



# Sustainability Reporting Assurance

## How SMPs Can Build the Capacity to Support SMEs

APRIL 2023

## 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 and in December 2022 we issued the guide [Sustainability Reporting: How SMPs Can Build the Capacity to Support SMEs](#) that focuses on sustainability reporting. This guide focuses on the assurance of sustainability reports.

This guide offers suggestions on how small- and medium-sized accountancy practices (SMPs) can best respond to the rapid emergence of assurance on sustainability reporting that is, sustainability reporting assurance. 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 provide sustainability reporting assurance for their clients, in particular SMEs.

## What is Sustainability Reporting Assurance?

Sustainability reporting is the annual reporting by companies on the environmental, social, and governance (ESG) impacts, risks, and opportunities of their activities. The term is fast displacing ‘non-financial reporting’ and ‘ESG reporting.’ Assurance provided on sustainability reports or sustainability information is commonly referred to as ‘sustainability reporting assurance’[1].

The [Corporate Sustainability Reporting Directive \(CSRD\)](#) (see [below](#)) will for the first time introduce a general EU-wide audit (assurance) requirement for reported sustainability information. The European Commission (EC) believes this will help to ensure that reported

information is accurate and reliable and in so doing help address the concerns of investors and other stakeholders about the reliability of the sustainability information that companies report. Hence, in the same way that assurance, typically audit, lends financial information credibility, so assurance will lend credibility to sustainability information.

Sustainability reporting assurance typically takes the form of either a limited assurance engagement or a reasonable assurance engagement. The higher the level of assurance provided, the more confidence users can have in the information being assured.

## What is the Role of Professional Accountants?

It is vital that clients, their stakeholders, and the wider public have confidence in sustainability reporting. But that confidence can be easily undermined. Perhaps the greatest threat to confidence is posed by “greenwashing”. The European Commission has general concerns around greenwashing. Its Initiative on Substantiating Green Claims’ defined greenwashing as “companies giving a false impression of their environmental impact or benefits” and explains: “Greenwashing misleads market actors and does not give due advantage to those companies that are making the effort to green their products and activities. It ultimately leads to a less green economy”.

*“Greenwashing misleads market actors and does not give due advantage to those companies that are making the effort to green their products and activities. It ultimately leads to a less green economy”.*

[Initiative on substantiating green claims, European Commission, November 2020](#)

[1] This guide uses the term ‘sustainability reporting assurance’ as it specifically relates to assurance on sustainability reports or information. Sometimes, elsewhere, it is referred to ‘sustainability assurance’. ‘Sustainability reporting and assurance’ refers to both sustainability reporting and assurance on that reporting.

Professional accountants are perfectly placed to satisfy stakeholders' need for trust and integrity in sustainability reporting and assurance. They adhere to a Code of Ethics, typically issued by the regulator or professional accountancy organisation (PAO) in their Member State<sup>[2]</sup>, and are well-versed in independence, professional scepticism, and judgement. Their ability to assess the accuracy and completeness of information can be invaluable in sustainability assurance engagements. The IESBA has committed to developing ethics and independence standards for relevant and trusted sustainability reporting and it hopes the EU will adopt these standards.

Sustainability reporting assurance requires auditors to demonstrate the same independence as required for traditional financial assurance. The Code of Ethics is still applicable and assurance providers should consider all the principles of this. But, in most cases, conducting a sustainability assurance engagement for an existing financial audit client will not present a conflict of interest, nor threaten independence. In fact, it can be argued they are complementary. Understanding a client's broader business context can assist assurance providers in delivering effective financial and sustainability assurance.

## What is the State of Play in Sustainability Reporting Assurance?

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

### Corporate Sustainability Reporting Directive (CSRD)

#### Reporting

The [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. When the text of the CSRD was finalized in June 2022 Bruno le Maire, Minister for economic affairs, finance, and industrial and digital sovereignty, said: "Greenwashing is over. With this text, Europe is at the forefront of the international race to standards, setting high standards in line with our environmental and social ambitions."

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[Bruno le Maire, Minister for economic affairs, finance, and industrial and digital sovereignty, 21 June 2022](#)

After the European Parliament adopted the CSRD on 10 November 2022 and the Council of the European Union gave the final green light on 28 November 2022, the CSRD was published in the Official Journal of the European Union. It is thus available in all official languages of the EU [here](#).

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](#). Companies start reporting, under the CSRD, from 2024 in line with mandatory European sustainability reporting standards (ESRS).

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 (that is, ESRS for listed SMEs (LSME ESRS)). Although non-listed SMEs are not required to report under CSRD they may be impacted due to trickle-down effects, that is where they are in the value chain. For example, as a supplier of large companies that are within scope of the CSRD and those large companies require sustainability information from companies in their value chain to meet reporting requirements.

[2] The Code of Ethics applicable in a particular EU Member State are often based on, or even identical to, the [International Code of Ethics for Professional Accountants \(IESBA Code\)](#). Professional accountants providing assurance on public interest entities (PIE) must also comply with the independence provisions of the [Audit Directive 2006/43/EC](#).

## Assurance

The CSRD mandates independent third-party assurance from 2025 on 2024 year-end reports. Although the ultimate objective is to have a similar level of assurance for financial and sustainability reporting, a progressive approach is needed. Accordingly, the CSRD initially requires that the opinion on sustainability reporting be based on a limited assurance engagement. The CSRD foresees moving to reasonable assurance after assessing whether reasonable assurance is feasible for both statutory auditors and undertakings.

Assurance is to be given on the following:

- compliance with the CSRD reporting rules in Article 19a, including with the reporting standards adopted according to Article 29b or Article 29c (that is, ESRS developed by EFRAG)
- the process carried out by the undertaking to identify the information reported according to those reporting standards
- compliance with the requirement to mark-up sustainability reporting in accordance with Article 29d (digitalisation)
- compliance with the reporting requirements of [Regulation \(EU\) 2020/852 Article 8 \(Taxonomy Regulation\)](#).

If the EC has not adopted assurance standard(s) then Member States may apply national assurance standards, procedures, or requirements covering the same subject matter. The EC is empowered to adopt limited assurance standards before 1 October 2026. By 1 October 2028, the EC will undertake an assessment to determine whether it is feasible, for the auditors and for the undertakings, to adopt assurance standards for reasonable assurance. The EC will then specify when reasonable assurance is to be required. It is highly likely that the EC will adopt assurance standards developed by the IAASB (see [below](#)).

## Assurance Providers

The CSRD requires the statutory auditor to express an opinion on the sustainability reporting, primarily to help ensure the connectivity between, and consistency of, financial and sustainability information.

Shareholders with more than 5% voting rights or 5% capital of a company have the right to ask to involve an accredited third party to prepare a report on some elements of sustainability reporting. Shareholders can also decide that the accredited third party cannot belong to the same audit firm or network as the auditor carrying out the statutory audit.

Members States may take the option of allowing another statutory auditor or an independent assurance services provider (IASP) to express an assurance opinion on sustainability reporting. Any assurance services provider shall follow the standards adopted by the EC. If a Member State makes use of the option to allow an IASP to express an assurance opinion on sustainability reporting, it should also allow another statutory auditor to do so.

IASPs are required to follow equivalent requirements as the ones included in the [Audit Directive 2006/43/EC](#), in particular on professional education, quality assurance, and ethical requirements, including independence. This will guarantee a level playing field among all persons and firms allowed by Member States to provide an assurance opinion on sustainability reporting, including statutory auditors.

To foster the free movement of services, the CSRD introduces a 'passporting regime' whereby Member States should allow IASPs established in a different Member State to carry out the assurance of sustainability reporting in their territory.

Statutory auditors must satisfy specific requirements in addition to the necessary educational competences required by the Audit Directive 2006/43/EC if they are to be allowed to carry out assurance engagements on sustainability reporting. The examination of professional competence shall guarantee the necessary level of theoretical knowledge and the ability to apply such knowledge in practice. The test of theoretical knowledge shall cover at least the following subjects:

- legal requirements and standards relating to the preparation of annual and consolidated sustainability reporting
- sustainability analysis
- due diligence processes with regard to sustainability matters

- legal requirements and assurance standards for sustainability reporting

The statutory auditor must complete at least eight months of practical training in the assurance of annual and consolidated sustainability reporting or other sustainability related services.

The CSRD includes transitional arrangements for statutory auditors that have been qualified before 1 January 2024. Where a Member State has taken the option to authorise an IASP, they should set out equivalent requirements as regards training and examination.

### 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, 14 December 2022, [here](#).

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

## 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.

On 22 November 2022, 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, EFRAG's [Sustainability Reporting Board \(SRB\)](#) submitted the [first set of ESRS](#) to the European Commission (EC). The EC's Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA) is now performing its due diligence work and plans to adopt the final ESRS in June 2023.

As mentioned above EFRAG is now working on sector specific ESRS as well as an ESRS for listed SMEs (LSME ESRS) and a voluntary sustainability reporting standard for non-listed SMEs (VSME).

EFRAG has sought to ensure that the ESRS generate sustainability information capable of being independently verified in the same way that IFRS generate financial information that is verifiable. Indeed, [draft ESRS 1 General Requirements](#) says that when an undertaking prepares its sustainability statements it shall apply: "(a) the fundamental qualitative characteristics of information, i.e., relevance and faithful representation;

and (b) the enhancing qualitative characteristics of information, i.e., comparability, verifiability, and understandability.” Draft ESRS 1 goes on to say that define verifiability helps to give users confidence that information is complete, neutral, and accurate and that sustainability information is verifiable if it is possible to corroborate either such information itself or the inputs used to derive it.

Stay updated on EFRAG’s sustainability reporting work [here](#).

## International Sustainability 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 IFRS Sustainability Disclosure Standards are expected to be finalized in Q2 2023.

While ESRS take precedence in the EU, considerable effort is being made to ensure that ESRS and IFRS Sustainability Disclosure Standards align as far as possible. This alignment is necessary to avoid disproportionate administrative burden arising from duplication of effort and confusion.

The general sustainability related disclosure requirements standard, [\[Draft\] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information](#), like its ESRS equivalent, includes verifiability as an enhancing qualitative characteristic.

In its response to the ISSB’s public consultation, the IAASB said that on a sustainability assurance engagement the objectives of the assurance practitioner include to obtain either reasonable assurance or limited assurance, as appropriate, about whether the entity’s reported sustainability information, prepared in accordance with applicable sustainability reporting standards, is free from material misstatement. The IAASB explains that the assurance practitioner can only achieve this objective when: the preconditions for an assurance engagement are present, and the assurance practitioner is able to comply with all requirements of the applicable assurance standard(s) relevant to the engagement in obtaining sufficient appropriate evidence to support the assurance conclusion.

The IAASB stresses that assurability in the context of reporting standards means whether they are designed in a manner that results in sustainability information on which an assurance engagement can be performed.

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

## International Federation of Accountants (IFAC)

In November 2021, IFAC published [Sustainability Information for Small Businesses: The Opportunity for Practitioners](#). This report examines the importance of readily available, relevant, and reliable sustainability information for achieving better-informed decisions, enhanced strategic and risk management, and more thorough and valuable reporting to external stakeholders. It also highlights a range of emerging services that practitioners, especially SMPs, can provide to their clients, including advisory services, reporting,

*“The EU’s experience with reporting and assuring sustainability information demonstrates the evolution that IFAC believes will happen in other jurisdictions—more reporting, more connected disclosure, and high-quality assurance obtained from professional accounting practitioners.”*

*Kevin Dancey, Chief Executive Officer, IFAC*



agreed-upon procedures (AUP) engagements (as explained [here](#)), and assurance services.

On 15 February 2023 IFAC published [The State of Play in Sustainability Assurance](#). This global benchmarking study captures and analyzes the extent to which companies are reporting and obtaining assurance over their sustainability disclosures, which assurance standards are being used, and which companies are providing the assurance service. The 2019-2021 Trends & Analysis report is the third annual benchmarking study.

For the third consecutive year, the analysis indicates that while the frequency of reporting ESG information is very high and the incidence of assurance is on an upward trend, there continues to be a meaningful difference between reporting and assurance rates across jurisdictions.

The momentum behind enhancing corporate reporting with ESG or sustainability information continues as evidenced by the findings that 95% of large companies report on ESG and 64% of companies now obtain assurance/verification over some of the information they provided in 2021 (increasing from 91% and 51%, respectively, in 2019).

The rate of assurance has increased significantly from 2019 to 2021, but most engagements remain narrowly focused on greenhouse gas metrics. Little more than half (53%) of engagements encompassed a range of ESG disclosures. The International Auditing and Assurance Standards Board's (IAASB) [International Standard on Assurance Engagements 3000 \(Revised\) Assurance Engagements Other than Audits or Reviews of Historical Financial Information](#) (ISAE 3000 (Revised)) remained the most widely used assurance standard. Some 80% of engagements resulted in limited assurance reports. 95% of firms (or their affiliates) used ISAE 3000 (Revised), while non-IAASB standards were most commonly used by the other services providers (i.e., only 38% used ISAE 3000) during 2021.

IFAC believes that professional accountants are best positioned to conduct sustainability assurance engagements as they possess the unique combination of skills, qualifications, experience, and professional ethical obligation to act in the public interest underpinned by rigorous and widely accepted professional, quality management, and ethical standards.

[This map](#) shows a global snapshot of reporting and assurance practices including the rate of ESG assurance, the percentage companies reporting on ESG in a jurisdiction, and the percentage of assurance that is being provided by audit or affiliated firms. The data for Europe (the largest EU economies of France, Germany, Italy, and Spain plus the UK) reveals the following key insights:

- over 98% of companies report on ESG
- the vast majority of these ESG reports are subject to assurance, the highest being France (98%) and the lowest being the UK (81.8%)
- in the EU over 95% of assurance is provided by audit firms or affiliated firms
- the highest rate of using statutory audit firm for sustainable assurance globally is France (98%)
- in the EU over 93% of assurance engagements made use of ISAE 3000 (Revised)

While the majority of assurance engagements are done by larger audit firms given the profession's established dominance of the sustainability assurance market in the EU there seems to be a great opportunity for SMPs to become the preferred assurance provider as the CSRD mandates sustainability assurance for all large EU companies.

## International Ethics Standards Board for Accountants (IESBA)

The Codes of Ethics applicable in a particular EU Member State are often based on, or even identical to, the [International Code of Ethics for Professional Accountants \(IESBA Code\)](#) issued by the [International Ethical Standards Board for Accountants \(IESBA\)](#). Professional accountants providing assurance on public interest entities (PIE) must also comply with the independence provisions of the [Audit Directive 2006/43/EC](#).

The IESBA is committed to the timely development of fit-for-purpose, globally applicable ethics and independence standards that support transparent, relevant, and trustworthy sustainability reporting.

In December 2022, the IESBA released [Continuing with the Development of Global Ethics and Independence Standards for Sustainability Reporting and Assurance](#), a publication providing an overview of the recent -

sustainability-related decisions made by the Board and how those decisions will shape the Board's work in 2023 and beyond. The Board has commenced work on two new projects that will deliver the following:

#### *Sustainability Project*

- profession-agnostic independence standards for use by all sustainability assurance practitioners
- specific ethics provisions relevant to sustainability reporting and assurance

#### *Experts Project*

- specific ethics and independence provisions addressing the use of experts by organizations as well as in the context of audit and assurance engagements (including sustainability assurance)

EFAA for SMEs is urging the IESBA to ensure these projects yield standards and provisions that are as scalable as possible so that SMPs can cost effectively perform sustainability reporting and assurance engagements for SMEs.

The IESBA is also providing timely responses to ethics and independence-related concerns. For example, in October 2022 IESBA published [Ethics Considerations in Sustainability Reporting: Including Guidance to Address Concerns About Greenwashing](#) which highlights the relevance and applicability of the Code to several ethics-related challenges arising from professional accountants' involvement in sustainability reporting and assurance, especially circumstances related to misleading or false sustainability information (that is, "greenwashing"). The publication defines greenwashing as "practices that involve misleading intended users of the information, or intentionally giving them a false impression about how well an organization or an investment is aligned with its sustainability goals."

*"Greenwashing usually refers to practices that involve misleading intended users of the information, or intentionally giving them a false impression about how well an organization or an investment is aligned with its sustainability goals."*

[IESBA, 21 October 2022](#)

**Stay updated on the IESBA's sustainability reporting and assurance work [here](#).**

## International Audit and Assurance Standards Board (IAASB)

The IAASB is currently working on a [project to develop an overarching standard for assurance on sustainability reporting](#), that is:

- responsive to the public interest need for a timely standard that supports the consistent performance of quality sustainability assurance engagements
- suitable across all sustainability topics, information disclosed about those topics, and reporting frameworks
- implementable by all assurance practitioners (i.e., professional accountants and other professionals performing assurance engagements)

The new overarching standard for assurance on sustainability reporting will address:

- both limited assurance and reasonable assurance
- the conduct of an assurance engagement in its entirety
- areas of sustainability assurance engagements where priority challenges have been identified, and more specificity is required

The IAASB's work will build upon existing IAASB Standards and guidance that deal with this topic more broadly, including ISAE 3000 (Revised), [ISAE 3410, Assurance Engagements on Greenhouse Gas Statements](#), and the package of non-authoritative guidance on sustainability and other extended external reporting (EER) assurance engagements (see the IAASB's [EER Project Page](#)).

The IAASB is expediting this project so that it will have a suitable standard in place before assurance on sustainability reporting starts to become mandatory in major jurisdictions (in the EU this is from 2025). The IAASB's current targeted milestones for the overarching standard include an ED in early 2024 and approval of the final standard in late 2024 or early 2025. EFAA for SMEs is urging the IAASB to ensure this standard is as scalable as possible so that SMPs can cost effectively perform assurance engagements for SMEs.

The IAASB envisages that eventually a suite of standards for assurance on sustainability reporting that provide more specificity than an overarching standard will likely be needed. The IAASB will explore the further development of the suite of assurance standards on sustainability reporting as part of its future standard-setting activities.

[Stay updated on the IAASB's sustainability assurance work here.](#)

## How to Get Started Offering Sustainability Reporting Assurance?

Given the significance of the CSRD — and the limited time to get ready for it — SMPs need to start preparing now for its implementation. Its implementation will herald exponential growth in sustainability reporting and assurance. SMPs need to familiarize themselves with the CSRD, including the sustainability reporting and assurance standards under development, and consider the implications for their practice. This will require a change process of similar magnitude 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 including sustainability reporting assurance. 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, IFAC SMP Advisory Group](#)

### 1. Nominate someone to lead

Leadership tone and its commitment to sustainability is critical. The leadership needs to determine the sustainability mission and to decide what services they can best offer. Sustainability reporting, especially sustainability reporting assurance, will be new to many SMPs. It will demand the acquisition of new knowledge and expertise. And the SMP should proceed with some caution.

We recommend nominating someone in the practice to be responsible 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 assurance services.

### 2. Discuss with clients

SMPs are typically the trusted business advisor of SMEs. 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? And will they be required to have assurance on this information?

In terms of opportunity, SME clients could voluntarily disclose sustainability information and subject it to some level of assurance. In so doing, these clients position themselves as leaders or preferred partners in the markets

in which they operate. Sustainability reporting and assurance can also be considered as a management tool to improve performance in general. Voluntary sustainability reporting and assurance 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 noted above EFRAG is developing a voluntary sustainability reporting standard for non-listed SMEs (VSME).

SME clients that voluntarily publish sustainability reports, may choose to lend these reports credibility by way of assurance. Similarly, SME clients may also find that large companies in their value chain (for example, companies to whom they supply goods or services) require as a precondition for doing business with them that they submit sustainability reports, or supply specific sustainability information, that has been subject to assurance.

Sustainability reporting assurance typically takes the form of either a limited assurance engagement or a reasonable assurance engagement. The higher the level of assurance provided, then the more confidence users can have in the information being assured. Hence, it is important that assurance providers explain to clients what the differences are between 'limited' and 'reasonable' assurance. This may include a discussion of who the intended users of the sustainability information are, and what level of assurance those users require.

### 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 assurance. SMPs can ascertain the capability gap by answering questions such as:

- What sustainability reporting assurance do clients need right now and what might they need in the future? For example, to meet requests for sustainability information that has been assured from companies in their value chain or to provide assurance on their voluntary sustainability report.
- For the practice to meet those needs, what capabilities will the assurance team require?
- Which of these capabilities does the practice already have?
- Which of these capabilities does the practice need to obtain?

Offering sustainability services comes with critical new demands for talent and knowledge. Capacity building is no small feat. SMPs, however, must not underestimate or overlook the existing capabilities of the practice. Professional accountants are in many ways a natural fit for sustainability services. They have transferable skills and knowledge such as making estimates, comparing data, leading diverse teams of external specialists, and managing staff. And those that are auditors understand risk-based approaches, sampling, analytical procedures, developing expectations, identifying exceptions/anomalies etc. Professional accountants 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 assurance will require an understanding of the relevant standards (as explained above many of these standards, such as the ESRS and the assurance standards, are under development). Assurance of environmental information might require an understanding of how Scope 1, 2 and 3 greenhouse gas emissions are measured. The key objective is to identify what capabilities the SMP lacks so that the practice can start obtaining these.

### 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 assurance 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 as leaders in the field of reporting and assurance professional accountants are well placed to lead multi-disciplinary teams on sustainability reporting assurance engagements. Professional 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.

SMPs may need to find the talent to staff sustainability teams. Presently this is a major challenge. There is only a small pool of people, albeit a growing one, with a background in both assurance and sustainability.

SMPs may wish to consider various actions and initiatives to build capacity as outlined in Box 2.

## Box 2: Actions and Initiatives to Build Capacity

- Combine inhouse skills and research and outside expertise
- Teach the fundamentals of sustainability to all their professional staff
- Require all or some professional staff to attend appropriate courses and / or obtain certification
- Recruit professionals that have some sustainability knowledge
- Build up a specialist sustainability team while spreading expertise across the entire practice
- Provide all professional staff with general education and training on sustainability
- Rotate all professional staff through the sustainability part of the practice
- Develop sustainability specialists by putting some existing staff through extensive inhouse education and training
- Assign professional staff to internal sustainability projects

Practices that have already built the capacity to offer sustainability services have tended to adopt an integrated approach. That is, rather than have a stand-alone team take on all the sustainability work by themselves, they utilize their sustainability teams as in-house consultancies, helping other professional staff complete specialized projects and develop sustainability skills. In this way they treat it as an integrated service that brings all their existing capabilities to the client because the subject matter involves advisory, accounting, assurance, and tax. This collaboration is critical given that most sustainability business will likely come from existing clients.

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

## 5. Leverage the benefits of sustainability services

For SMPs, the benefit of providing sustainability services such as sustainability reporting assurance 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, even more so sustainability reporting assurance. SMPs can advise clients on how to prepare for the efficient implementation of sustainability reporting. SMPs can advise 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 clients on the development of ESRS so they can take timely action.

For clients who are new to sustainability reporting assurance a readiness review can be a useful first step. Such a review encompasses examining the client's current reporting policies and procedures, identifying any gaps in their controls, and providing recommendations to address these. SMPs can show clients the kinds of documentation and robust evidence that an organisation needs to have in place for it to be suitable for assurance.

For independence reasons, SMPs need to be careful not to provide too much detail in aggregate or take on management responsibility but, if you can identify areas of weakness, then that gives the client an opportunity to address these in readiness for an assurance engagement. SMPs must be wary of the self-review threat - threats that arise from auditors reviewing their own work or the work done by others in their firm - but so long as their readiness review avoids too much detail then they should avoid precluding their practice from being able to do the assurance engagement in the future.

## Resources

### EFAA

The [SMPs Supporting Sustainability](#) webpage includes a collection of recommended readings and various publications:

- [Sustainability Reporting: How SMPs Can Build the Capacity to Support SMEs](#), 15 December 2022
- [SMPs and the Sustainability Agenda](#), 24 October 2022
- [Call to Action: SMPs Supporting Creation of the Sustainable Economy](#), 19 July 2021
- The bi-monthly electronic newsletter, [Latest from Brussels](#) (free subscription) 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 and translations into EU languages are [here](#)
- Stay updated on the directive [here](#)

### European Sustainability Reporting Standards (ESRS)

- Stay updated on EFRAG's sustainability reporting work [here](#)

### International Sustainability Standards Board (ISSB)

- Stay updated on the ISSB's work [here](#)

### International Ethics Standards Board for Accountants (IESBA)

- Stay updated on the IESBA's sustainability reporting and assurance work [here](#)

### International Audit and Assurance Standards Board (IAASB)

- Stay updated on the IAASB's sustainability assurance work [here](#)

### IFAC

- [Remaining Relevant: Opportunities to Expand Your Sustainability Know-how](#), 22 September 2022
- [Sustainability Information for Small Businesses: The Opportunity for Practitioners](#), 18 November 2021
- [The State of Play in Sustainability Assurance](#), 15 February 2023

### A4S / Accounting for Sustainability

- [Embracing Sustainability: Actions for SMEs](#), December 2022

### ACCA

- A series of professional insights on accountants and SMEs creating a sustainable world is [here](#)
- [Sustainability Assurance – Rising to the Challenge](#), 28 February 2023

## EFAA Members

ACCA

Association of Chartered Certified Accountants, United Kingdom



AIA

The Association of International Accountants



APFM

Association of Professional Financial Managers, Azerbaijan



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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



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