

# SMPs and the sustainability agenda

*Salvador Marin and Paul Thompson consider the emergence of the sustainability agenda and its implications for SMEs and SMPs.*

Salvador Marin President, EFAA Paul Thompson Director, EFAA

Sustainability is not just about the environment. The UN Sustainable Development Goals define sustainability as 'a commitment to eradicate poverty and achieve a sustainable world by 2030 and beyond, with human wellbeing and a healthy planet at its core' (see <https://sdgs.un.org/goals>). Sustainable development is a core principle of the Treaty on European Union. It is also a priority objective for the Union's core 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.

In this article, we examine the role of SMPs in relation to the sustainability agenda and the implications in terms of capacity and competition. We then look at how the European Federation of Accountants and Auditors for SMEs (EFAA), in collaboration with members like AIA, is helping SMPs to get ready.

**Box 1: Role of SMPs in sustainability** summarises the various ways in which SMPs can contribute towards sustainability as explained in EFAA's 'Call to Action':

SMPs Supporting Creation of the Sustainable Economy' (see [bit.ly/3BlqVzb](https://bit.ly/3BlqVzb)).



## Implications for SMPs

SMPs will need to build the capacity to provide high quality sustainability services as soon as possible. In the coming few years, sustainability reporting and assurance will grow exponentially in its incidence and sophistication. This is especially the case in the EU and jurisdictions, like the UK, that are heavily influenced by EU regulation.

In July 2022, the EU finalised its Corporate Sustainability Reporting Directive, which will mandate sustainability reporting for some 50,000 EU companies in the foreseeable future. See **Box 2: The key provisions of the Corporate Sustainability Report Directive**. 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. This is particularly the case with European sustainability reporting standards under development by the European Financial Reporting Advisory Group (EFRAG), the recently appointed technical advisor on sustainability reporting to the EC.

This presents an enormous opportunity to SMPs – to expand the suite of professional services offered to SMEs – but presents an equally large challenge and responsibility, that of 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, and 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 as we discussed at the 2022 EFAA International Conference (see [bit.ly/3ePntEj](https://bit.ly/3ePntEj)).

Building the capacity is key to being competitive in the market for sustainability reporting and assurance services. The market for financial statement audit is highly concentrated in many EU member states with a handful of firms dominating the market.

### Box 1: Role of SMPs in sustainability

- Advise on sustainable business practices:** SMPs can encourage and advise their clients on how they can adopt sustainable business practices and improve their sustainability performance. This advice may include how to reduce their carbon footprint and how to comply with health, safety and environmental regulations. If they are to provide such advice to clients, then SMPs themselves need to 'practice what they preach' by adopting such practices themselves.
- Adopt sustainable business practices:** SMPs themselves have a responsibility to change their way of working so that they become more sustainable. Hence, they need to embrace sustainable business practices. Such practices include reducing their carbon footprint and providing a safe and inclusive place to work. Digital technologies can help; for example, remote working can reduce carbon emissions.
- Prepare sustainability reports:** SMPs have traditionally prepared the financial information and reports, both for management and external reporting purposes, for clients that lack the in-house expertise or capacity to do so themselves. Going forward, SMPs can expect increasing numbers of clients to ask them to also prepare sustainability information and reports.
- Provide assurance on sustainability information:** SMPs sometimes provide audit and other forms of assurance on financial information and reports of clients. Going forward, SMPs can expect an increasing number of clients to seek assurance on their sustainability information and reports.

Source: 'Call to Action: SMPs Supporting Creation of the Sustainable Economy', EFAA, 19 July 2021

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### Box 2: The key provisions of the Corporate Sustainability Report Directive

- Reporting requirements will apply to all large companies, all listed companies (except listed micro enterprises) and non-EU companies with branches or subsidiaries in the EU above certain thresholds.
- Listed SMEs will have an option to use simpler, proportionate standards and the possibility to opt out for two years after entry into application. The Corporate Sustainability Reporting Directive also specifies reporting requirements for listed SMEs.
- Reporting is to be phased in starting with public interest entities PIEs with over 500 employees from 1 January 2024 (first reports to be published in 2025); large undertakings from 1 January 2025 (first reports in 2026); listed SMEs from 1 January 2026 (first reports in 2027; deferral to 2029 possible); and non-EU companies with branches/subsidiaries from 1 January 2028 (first reports in 2029).
- European sustainability reporting standards (ESRS) will take account of the difficulties that undertakings may face gathering information from undertakings in their value chain, especially from unlisted SMEs. The standards shall not specify information to be obtained from unlisted SMEs that goes beyond that required for listed SMEs.
- Reports will need to be subject to independent assurance, from auditors or certifiers, initially limited assurance.

Source: Final text of the Corporate Sustainability Reporting Directive, European Commission, 30 June 2022.

This concentration – which may adversely impact competition and choice and, in turn, quality of service – may be repeated in the market for sustainability reporting and assurance services. Of course, competition will also come from beyond the accountancy sector. There is a rapid growing number of consultants muscling in on the market, some reputable sustainability experts, many without professional training and an ethical compass like the Code of Ethics.

### EFAA's response

EFAA is the unique voice for SMPs in Europe, helping to shape policy, regulation and professional standards to ensure they are relevant and scalable for SMPs and SMEs. EFAA also helps SMPs to continually adapt and transform to stay competitive and relevant. Our efforts to help SMPs to play their part in the sustainability space fall into three categories.

#### 1. Advocacy and awareness raising

EFAA advocates for the role of SMPs in supporting sustainability, seeking to raise awareness of the issues involved. After issuing a Call to Action 'SMPs supporting creation of the sustainable economy' in July 2021, we teamed up with IFAC in December 2021 to host a global webinar to alert SMPs to the need to prepare for the sustainability tsunami. We also created a new section on our website 'SMPs supporting sustainability' (see [bit.ly/3S3fLVj](https://bit.ly/3S3fLVj)) and a twice monthly e-newsletter 'Latest from Brussels'.

#### 2. Capacity building

EFAA predicted that sustainability reporting would grow exponentially in its incidence and sophistication – going from 'margin to mainstream' – and that this would require SMPs to build their capacity to offer high quality sustainability services. In 2019, we joined the INTEgrated REporting for SMEs Transparency (INTEREST) ERASMUS+ Strategic Partnership, a consortium of universities and non- educational partners from across the EU that publishes education and training materials to support integrated reports for SMEs (see [bit.ly/3xnQXiP](https://bit.ly/3xnQXiP)).

We use a variety of media to share developments, news and resources on sustainability reporting and assurance, as well as on how SMPs can transform their practices through digitalisation and diversification.

#### 3. Policy and standards

EFAA is also busy in the policy and standard setting arena. In April 2021, EFAA published a position statement in response to the then proposed Corporate Sustainability Reporting Directive (CSRD). While broadly welcoming the proposals, EFAA expressed some concerns. The final CSRD alleviates many, but not all, of these concerns.

EFAA is also an active member of EFRAG's new Sustainability Reporting Pillar and represents SMEs on their Sustainability Reporting Board (SRB), responsible for handing over the 'core' set of European sustainability reporting standards in mid-November 2022. EFAA, with input from AIA, has argued that the standards are too complex and burdensome, that SMPs lack the capacity to support SMEs, and urging EFRAG to fast-track development of standards for voluntary use by unlisted SMEs.

EFAA is also insisting on greater representation of SMEs and SMPs on the ISSB. The ISSB is developing the global baseline and is building scalability into their core standards rather than have a separate standard for SMEs.

EFAA and its member organisations believe that SMPs play a crucial role in supporting the pursuit of sustainability. This presents a significant challenge, opportunity and responsibility. SMPs have proven repeatedly that they can overcome similar challenges, leverage opportunities and fulfil their responsibilities. Equally, EFAA and its member organisations also have a key role to play by helping EFRAG to develop sustainability reporting standards that are proportional for SMEs, clarify what is required, and embracing the principles of 'Think Small First' and 'Smart Regulation' and helping SMPs to play their part.

EFAA, as the primary and unique voice for SMPs in Europe, calls on SMPs to seize the opportunity by reaching out to their SME clients now. This is the profession's responsibility, as well as in its own interest. But, more importantly, this is in the public interest.

### Author Bios



Salvador Marin is President of EFAA for SMEs, and his professional background spans practice, global business and academia.



Paul Thompson is EFAA Director and a consultant dedicated to thought leadership and development of the global accountancy profession.

**EFAA believes that SMPs have a crucial role to play in supporting the pursuit of sustainability.**