



EUROPEAN FEDERATION
OF ACCOUNTANTS AND AUDITORS
FOR SMES

Sustainability Reporting

How SMPs Can Build the Capacity to Support SME

December 2022

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](#).



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Introduction

EFAA for SMEs is committed to helping small- and medium-sized accountancy practices (SMPs) play a key role in achieving the sustainable transition of the European economy. In July 2021 we issued a [Call to Action: SMPs Supporting Creation of the Sustainable Economy](#) to SMPs and their professional bodies.

This guide offers suggestions on how small- and medium-sized accountancy practices (SMPs) can best respond to the rapid emergence of sustainability reporting. We explain how the landscape is fast evolving and how significant new reporting requirements, and the limited time to get ready for them, demand that SMPs and SMEs prepare now for their implementation and indirect effects. We share useful tips on how SMPs can get ready to prepare sustainability reports for their SME clients.

What is Sustainability Reporting?

Sustainability reporting is the annual reporting by companies on the environmental, social, and governance impacts, risks, and opportunities of their activities. The term is fast displacing 'non-financial reporting' and 'environmental, social, and governance (ESG) reporting.'

What is the Sustainability Reporting Landscape?

In the recent few years, the sustainability reporting landscape has changed fundamentally and fast. This looks set to continue in the coming few years. The key features of this landscape for European accountants and companies are as follows.

Corporate Sustainability Reporting Directive (CSRD)

The [Corporate Sustainability Reporting Directive \(CSRD\)](#) is the game changer in the European Union (EU). The CSRD supports the [European Green Deal](#), a set of policy measures designed to transition the EU to a sustainable, modern, and competitive economy. On 28 November 2022 the [Council gave its final approval to the corporate sustainability reporting directive \(CSRD\)](#). The CSRD will now be published in the Official Journal of the European Union and will enter into force 20 days afterwards. [Here](#) is the consolidated text of the CSRD adopted on 10 November 2022 by the European Parliament (EP).

The CSRD supersedes the [Non-Financial Reporting Directive \(NFRD\)](#), introducing more detailed reporting requirements and ensuring that all large and listed companies are required to report on a range of ESG issues. The key provisions are shown in Box 1 below. Companies start reporting, under the CSRD,

from 2024 in line with mandatory European sustainability reporting standards (ESRS) and alongside an external assurance of sustainability reporting.

The Commission will also adopt separate, proportionate standards for SMEs. Listed SMEs will be required to report from 1 January 2026, using either the full ESRS or the separate, proportional standards that are currently under development.

Although non-listed SMEs are not required to report under CSRD they stand to be impacted due to trickle down effects through the value chain of large suppliers or customers that are within scope.

[Stay updated on the CSRD here.](#)

Box 1: Key Provisions of the CSRD

- 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 2 years after entry into application. The CSRD also specifies reporting requirements for listed SMEs.
- Reporting to be phased in starting with 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 undertakings may face gathering information from undertakings in their value chain, especially from unlisted SMEs. ESRS shall not specify information to be obtained from SMEs that go beyond the information required by information required by ESRS for listed SMEs.
- Reports will need to be subject to independent assurance, from auditors or certifiers, initially limited assurance.

Source: Final text of the CSRD, European Commission, 30 June 2022.

European Sustainability Reporting Standards (ESRS)

Companies reporting under the CSRD will be required to use ESRS developed by the [European Financial Reporting Advisory Group \(EFRAG\)](#), the Commission's technical advisor on sustainability reporting.

After an [extensive public consultation exercise](#) undertaken in the summer of 2022, the first tranche of ESRS, applicable to all companies within scope irrespective of their sector, were handed over to the Commission in November 2022. After conducting its due diligence, the Commission aims to adopt this first set of ESRS by 30 June 2023.

EFRAG is now working on sector specific ESRS and the separate, proportionate standards for listed SMEs. EFRAG is also working on a standard for voluntary reporting by non-listed SMEs.

[Stay updated on EFRAG's development of ESRS here.](#)

International Sustainability Reporting Standards Board (ISSB)

On 3 November 2021, the IFRS Foundation Trustees announced the creation of a new standard-setting board—the [International Sustainability Standards Board \(ISSB\)](#)—to help meet growing demands from investors for high quality, transparent, reliable, and comparable reporting by companies on ESG matters.

The ISSB plans to deliver a comprehensive global baseline of sustainability-related disclosure standards that provide investors and other capital market participants with information about companies' sustainability-related risks and opportunities to help them make informed decisions.

The ISSB has already [publicly consulted](#) on two exposure drafts, one setting out [general sustainability-related disclosure requirements](#) and the other specifying [climate-related disclosure requirements](#). These are expected to be finalized in 2023.

While ESRS take precedence in the EU, considerable effort is being made to ensure ESRS align as far as possible with the ISSB's standards. This alignment is necessary to avoid disproportionate administrative burden arising from duplication of effort and confusion.

[Stay updated on the work of the ISSB here.](#)

Assurance

The CSRD requires the company's statutory auditor, another auditor (according to Member State's option) or an independent assurance services provider (IASP) (Member State's option), to provide limited assurance on a company's reported sustainability information. Member States should set out equivalent requirements for IASPs around quality, independence, and oversight in line with the Audit Directive. There is also the option of moving toward reasonable assurance at a later stage.

The International Audit and Assurance Standards Board (IAASB) is developing a standard for sustainability reporting assurance, which you can learn more about [here](#).

Meantime, the International Ethics Standards Board for Accountants (IESBA) is developing fit-for-purpose, globally applicable ethics, and independence standards in support of transparent, relevant, and trustworthy sustainability reporting, which you can learn more about [here](#).

[Stay updated on the IAASB's project to develop a sustainability assurance standard here.](#)

[Stay updated on the IESBA's project related to sustainability reporting and assurance here.](#)

How to Get Started Offering Sustainability Reporting?

Given the significance of the CSRD — and the limited time to get ready for it — SMPs need to start preparing now for its implementation. They need to familiarize themselves with the CSRD and consider the implications for their practice. This will require a change process of similar significance to that arising from the Accounting Directive or digital transformation. SMPs need to start this change process now to position themselves for sustainability reporting services. Below we share some practical tips on this process.

“Sustainability is about future-proofing a business to be more resilient. This fast evolving area offers huge opportunities for SMPs and their SME clients.”

Monica Foerster, Chair of IFAC's SMP Advisory Group

1. Nominate someone to lead

Sustainability reporting will be new to many SMPs and as such require the acquisition of new knowledge and expertise. We recommend nominating someone in the practice the responsibility for scoping out challenges and opportunities relating to the provision of sustainability reporting services. This lead person needs to be relatively senior and have the full support of the practice as well as being personally invested in the sustainability agenda. Their initial task might be to prepare a business case that examines the viability of the practice providing its clients with sustainability reporting services.

2. Discuss with clients

SMPs are the trusted business advisor of their SME clients. To be a proficient advisor SMPs need to maintain a thorough understanding of their clients' strategies. Understanding their sustainability strategy, and helping shape it, is a logical part of this. Accordingly, we recommend SMPs discuss with their clients. The discussion should encompass both risks and opportunities relating to sustainability reporting. From a risk perspective, clients may be seeking to pre-empt investor or lenders information demands or to comply with the CSRD or to meet expectations from stakeholders. Are they likely to have to provide sustainability information to large suppliers or customers that are themselves having to comply with the value chain reporting requirements of the CSRD? In terms of opportunity, clients could voluntarily disclose sustainability information and, in so doing, position themselves as leaders or preferred partners in the markets in which they operate. Sustainability reporting can also be considered as a management tool to improve performance in general. Voluntary reporting can help make their businesses attractive destinations for capital, customers, and employees as well as valued members of the local communities in which they operate. As mentioned above EFRAG is developing a standard for voluntary reporting by non-listed SMEs.

3. Determine what capabilities and expertise are needed

SMPs are likely to need a combination of new and existing capabilities and expertise to effectively provide sustainability reporting services. SMPs can ascertain the capability gap by answering questions such as:

- What sustainability reporting services do SME clients need right now and what might they need in the future? For example, to meet requests for sustainability information from companies in their value chain, to prepare a voluntary sustainability report.
- For the practice to meet those needs, what capabilities will the reporting team require?
- Which of these capabilities does the practice already have?
- Which of these capabilities does the practice need to obtain?

The SMP must not underestimate or overlook the existing capabilities of the practice. Many accountants have transferable skills and knowledge such as making estimates, comparing data, developing expectations, leading diverse teams of external specialists, and managing staff. They also have personal attributes that can be leveraged such as an enquiring mind, ability to problem solve, and being effective communicators.

The SMP will likely need to obtain new subject-matter knowledge. For example, sustainability reporting will require an understanding of the relevant reporting standards such as ESRS. The key objective is to identify what capabilities the SMP lacks so that the practice can start obtaining these (see next).

4. Build inhouse or buy in capabilities and expertise

SMPs can obtain the capabilities they lack by *either* building them inhouse *or* buying them in *or* both.

“The opportunity for SMPs to make a real difference is huge – the time to focus on upskilling and partnering with specialists is now”.

Mike Suffield, Director – Policy & Insights, ACCA

a. Building inhouse

While sustainability reporting is an emerging practice, especially for SMPs and SMEs, there are many training and development opportunities available to upskill accountants. Many professional accountancy organizations (PAOs) include sustainability reporting as part of their syllabus as well as offer continuing professional development (CPD) and relevant resources for their members. IFAC maintains an [online catalogue](#) of courses and certifications to help accountants expand their sustainability know-how. The course and certifications listed are publicly available; most are on demand, either for a fee or at no cost.

b. Buying in/Building Networks

SMPs do not need to become experts in every aspect of sustainability. Rather accountants are well placed to lead multi-disciplinary teams on sustainability reporting engagements. Accountants can collaborate with external subject matter experts (e.g., environmental engineers and human resources specialists) and provide the necessary quality management and ethical underpinning. Accountants are also ideally placed to help clients understand and interpret the financial impacts of sustainability issues.

[Stay updated on sustainability knowledge here.](#)

5. Leverage the benefits of sustainability services

For SMPs, the benefit of providing sustainability reporting services extends beyond attracting and retaining clients. It can also help attract and retain new talent. Recent research nearly half of younger workers are prepared to leave their jobs if they thought their employer was not committed to genuine sustainability action. Many younger workers are keen to work for organizations that have a purpose.

6. Helping clients get started

Most SMEs will be new to sustainability reporting. SMPs can advise SME clients on how to prepare for the efficient implementation of sustainability reporting. SMPs can advise SMEs clients on how to identify and gather sustainability-related information, manage ESG risks, draw up policies, and set targets and KPIs. SMPs can also inform SME clients on the development of ESRS so they can take timely action.

Resources

EFAA

The SMPs Supporting Sustainability webpage includes a collection of recommended readings and various publications:

- [How SMPs Can Support the Sustainable Transition of SMEs: Insight from Experts](#), 22 April 2022
- [Emergence of Sustainability Reporting: Implications for SMPs and EFAA Response](#) (video here), 28 March 2022
- [Podcast – The Future of Corporate Reporting in Europe: What are the Implications and Next Steps for Europe’s Small- and Medium-Sized Practices?](#), 27 October 2021
- [What SMPs and SMEs Need to Know About Sustainability Reporting](#), 5 August 2021
- [Call to Action: SMPs Supporting Creation of the Sustainable Economy](#), 19 July 2021

The bi-monthly electronic newsletter, *Latest from Brussels* (free to subscribers) includes regular updates on sustainability reporting as well as recommended readings and resources on sustainability.

Corporate Sustainability Reporting Directive (CSRD)

- [Press release on the political agreement.](#)
- [Final text of the directive.](#)
- [Stay updated on the directive here.](#)

European Sustainability Reporting Standard (ESRS)

- [Stay updated on the development of ESRS here.](#)

International Sustainability Standards Board (ISSB)

- [Stay updated on the work of the ISSB here.](#)

Assurance

- [Stay updated on the IAASB’s project to develop a sustainability assurance standard here.](#)
- [Stay updated on the IESBA’s project related to sustainability reporting and assurance here.](#)

IFAC

- [Remaining Relevant: Opportunities to Expand Your Sustainability Know-how](#), 22 September 2022

ACCA

- [A series of professional insights on accountants and SMEs creating a sustainable world is 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



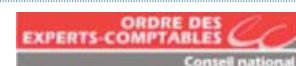
CGE

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

