



EFAA PUBLICATION

HOW SMALL- AND MEDIUM-SIZED PRACTICES CAN
SUPPORT THE SUSTAINABLE TRANSITION OF SMES:
INSIGHTS FROM EXPERTS

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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.

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Introduction

While COP26 may have disappointed many, the proceedings made it clear that Europe is committed to a sustainable transition of its economy as soon as possible. The timely transition to a sustainable economy is the priority of the European Green Deal. The key to helping to realize this transition is robust and reliable corporate sustainability reporting.

Accordingly the European Union hopes to sign into law the proposed **Corporate Sustainability Reporting Directive** requiring some 50,000 EU companies to publish sustainability reports that have been subject to assurance by the end of 2022. 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**.

What role might small- and medium-sized accountancy practices (SMPs) play in sustainability reporting and, more generally, sustainable transition? Well, in July 2021, EFAA issued a '**Call to Action: SMPs Supporting Creation of the Sustainable Economy**' in which it stressed the key role they might play by offering the necessary advisory, accounting, and assurance services to small and medium-sized enterprises (SMEs). This article summarizes insights from a focus group survey of accounting experts – most serving on EFAA's expert groups – undertaken in Q4 2021 about how SMPs might fulfil this role in the future.



About the Respondents

In total some 15 experts, all of them volunteers from EFAA's member organisations who typically work in practice, responded to the survey and are shown in Table 1. Respondents hail from a range of European countries. In their 'day jobs' most respondents were working in an SMP as an accountant or an auditor or an adviser or a combination of these roles. While few respondents claimed to be sustainability subject experts, most have some familiarity with preparing, and providing assurance on non-financial/sustainability information. On average they had over 24 years of work experience.

Table 1. Survey Respondents

ROLE AT EFAA	EFAA MEMBER ORGANIZATION	COUNTRY
1. EU Professional Regulation Expert Group/Board	General Council of Economists of Spain (CGE)	Spain
2. Special Advisor	Special Advisor	Italy
3. Accounting Expert Group/Assurance Expert Group/ Board	Institute for Tax Advisors and Accountants (ITAA)	Belgium
4. Assurance Expert Group	Albanian Institute of Authorized Chartered Auditors (IEKA)	Albania
5. Accounting Expert Group/ Assurance Expert Group/ Digital Working Group/ EU Professional Regulation Expert Group	Order Certified Accountants (OCC)	Portugal
6. Assurance Expert Group	General Council of Economists of Spain (CGE)	Spain
7. Special Advisor/ Accounting Expert Group/ Assurance Expert Group/ Digital Working Group/ EU Professional Regulation Expert Group	Audit and Risk Management Committee of the Registry Trust Ltd a SME in the UK	United Kingdom
8. Accounting Expert Group	Chamber of Commerce and Industry of Slovenia (CCIS)	Slovenia
9. Assurance Expert Group	Chamber of Financial Auditors of Romania (CAFR)	Romania
10. Accounting Expert Group/ Assurance Expert Group/ EU Professional Regulation Expert Group	Royal Netherlands Institute of Chartered Accountants (NBA)	The Netherlands
11. Accounting Expert Group	Chamber of Auditors of Azerbaijan Republic (CAAR)	Azerbaijan
12. Accounting Expert Group	General Council of Economists of Spain (CGE)	Spain
13. Board	Royal Netherlands Institute of Chartered Accountants (NBA)	The Netherlands
14. Accounting Expert Group	European Tax Adviser Federation (DStV)	Germany
15. Assurance Expert Group	The Society of Certified Accountants and Auditors of Kosovo (SCAAK)	Kosovo

Key Insights

This paper addresses four practical questions with respect to the role of European SMPs in SMEs sustainability reporting and assurance. The key findings in relation to each question are set out below.

What is the relative importance of sustainability services for SMPs?

- As one can see from Table 2, preparing and providing assurance on financial statements of SMEs is considered much more important than preparing and providing assurance or verification of non-financial/sustainability statements of SMEs.
- SMEs are rarely asking about voluntary non-financial/sustainability reporting.
- The more experienced the SMP, the more importance they are attributing non-financial/sustainability reporting services: it seems they better appreciate the opportunities. Only one respondent expressed skepticism about the sustainability challenge.

Table 2. Importance of sustainability services for SMPs

RATING FROM 1 NOT IMPORTANT TO 5 VERY IMPORTANT	MEAN
SMEs ask about the need for preparing non-financial/sustainability statements	2.53
Preparing sustainability/non-financial statements for SMEs	2.36
Preparing financial statements for SMEs	4.29
Audit or other assurance on financial statements for SMEs	4.00
Verification of sustainability/non-financial statements for SMEs	2.29
SMEs ask about verifying non-financial/sustainability statements	1.86
SMEs ask about compulsory requirements for non-financial/sustainability reporting	2.60
SMEs ask about voluntary provision of non-financial/sustainability reporting and their relevance to SMEs	2.27

What is the importance of sustainability reporting matters to SMEs?

- As one can see in Table 3, respondents consider most important having tailor-made European sustainability reporting standards for SMEs, as included in the proposed CSRD, as well as clear advice from SMPs about sustainability reporting.
- Respondents rate tailor-made European sustainability reporting standards for SMEs as more important than ones for assurance.
- Respondents were especially concerned about the trickle-down or “value chain effect”, an effect EFAA identified in relation to financial reporting in [this paper](#). This effect is where SMEs, that are not directly within the scope of the proposed CSRD, end up having to prepare

sustainability information in any case to satisfy the information needs of larger, 'in scope' companies that are in their value chain.

- Many respondents felt that the trickle-down effect would be the main, or only, motivation or reason for SMEs to provide sustainability information. Respondents often cited the fact that SMEs would not voluntarily supply such information due to the costs exceeding the benefits. SMEs perceived the preparation of sustainability reports to be burdensome and outweigh the various benefits. Benefits can be both internal, for example where the process of reporting drives better business performance, and external, for example where reporting provides reputational advantages or improves access to finance.

"The fact that larger firms are under both formal (NFRD) and substantial pressure to issue sustainability reports is already bringing them to make sure their suppliers are able (or incentivized) to supply suitable information. In Italy, for instance, ACEA, ENI and Leonardo are already taking actions in this respect. At least some SMEs signal that pressure to report on sustainability is increasing, and accordingly express more interest for the entire topic of sustainability reporting".

A respondent

Table 3. Importance of sustainability reporting matters to SMEs

RATING FROM 1 NOT IMPORTANT TO 5 VERY IMPORTANT	MEAN
Tailor-made European sustainability reporting standards for SMEs	4.40
Tailor-made European assurance standards for SMEs	4.00
Clear definition of information necessary to understand the company's impact on the environment and society	4.07
Clear definition of information necessary to understand the impact of environment and society on the company	4.00
Clear advice from SMPs about non-financial/sustainability reporting	4.40
Proportionality of the non-financial/sustainability reporting requirements for SMEs	4.33
Motivation or incentive (e.g., tax breaks) to issue non-financial/sustainability information	3.67

Who are best placed to prepare sustainability reports and provide assurance on them?

- As one can see from Table 4, those professionals considered to be best placed to prepare sustainability reports are sustainability experts followed by certified accountants.
- Respondents noted that the role of accountants is important given that financial and sus-

tainability reporting are closely connected. While accountants generally lack the subject matter knowledge and expertise to be considered environmental or sustainability experts, they have the potential to make a significant contribution to sustainability since they are best placed to connect financial and sustainability information.

- SMPs have the potential to help SMEs improve the efficiency with which they gather,

combine, and report their sustainability data, just as they do with their financial data, and define metrics for measuring the effectiveness of their sustainability strategies.

“For most small and medium-sized businesses, their accountant is a trusted adviser, who can help them navigate a complex landscape, while bringing order to records of transactions and processes they may not be able to manage themselves. In addition, they will support the integration of business strategy and targets on sustainability into business plans.”

Sage, ACCA & ICC, 2021.

- The role of accountants is also important given that the regulators of, and standard setters for, sustainability reporting (e.g., EFRAG) are likely to be the same as for financial reporting.
- Auditors are considered best placed to provide assurance on sustainability reports. Indeed, auditors are already active in this space according to [this IFAC report](#). The proposed CSRD proposes that assurance be provided by an independent expert but not necessarily the auditor. This means SMPs currently not providing financial statement audit may have

the opportunity to provide assurance on sustainability reports.

- Respondents are confident that SMPs can transfer the skills they have acquired through their education and training and experience garnered through providing financial reporting, assurance and advisory services to sustainability reporting, assurance, and advisory services.
- SMPs, however, will likely need to be made aware of, encouraged to adapt, and be provided practical support to make this adaptation if they are to realise this potential. Moreover, they will need someone to represent them and advocate for this role on their behalf. It is likely that SMPs will rely on their professional accountancy organization (PAO) for this support and representation. They will also look to their PAO to help them see and anticipate trends on the horizon and adapt and customize their services and advice to meet these demands and circumstances.

“..... PAOs play an important role because they have a responsibility to lead, encourage and help SMPs realise their role in supporting the creation of a sustainable EU economy.”

EFAA, 2021

Table 4. Who are best placed to prepare and provide assurance on sustainability reports?

RATING FROM 1 NOT IMPORTANT TO 5 VERY IMPORTANT	PREPARE MEAN	ASSURANCE MEAN
Certified Accountant	4.20	4.18
Auditor	3.55	4.43
Tax Adviser	2.50	2.30
Business Adviser/Consultant	4.00	3.11
Sustainability Expert	4.43	3.67

Implications

Some of the key implications of the above insights are summarized below.

SMPs

- Capitalize on the opportunity to play a key role in enabling the sustainable transition of SMEs by expanding their service offering to include advising on sustainable transition, preparing sustainability reports, and providing assurance on such reports.
- Promote the benefits of embracing sustainable transition - including adopting sustainable business practices, sustainability reporting and assurance - to their SME clients.
- Build the capacity to offer high quality sustainability services with a focus on reskilling existing staff and attracting sustainability subject matter experts.

PAOs

- Promote to their SMP members the opportunities from expanding their service offering to include advising on sustainable transition, preparing sustainability reports, and providing assurance on such reports.
- Support SMPs in their building the capacity and expertise to offer high quality sustainability services for example, through education and training, adapting the syllabus for their qualification, and promoting the attractiveness of working as or for an SMP.
- Advocate to regulators and the business community the suitability of SMPs to offer high quality sustainability reporting and assurance services.

Regulators and Standard Setters

- Recognize that SMPs are well placed to offer high quality sustainability services, especially sustainability reporting and assurance, but will need support building the necessary capacity and expertise.
- Ensure that any future European sustainability reporting standard provides the basis for the cost-effective preparation of sustainability reports for SMEs that satisfy external reporting requirements while simultaneously driving better business performance.
- Promote the benefits of embracing sustainable transition to the SME sector.