and value-chain impacts, the burden on SMEs, the lack of capacity, acceptance of sustainability reports by SMEs based on simpler sustainability standards, and the objective of these standards.

As the proposed CSRD navigates its way through the political process in Brussels, EFAA has thrown its weight behind supporting the [European Financial Reporting Advisory Group \(EFRAG\)](#) as it goes about developing European sustainability reporting standards (ESRS). EFAA is a member of EFRAG's new [Sustainability Reporting Pillar](#) and has a representative on the Project Task Force for ESRS (PTF-ESRS) working as part of a 'cluster' responsible for laying the groundwork for an ESRS for SMEs. EFAA's EU Professional Regulation Expert Group and Accounting Expert Group will review draft standards, focusing on their scalability and their impact on SMEs through the value chain.

EFAA eagerly awaits the imminent development of the ESRS for SMEs. EFAA hopes these satisfy certain 'fit for purpose' criteria including the following: tailored to the needs and capacities of SMEs; simple, stand-alone, and sufficient for large companies in the value chain; and serve as a basis for sustainability information that enables better-informed business decisions and enhances strategic planning and risk management (that is, conformance and performance)

Capacity Building

EFAA's capacity building efforts have their roots in its realization three years ago that if non-financial reporting was about to take off then there would be an acute need to build capacity of SMPs if they were to realize the opportunities. And so, in 2019, EFAA joined the [INTEgrated REporting for SMEs Transparency \(INTEREST\)](#) ERASMUS+ Strategic Partnership, a consortium of universities and non-educational partners

from across the EU that aimed to support adoption of integrated reporting (<IR>) and thinking among European SMEs. In 2022 the project output - a reporting framework, a guide, and learning / training modules – will be issued. These will prove an invaluable resource for those, like SMPs, that prepare integrated reports for SMEs.

In August 2021 EFAA, concerned to ensure that SMPs know what the future of EU corporate reporting might look like, published a guide '[What SMPs and SMEs Need to Know About Sustainability Reporting](#)' and an [accompanying video](#). Further guidance is planned.

Conclusion

In his address to the [EFAA 2021 International Conference](#), Alan Johnson, IFAC President, said:

“SMEs are critical to viable and sustainable economies everywhere. Accountants and auditors for SMEs play an invaluable role in supporting SMEs achieve sustainable recovery from the economic impact of Covid-19. As we move from crisis to recovery, we should take every opportunity to contribute to a more sustainable world that is also more equitable and fairer for all; professional accountants will, must, play their part in making this possible.”

EFAA agrees. SMPs have a key role to play in supporting the pursuit of sustainability - advising SMEs on sustainable business practice, preparing sustainability reports, and providing assurance on these reports. This presents a significant challenge but SMPs have proven time and time again that they can overcome such challenges.

Equally, EFAA and its member organizations also have key role to play – by helping EFRAG develop sustainability reporting standards for SMEs and by helping SMPs play their part. EFAA calls on SMPs to seize the opportunity by reaching out to their SME clients now. This is the profession's duty and responsibility. This is in the profession's own interest. But, more importantly, it is also in the European public interest.

