



EUROPEAN FEDERATION
OF ACCOUNTANTS AND AUDITORS
FOR SMES

EFAA KEY POLICY

POSITIONS AND RECOMMENDATIONS

November 2022

EFAA - European Federation of Accountants and Auditors for SMEs
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Introduction

Small- and medium-sized entities (SMEs) are crucial to the future economic and social prosperity and stability of Europe. Due to their limited resources and technical accounting and finance expertise they rely heavily on external support. Small- and medium-sized accounting practices (SMPs) often play this vital role in supporting SMEs through the provision of a range of high-quality professional services.

This document summarizes this vital role SMPs play supporting SMEs and then outlines EFAA's key positions and recommendations to policy makers and professional accountancy organisations (PAOs), such as EFAA member organisations, to help SMPs better fulfil this role.

About EFAA for SMEs

The European Federation of Accountants and Auditors for small and medium-sized enterprises (EFAA for SMEs) is an umbrella organisation for national accountants' and auditors' organisations whose individual members provide professional services primarily to SMEs in Europe. EFAA has 15 members throughout Europe representing more than 380 000 accountants, auditors, and tax advisors. EFAA is a sectorial member of SMEunited, a member of EFRAG, an IFAC network partner and a member of Early Warning Europe.



About SMPs

There is compelling evidence that SMPs are the most important and trusted business advisors of SMEs and personal advisors of SME owner-managers. This advice helps them address challenges and navigate difficult economic situations as well as leverage opportunities. Advice ranges from the technical through to the strategic, from that which lies at the core of their education, training, and experience, such as compliance with accounting regulation, through to that garnered from experience with multiple SME clients, such as industry knowledge and market positioning. SMPs provide a range of professional services to SMEs:

Audit and assurance

These services help SMEs improve the quality of their internal and published financial and sustainability information, in turn fostering trust and confidence in this information by investors, owner-managers, lenders and other stakeholders, as well as serve as a check on accounting systems and records, provide useful advice to management and improve internal control.

Accounting

These services help SMEs accurately and efficiently record their financial and non-financial transactions so they can effectively plan, control, and manage their business, as well as help them summarize, analyse, and report financial and sustainability information to investors and lenders, oversight agencies, and regulators.

Tax

These services range from helping SMEs compile their tax returns and pay their taxes in a timely and efficient manner through to helping them plan so that they pay what is legal and fair.

Advisory services

Can help SMEs in various ways from gaining insights from their financial and sustainability information to better plan, control and direct their business, gaining access to finance and efficiently comply with regulation through to growing their businesses internationally, sustainably, and safe from cyber-attack.

New and emerging professional services include advice on early warning, business resilience and continuity, intellectual property management, and sustainable business practices. In addition, we foresee significant growth in the reporting and assurance on sustainability information.

Special relationship between SMEs and SMPs

SMEs have unique characteristics that set them apart from larger businesses. An important characteristic is that most of their business relations are based on intimate and highly personal cooperation and mutual trust. Hence, SMPs need to provide services tailored to the individual needs of SMEs, their stakeholders, and the users of their financial and sustainability reports. SMPs, who are SMEs themselves and are equipped with expertise and insights gained from multiple SME clients, are best placed to do this.

SMPs, as professional accountants, are required to comply with high standards of integrity and competence embodied in strict ethical codes and educational requirements. In the provision of professional services to their clients SMPs are required to apply professional standards. This helps ensure SMPs provide consistently high-quality services.

Key policy positions

Audit, Assurance, Quality Management and Ethics

GENERAL

- Audit, assurance, and quality management standards need to be proportional and relevant to SMPs. We recommend that the International Audit and Assurance Standards Board (IAASB) ensures that the International Standards on Auditing (ISAs) and International Standards on Quality Management (ISQM) are as simple and scalable as possible and takes full account of the resources and clients of SMPs. We support the robust application by the IAASB of its Complexity, Understandability, Scalability and Proportionality (CUSP) drafting principles and, where necessary, the development of standards for use on an SME or less-complex entity (LCE) engagement. We recommend as far as possible the adoption of the IAASB's standards in the EU.
- Ethical codes for professional accountants need to be proportional and relevant to SMPs. We recommend that the International Ethics Standards Board for Accountants (IESBA) ensures that the International Code of Ethics for Professional Accountants (the Code) is as simple and scalable as possible and takes full account of the resources and clients of SMPs. We support, where necessary, the Code's use of differential requirements for non-PIE clients. We recommend as far as possible the adoption of the Code in the EU.

VALUE OF AUDIT TO SMEs

- Assurance provides many benefits to SMEs and their stakeholders including building trust and confidence in the quality of published financial and sustainability information as well as serve as a check on accounting systems and records, provide useful advice to management, and improve internal control. We recommend that the EU and local regulators should educate the market as to these

benefits so that SMEs make an informed choice as to whether to have an audit, or some other assurance, on their financial statements.

AUDITING STANDARDS FOR SMEs

- ISAs are not sufficiently scalable nor proportional for use in the audit of an SME or less-complex entities (LCEs) as they drive up cost with little corresponding benefit in terms of audit quality. We strongly recommend the timely development of a standalone standard for the audit of SMEs or LCE, based on the same fundamental principles as the ISAs that is recognized in European Law.

ASSURANCE ON SUSTAINABILITY REPORTING OF SMEs

- The finally agreed text of the [Corporate Sustainability Reporting Directive \(CSRD\)](#) requires that some 50,000 large and listed companies produce sustainability reports with a phasing in from 2024. These reports will have to be subject to assurance by competent and independent assurance providers, starting with limited assurance and then ultimately reasonable assurance.
- Presently the most widely used assurance standard for sustainability reporting is the International Standard on Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements Other than Audits or Reviews of Historical Financial Information is available. The IAASB is developing a standard for sustainability reporting assurance.
- We recommend that this new standard for sustainability reporting assurance should be tailored to the need and capacities of SMEs and SMPs. Accordingly, the standard should be scalable and proportional. There may also be a case for a standard on sustainability reporting assurance specifically for SME or LCE engagements.

EFAA Activities (Below are only most recent activities, for more see [here](#))

- 8 July 2022: Event - [EFRAG, SMEunited and EFAA Joint Outreach Event on Draft ESRS EDs with a Special Focus on SMEs and SMPs.](#)
- 5 July 2022: Consultation Response - [Response to the IESBA Strategy Survey 2022.](#)
- 23 June 2022: Consultation Response - [Response to the IESBA Exposure Draft: Proposed Technology-related Revisions to the Code.](#)
- 16 May 2022: Consultation Response - [Response to the IESBA Exposure Draft: Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits.](#)
- March 2022: Article - [Emergence of Sustainability Reporting: Implications for SMPs and EFAA Response](#) (see video of 8 April 2022 [here](#)).
- 27 January 2022: Consultation Response - [Response to the Exposure Draft, Proposed International Standard on Auditing of Financial Statements of Less Complex Entities.](#)

EFAA Assurance Expert Group

See the membership of the expert group [here](#).

Reporting

FINANCIAL REPORTING BY SMEs

- There is a growing need for robust and internationally comparable financial reporting for SMEs. We recommend that financial reporting requirements for SMEs be simple and increasingly harmonized across the EU. While we recognize the reluctance in the EU to adopt the IFRS for SMEs we recommend that Europe, led by EFRAG, helps to shape the future development of this standard in order to make it more attractive to voluntary use in the EU.

SUSTAINABILITY REPORTING

- During the 2020s there will be exponential growth in the quantity and quality of sustainability reporting due to increased regulation, political priorities, market expectations, and societal change. In the coming few years all large and listed EU companies will be required to publish sustainability reports that have been subject to assurance. EFRAG is developing European sustainability reporting standards (ESRS) - starting with sector agnostic ones before moving onto sector specific and finally entity-specific ones – that will determine the content of this reporting. SMEs in the value chain of companies that are within scope will likely have to provide sustainability information. We recommend that ESRS be as simple and scalable. We also recommend the ESRS be phased in to allow time for new, smaller reporting companies to build the capacity to report.

SUSTAINABILITY REPORTING FOR SMEs

- In aggregate SMEs account for a large, if not majority share, of social and environmental impacts by the private sector and so their sustainable transition is instrumental to the achievement of EU policy goals. Hence, there is a strong case for having high quality sustainability reporting by SMEs. Such reporting needs to be incentivised, encouraged, and, in some cases, required.
- We welcome the development and prioritization of separate, proportionate standards for SMEs listed on regulated markets, standards that will also serve as a cap on value chain reporting obligations.
- We believe that non-listed SMEs need help and incentives so they might play their role in the transition to a sustainable economy. Accordingly, we recommend that an even simpler sustainability standard be developed for non-listed SMEs to use for the purpose of voluntary reporting. We recommend that this standard be carefully adapted to the limited capacity and specific needs of non-listed SMEs. The standards must ensure the burden of preparation is proportional. The standards must also provide the basis for sustainability reports that provide information to satisfy value chain reporting requirements and providers of finance as well as help drive improved sustainability performance. We recommend that mechanisms be established to encourage the preparation of these reports for SMEs with the advice of SMPs.
- The robust representation and participation of SMEs and SMPs in the development of ESRS for SMEs is essential to ensure their quality and credibility. Accordingly, we recommend that SMEs and SMPs are well represented, and adequately supported, in the standard setting process.

EFAA Activities (Below are only most recent activities, for more see [here](#))

- 2 August 2022: Consultation Response - [Response to the EFRAG Public Consultation on the First Set of Draft ESRS.](#)
- 29 July 2022: Consultation Response - [Response to the IFRS S1 and IFRS S2 Exposure Drafts.](#)
- 27 October 2021: Video - [The Future of Corporate Reporting in Europe: What are the Implications and Next Steps for Europe's Small- and Medium-Sized Practices?](#)
- July 2021: Guidance - [What SMPs and SMEs Need to Know About Sustainability Reporting.](#)

EFAA Accounting Expert Group

See the membership of the expert group [here](#).

Professional Regulation

GENERAL

- The EU does not presently benefit from a seamless and integrated single market in professional services. The primary impediment is the prevailing lack of harmonisation of tax and accounting laws and procedures across Member States. We recommend that considerable effort be invested in harmonizing tax and accounting laws and procedures across Member States.
- The financial health and stability of individuals and businesses, in particular SMEs, depends on the availability of affordable high-quality accountancy services. We recommend that this is best achieved by requiring that those that provide such services have a high standard of qualification, undertake continuing professional education, adhere to an ethical code that gives primacy to the public interest, and have their conduct carefully monitored. Membership of a professional accountancy organisation (PAO), such as [EFAA member organisations](#), can help ensure this.
- While we welcome the pursuit of a more open market for professional services, we must avoid the pursuit of competition and deregulation at all costs, especially that of damaging the local ecosystems on which most SMEs depend. We recommend the retention, and possible reinforcement, of regulation of professional services that safeguards the public interest by helping ensure the availability of high-quality services.

QUALITY AND ENFORCEMENT OF CORPORATE REPORTING

- We support ongoing investigation into how to improve the quality and enforcement of corporate reporting. While the quality of corporate reporting in the EU is generally high, and has been continually improving, it could be further improved by enhancing the three pillars of high-quality and reliable corporate reporting – corporate governance, statutory audit, and supervision. Corporate governance deserves special attention. We recommend that the corporate governance pillar be significantly strengthened.

- The EU market for audit and assurance services for listed and other public interest entities (PIEs) is highly concentrated and lacking competition such that audit quality may be compromised. We recommend that serious consideration be given to finding ways of increasing competition and choice, reinforcing a level playing field, and bolstering audit quality through various mechanisms such as incentivising the use of joint audit and introducing robust EU wide audit quality indicators (AQI).
- Member States have implemented the 2014 Audit Directive in a variety of ways resulting in a lack of consistency in the performance and supervision of statutory audit across the EU and, in turn, adversely impact the single market in audit services. We recommend that such inconsistencies be eliminated.

PROVIDER OF SUSTAINABILITY ASSURANCE

- Assurance on sustainability information is expected to increase exponentially in the coming years in the EU. We are concerned that the market for sustainability assurance services for companies within scope of the CSRD, will become as concentrated as that for the market for financial statement audits of PIEs. We welcome measures to open-up the market for sustainability reporting assurance. We recommend that suitably qualified SMPs, such as ones presently performing audits of financial statements, be allowed to provide assurance on sustainability reports.

EFAA Activities (See above for positions and events relating to assurance and accounting policy. Below are only most recent activities, for more see [here](#))

- 12 October 2022: Position Regarding - **EU-Initiative SAFE (Securing the Activity Framework of enablers) to tackle the role of enablers that facilitate tax evasion and aggressive tax planning in the EU.**
- 22 April 2022: Report - **How SMPs Can Support the Sustainable Transition of SMEs: Insight From Experts.**
- 3 February 2022: Position - **Response to the EC consultation on Corporate Reporting – Improving its quality and enforcement.**

EFAA EU Professional Regulation Expert Group

See the membership of the expert group [here](#).

Practice Transformation

GENERAL

- The EU vision post-COVID-19 is to build back better by way of a digital and sustainable transition of the EU economy and society. More than ever before, the SMP is the trusted adviser to SMEs, helping them be part of this transition. But to do so effectively SMPs will need to change. We recommend that SMPs transform their practices through the accelerated adoption of digital technologies and diversification of their professional service offerings.

DIGITALIZE AND DIVERSIFY

- Digital transformation of SMPs is key to accelerating the pace of change, ensuring durability, and driving better understanding of client needs. SMPs have significant opportunities to diversify their services to SME clients in areas such as improving business resilience and continuity, supply chain management, sustainable business practices, early warning, and broader digital transformation. SMPs can act as catalysts for innovation, helping SMEs develop new revenue streams and transform their business models. We recommend SMPs embrace change, develop new capabilities and skills, and consider cultural change.

SUSTAINABILITY SERVICES

- EFAA foresees significant growth in the reporting and assurance on sustainability information as well as the demand from SMEs for advice and guidance on how to make a sustainable transition. SMPs stand to play a vital role helping advise SME clients on sustainable practices and upgrading their information systems to capture and record sustainability data, prepare their sustainability reports (just like they do their financial reports), and provide assurance on sustainability reports. We recommend SMPs and their PAOs prioritize preparing for this role.

EFAA Activities (Below are only most recent activities, for more see [here](#))

- 27 April 2022: Members exclusive event: **Sustainability Reporting: Implications for SMPs and Role of EFAA?**
- 2 June 2022: [EFAA International Conference 2022](#).

EFAA Digital Working Group

See the membership of the expert group [here](#).

EFAA Members

ACCA

Association of Chartered Certified Accountants, United Kingdom



AIA

The Association of International Accountants



APFM

Association of Professional Financial Managers, Azerbaijan



CAAR

Chamber of Auditors of the Azerbaijan Republic



CAFR

Chamber of Financial Auditors of Romania



CCIS-CAS

Chamber of Accounting Services, Slovenia



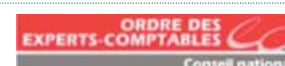
CGE

Consejo General de Economistas, Spain



CNOEC

Conseil national de l'ordre des experts-comptables



DStV

German Association of Tax Advisers



EFAA Members

IBR-IRE

Instituut van de Bedrijfsrevisoren/ Institut des Réviseurs d'Entreprises



IEKA

Albanian Institute of Certified Public Accountants



ITAA

Institute for Tax Advisors and Accountants, Belgium



NBA

The Royal Netherlands Institute of Chartered Accountants



OCC

Portuguese Chartered Accountants Association



SCAAK

Society of Certified Accountants and Auditors of Kosovo

