Sustainability Reporting and Assurance: How SMPs Can Build the Capacity to Support SMEs

European Federation of Accountants and Auditors for SMEs

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DISCLAIMER

Contents

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 accountancy organizations (PAOs). Many SMPs heeded our call. Today most, if not all, SMPs are aware of the sustainability agenda. And many SMPs have made significant progress building the capacity to offer sustainability services. However, much more progress is needed, and even more attention has to be paid to sustainability issues when the winds of change blow after the latest proposals launched on the 26th. February 2025 by the European Commission in the Omnibus package.

While this guide is primarily intended for SMPs in Europe, PAOs and other stakeholders may find it useful. It updates and merges two guides, one on reporting and the other assurance, that we published back in 2023. The guide offers suggestions on how small- and medium-sized accountancy practices (SMPs) can best respond to the sustainability reporting and assurance. We explain how the landscape has evolved, the regulation's fundamentals, and the professional standards on reporting, assurance and ethics in place. The core principles of the current standardization are valid, although the European Commission (EC) has put on the table amendments proposed in the Omnibus package published last 26 February 2025. Whatever the final decision about these proposals is, the valuable tips that we share in this guide on how SMPs can build and develop the capacity to offer sustainability services, especially the preparation of sustainability reports and the performance of sustainability assurance engagements on those reports for their SME clients, are valid. These proposals pretend to preserve SMEs and SMPs from excessive and extensive requirements that can create additional burdens. Bearing that the value chain disclosure requirements and the trickle-down effect are affecting SMEs and SMPs, the idea is to establish a legal cap nearer to the European voluntary sustainability reporting standards designed for non-listed SMEs (the so-called VSME). The VSME was published in 2024 by the EFRAG and sent to the European Commission. Currently, the EFRAG is working to support its implementation.

What is Sustainability Reporting and 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 has largely displaced ‘non-financial reporting’ and ‘environmental, social, and governance (ESG) reporting.’ Assurance provided on sustainability reports or sustainability information is commonly referred to as ‘sustainability reporting assurance’.

The Corporate Sustainability Reporting Directive (CSRD) (see below) introduces for the first time a European Union (EU) wide general requirement for audit (assurance) of publicly reported sustainability information. The European Commission (EC) believes this will help ensure that reported information is accurate and reliable and so 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. Omnibus proposals under discussion pretend to extend the limit of voluntary disclosure and assurance of sustainability reporting. The initial threshold to be included in the new scope of the CSRD would be to count with at least an average number of 1,000 employees. Therefore, the main question would be the undertakings between 250 and 1,000 employees, which would go into the new, more extended voluntary group of reporting and 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 the greater the confidence users can have in the information being assured. Although the assurance required by the CSRD was initially limited, it would move to reasonable assurance. The Omnibus package includes a proposal to remove this possibility. Therefore, the required assurance would be limited in any case.

What is the Role of Professional Accountants and SMPs?

Reporting

Professional accountants have expertise in, and an enviable reputation for preparing financial reports. This proven track record, allied with the comprehensive knowledge and understanding they develop in the process of preparing reports for many clients, means they are perfectly suited to and equipped to do the same for sustainability reporting. Moreover, they have a strong understanding of the information systems and internal controls necessary to help produce high-quality financial and non-financial information, which are the two sides of corporate reporting.

Assurance

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." which the International Ethics Standards Board for Accountants (IESBA) defines in its publication Ethical Considerations in Sustainability Reporting 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."
To help address the risk of greenwashing the European Commission (EC) made assurance on sustainability reporting mandatory under the CSRD (see later). IFAC has said that "professional accountants are also 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." While we concur with IFAC, we believe it is vital that there be appropriate supervision and oversight of those accountants.
In summary, the role of the professional accountant is to ensure that sustainability information, used both internally to drive better performance and externally to meet regulatory requirements, is of high quality – relevant and reliable.

Role of SMPs

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, agreed upon procedures (AUP) engagements (as explained here), and assurance services. The report emulated much of EFAA's Call to Action: SMPs Supporting Creation of the Sustainable Economy of July 2021.

What is the Sustainability Reporting and Assurance Landscape?

In the recent few years, the sustainability reporting and assurance landscape has changed fundamentally - and fast.
At the beginning of 2025, the most important changes of the new European regulation established in the CSRD were in place. However, after two months of the second stage included in the CSRD scope, the European Commission pretends to simplify the CSRD requirements and review the ESRS—everything to contribute to the competitiveness of European undertakings. The landscape will evolve again, although SMEs and SMPs will continue in the voluntary ambit of the sustainability reporting and assurance affected by the value chain, banks and other stakeholders' requirements.

Regulation

On 5 January 2023, the Corporate Sustainability Reporting Directive (CSRD) entered into force. At the time of writing not all EU Member States had completed their transposition of the Directive. The CSRD is the game changer in the 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. The CSRD supersedes the Non-Financial Reporting Directive (NFRD).
The CSRD establishes different stages from 2024 to entry into force. Sustainability reports must be prepared based on European Sustainability Reporting Standards (ESRS) and be subject to external assurance.
This year, 2025, was important because large European companies were included in the CSRD scope, but the rules of the game will change with the proposals launched in the Omnibus package by the EC on 26 February 2025.

The initial plans included adopting separate, proportionate standards for listed SMEs, which would be required to report from 1 January 2026, using either the full ESRS or the separate proportional standards. These standards were under construction by EFRAG (the so-called LSME) at the time of the Omnibus package. The proposed scenario does not include any type of SME in the CSRD scope, and therefore, the LSME does not make sense.
Recently, progress has been made with the approval of the Omnibus package and the adoption of the so-called "Stop-the-clock" directive, which postpones the dates of application of specific corporate sustainability reporting and due diligence requirements and the transposition deadline of the due diligence provisions. It means that finally is supported the EC's proposal to postpone:

- By two years, the entry into application of the Corporate Sustainability Reporting Directive (CSRD) requirements for large companies that have not yet started reporting, as well as listed SMEs and
- By one year, the transposition deadline and the first phase of the application (covering the largest companies) of the Corporate Sustainability Due Diligence Directive (CSDDD).

The idea is to count on time to agree on the other substantive changes to the CSRD and CSDDD proposed by the Commission in the Omnibus package.

Table 1. Main changes proposed by Omnibus package

These proposals want to amend the CSRD, pretending, as main changes, to:

- Increase the size of undertakings in the scope to at least 1,000 employees and one of the other two thresholds used for large companies (either a turnover above EUR 50 million or a balance sheet total above EUR 25 million). In the words of the EC, "This means that the number of companies in scope will be reduced by about 80%".
- Fix a cap to the information required for undertakings not in the CSRD scope but in the value chain of obliged undertakings. This limit, known as the "value chain cap", would also be helpful for the requirements done by other stakeholders such as the banks. The EFRAG would develop this standard from the VSME and would be published as a delegated act.
- Revise the European Sustainability Reporting Standards (ESRS) to reduce "the number of data points, clarify provisions deemed unclear, improve consistency with other pieces of legislation and reduce the number of data points".
- Remove the necessity of adopting sectorial ESRS.
- Remove the possibility of changing from limited assurance to reasonable assurance. This means that assurance would always be limited.
- Postpone two years of the different stages of entry into force the CSRD obligations to report and provide assurance from 2025 afterwards to count with time to finish the discussion to support these proposals (this proposal has already been approved, the so-called 'stop the clock')

European Sustainability Reporting Standards

Core Standards

Companies reporting under the CSRD are required to use ESRS developed by the European Financial Reporting Advisory Group (EFRAG), the EC's technical advisor on sustainability reporting.
On 1 January 2024 the Delegated Act on the first set of sector agnostic ESRS - the Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023 supplementing Directive 2013/34/EU as regards sustainability reporting standards - took effect.
The EC has published questions and answers on the adoption of European Sustainability Reporting Standards.
EFRAG hosts the full suite of ESRS, including links to videos and basis for conclusions, here. EFRAG has also published its XBRL Taxonomy for ESRS Set 1 and the XBRL Taxonomy for Article 8 disclosures. These digital taxonomies enable the marking up, that is tagging, of sustainability reporting in machine-readable XBRL format.

Implementation Support

EFRAG provided implementation support for preparers of sustainability statements according to the ESRS. This support is helpful for SMPs preparing the sustainability reports for their clients falling within the CSRD's scope, for those doing it voluntarily or answering the request of banks or other stakeholders or for being in the value chain of scoped undertakings.
EFRAG has published implementation guidance on materiality assessment (IG 1), value chain (IG 2) and data points (IG 3).
EFRAG is currently working on an IG on transition plans.
EFRAG has also established the ESRS Q&A platform to collect and answer technical questions that remain unresolved after thorough analysis by stakeholders to support the implementation of ESRS. By early 2025 EFRAG had released over 160 Explanations to respond to stakeholders' technical questions on the ESRS. This platform compiles all the questions regarding the implementation of the ESRS and, therefore, is going to be a core tool for detecting the issues susceptible to simplification according to the EC's new proposals included in the Omnibus package.

ESRS VSME

On 17 December 2024, at the behest of the EC, EFRAG delivered to the EC the proposed voluntary reporting standard for non-listed micro-, small-, and medium sized undertakings (ESRS VSME). Non-listed SMEs are by far the most populous type of company in the EU. As previously mentioned, the EC is expected to publish the final standard as a recommendation in early 2025.
The ESRS VSME is designed for undertakings that, while outside the direct scope of the CSRD, have a significant role to play in the transition to a sustainable economy but that need a simple standard they can use to standardize the sustainability information they report to simultaneously help improve their sustainability performance and satisfy information requests from others. The VSME has been designed to provide a standardized set of information to replace the current multiple and uncoordinated questionnaires and sustainability data requests from larger companies, in whose value chain they find themselves, and from banks that finance them. Table 2 sets out the objectives of the standard. The ESRS VSME comprises a Basic Module and a Comprehensive Module. Table 3 shows this modular structure. To help preparers EFRAG has released a series of three educational videos on the ESRS VSME. More implementation support will follow.
After the launch of the Omnibus package, the VSME has been reinforced as it would be the basis for developing the standard that would be the cap for the information required for undertakings non-scoped in the CSRD (the value chain cap). The EC would publish this new standard as a delegated act.
EFAA has long advocated for the standard. It recently issued a joint statement with the European Savings and Retail Banking Group (ESBG) and hosted the webinar ESRS VSME: SMEs, SMPs & Stakeholders - Time to Act.

Table 2: Objectives of the ESRS VSME

The objective of the ESRS VSME is to support micro-, small- and medium-sized undertakings in:

- providing information that will help satisfy the data demand needs of large undertakings requesting sustainability information from their suppliers.
- providing information that will help satisfy data demand from lenders/credit providers and investors, therefore helping undertakings in their access to finance.
- improving the management of the sustainability issues they face, i.e., environmental and social challenges such as pollution, workforce health and safety. This will support their competitive growth and enhance their resilience in the short-, medium- and long-term; and
- contributing to a more sustainable and inclusive economy.

Source: Voluntary Sustainability Reporting Standard for Unlisted SMEs, EFRAG, December 2024

Table 3: ESRS VSME Two Module Structure

BASIC MODULE		COMPREHENSIVE MODULE
- **B1** – Basis for preparation	+	- **C1** – Strategy: Business Model and Sustainability – Related Initiatives
- **B2** – Practices, policies and future initiatives for transitioning towards a more sustainable economy (**YES/ NO dropdown menu)**		- **C2** – Description of practices, policies and future initiatives for transitioning towards a more sustainable economy (**Semi-narrative - continuation of B2)**
- **B3** – Energy and greenhouse gas emissions		- **C3** – GHG reduction and climate transition
- **B4** – Pollution of air, water and soil		- **C4** – Climate risks
- **B5** – Biodiversity		- **C5** – Additional (general) workforce characteristics
- **B6** – Water		- **C6** – Additional own workforce metric - Human rights policies and processes
- **B7** – Resource Use, circular economy and waste management		- **C7** – Incidents related to severe human rights cases
- **B8** – Workforce – General characteristics		- **C8** – Revenues from certain sectors and exclusion from EU reference benchmarks.
- **B9** – Workforce – Health and safety		- **C9** – Gender diversity ratio in governance body
- **B10** – Workforce – Remuneration, collective bargaining and training.		
- **B11** – Convictions and fines for corruption and bribery		

Source: ESRS VSME Educational Videos, EFRAG, December 2024

EFRAG notes that the CSRD (article 40a) stipulates that non-EU companies that generate over EUR 150 million per year in the EU (the current proposal of the EC included in the Omnibus package establishes over 450 million € during the last two consecutive financial years) and that have in the EU either a branch with a turnover exceeding EUR 40 million (50 million € according to the Omnibus package) or a subsidiary that is a large company or a listed SME (the category of listed SME disappears in the Omnibus package) will have to report on the sustainability impacts at the group level of that non-EU company as from financial year 2028, with the first sustainability statement to be published in 2029. The CSRD foresees the adoption of separate standards for this purpose.

IFRS Sustainability Standards

Core Standards

While ESRS apply in the EU it is useful to be aware of what is happening at global level. Afterall many SMPs in Europe are based in non-EU countries and even those that are based in the EU Member States will find that the reporting of their clients, such as EU companies that are subsidiaries or in the value chain of non-EU companies. 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.
On 26 June 2023 the ISSB issued its inaugural standards — IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures. The standards are intended to help improve trust and confidence in company disclosures about sustainability to inform investment decisions. To facilitate the digital consumption and analysis of IFRS sustainability information the ISSB has issued the IFRS Sustainability Taxonomy.

Interoperability with ESRS

While ESRS take precedence in the EU, the ISSB, GRI, EFRAG and the EC have been working hard to ensure the closest possible alignment, so called 'interoperability', of their respective standards. This interoperability is necessary to avoid disproportionate administrative burden arising from duplication of effort and confusion. The IFRS Foundation and EFRAG have published guidance material to illustrate the high level of alignment achieved between the ISSB Standards and the ESRS and how a company can apply both sets of standards, including detailed analysis of the alignment of climate related disclosures. Read the ESRS–ISSB Standards Interoperability Guidance.

Implementation Support

The standards became effective for periods beginning on or after 1 January 2024. The ISSB has established the ISSB Knowledge Hub, a free online resource for preparers, designed to help them understand and get ready for applying IFRS S1 and IFRS S2. It incorporates an easy-to-navigate and searchable repository of resources.

SME Standards and Proportionality

The ISSB has said it does not plan to develop separate standards for SMEs in the same way that EFRAG has done (and its sister board, the International Accounting Standards Board, did with its when it developed the IFRS for SMEs). Rather it is committed to developing a high-quality, comprehensive global baseline of sustainability disclosures focused on the needs of investors and the financial markets (though jurisdictions may choose to require or encourage their SMEs to use ISSB standards).
The ISSB has, however, been sensitive to concerns around proportionality and scalability. When developing IFRS S1 and S2 it received feedback from stakeholders that the ISSB Standards should give more consideration to the range of capabilities and preparedness of companies around the world. To make the ISSB Standards a truly global baseline of sustainability-related financial disclosures, the ISSB integrated proportionality mechanisms into IFRS S1 and S2 to ensure that all companies, including smaller companies and those in developing markets, can apply them. Essentially these proportionality mechanisms help companies with different levels of capability and preparedness to apply the ISSB Standards.
The ISSB has released a webcast, Proportionality Mechanisms in IFRS Sustainability Disclosure Standards, that explains how the proportionality mechanisms support the application of IFRS S1 and IFRS S2. They cover what the proportionality mechanisms are and where they appear in IFRS S1 and IFRS S2. They also provide examples of how companies should use

the proportionality mechanisms to apply specific requirements in ISSB Standards. The webcast is accompanied by a factsheet that provides an overview of the proportionality mechanisms and what is covered in the webcast. Access the slides here.

Other Standards

The ISSB is likely to develop more standards on other sustainability topics, possibly starting with biodiversity. Meantime the SASB Standards are a source of guidance for applying IFRS S1. The SASB Standards help companies identify and disclose material information about sustainability-related risks and opportunities in the absence of specific IFRS Sustainability Disclosure Standards. The SASB Standards identify the sustainability-related risks and opportunities most relevant to investor decision-making in 77 industries. In December 2023, the ISSB published amendments to enhance the international applicability of the SASB Standards.

Stay updated on the work of the ISSB here.

Verification and Assurance

IFRS S1, and its ESRS equivalent, includes verifiability as an enhancing qualitative characteristic. Verifiability is intrinsically linked to assurance. As the IAASB explains on a sustainability assurance engagement the objectives of the assurance practitioner include to obtain either reasonable assurance or limited assurance 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. It is, therefore, important that reporting standards are designed in a manner that results in sustainability information on which an assurance engagement can be performed.

Ethics and Assurance Standards

CSRD

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. According to the Omnibus package, the option to move toward reasonable assurance at a later stage would be removed. Member States should set out equivalent requirements for IASPs around quality, independence, and oversight in line with the Audit Directive.

Initially, the EC planned to adopt a delegated act for the standard for sustainability reporting assurance. However, unlike sustainability reporting, where EFRAG was able to 'graduate' to assume the role of sustainability standard setter essentially, no equivalent EU entity can develop an assurance standard. Hence, it is likely that the EC will leverage the work of the International Audit and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA), both of which have EU representation and standards shaped by input from EU stakeholders. Nevertheless, all these presumptions are under scrutiny when many proposed amendments and goals are included in the Omnibus package to be completed quickly. Likewise, it is also advisable in this line to be attentive to the recommendations that the CEAOB will make in relation to this area of assurance, as it has already done recently.

Ethics

Sustainability reporting assurance requires auditors to demonstrate the same independence as required for a traditional financial audit. The relevant Code of Ethics still applies and as such assurance providers should consider all the principles of this. The Code of Ethics applicable in a particular EU Member State is 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. 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.

IESSA and ISSA 5000

On 27 January 2025 the IAASB and the IESBA launched an integrated effort to support effective implementation of their landmark standards aimed at advancing trust and transparency in sustainability reporting and assurance. Taken together, the IAASB and IESBA sustainability-related standards, as well as the new IESBA standard on using the work of experts, provide a unified global approach to address the growing demand for trustworthy sustainability information to support stakeholder decisions. These standards establish clear expectations for ethical behavior in sustainability reporting and assurance and provide more specific requirements for practitioners and organizations in relation to assurance engagements on sustainability information.

The factsheet ISSA 5000 and IESSA: Global Baseline Standards for Sustainability Assurance provides a summary of the respective standards, who they apply to, why they were developed, how they address the public interest, and what are the goals of the standards. The IAASB has also published ISSA 5000 Frequently Asked Questions.

As the IAASB explains here the International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*, is applicable across various sustainability topics and frameworks, and is designed for use by both professional accountants and non-accountant assurance practitioners. In jurisdictions that adopt it, ISSA 5000 is effective for periods beginning on or after 15 December 2026. Translations are currently underway including Dutch, French, German, Slovenian, and Spanish. The IAASB has developed a factsheet – see Table 4 – and this implementation guide to provide practical non-authoritative guidance intended to assist practitioners in conducting assurance engagements in accordance with ISSA 5000.

Table 4: Sustainability Assurance ISSA 5000 Factsheet

IAASB

International Auditing and Assurance Standards Board

SUSTAINABILITY ASSURANCE ISSA 5000

FACT SHEET

WHY IS ISSA 5000 NEEDED?

The IAASB has published the first International Standard on Sustainability Assurance™ (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements. Assurance engagements* under this standard will enhance the confidence and trust of intended users that the sustainability information reported by an entity is relevant, reliable, credible and comparable in informing their decision making.

Reporting on sustainability information has quickly become a matter of global importance for stakeholders concerned about an entity's impacts on sustainability matters and for investors and lenders concerned with the impacts of those matters on the entity. Increasingly, stakeholders are calling for assurance on sustainability information and mandatory assurance requirements are being introduced in many jurisdictions across the globe.

RELATED FACT SHEETS

- ISSA 5000 and IESSA: Global Baseline Standards for Sustainability Assurance
- IESBA's Ethics & Independence for Sustainability Assurance (IESSA)
- IESBA's Ethics for Sustainability Reporting
- IESBA's Using the Work of Experts

Global Sustainability Reporting, Assurance, & Ethics Ecosystem

Suitable Reporting Framework

Reliable, comparable and decision useful information

IAASB's International Standard on Sustainability Assurance (ISSA) 5000

Assurance engagements that enhance confidence in reported information

IESBA's Ethics and Independence Standards

Trustworthy information that is factual and not misleading

WHO DOES THE STANDARD APPLY TO?

ISSA 5000 provides robust requirements for assurance practitioners when conducting assurance engagements on sustainability information.

ISSA 5000 provides a global baseline to avoid fragmentation in assurance practice and supports the consistent performance of quality sustainability assurance engagements.

It is designed to be profession agnostic, so any assurance practitioner with the necessary competence and capabilities can use it, with two important caveats:

Practitioners must:

- Comply with the IESBA Code,[1] which provides relevant ethical requirements, including independence; and
- Be a member of a firm that applies ISQM 1[2] for quality management; *or*

- Follow ethical and quality management requirements that are at least as demanding as the IESBA Code and ISQM 1.

[1] *International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards)* related to sustainability assurance engagements

[2] International Standard on Quality Management, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

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Source: ISSA 5000, *General Requirements for Sustainability Assurance Engagements* Factsheet, IAASB, January 2025

As the IESBA explains here its Global Ethics Sustainability Standards encompass the *International Ethics Standards for Sustainability Assurance (including International Independence Standards)* (IESSA), revisions to existing sustainability reporting standards, and a new standard on using the work of external experts. Except for certain provisions to value chain components which will be effective from 1 July 2028, the IESSA will be effective from 15 December 2026. The IESSA also provides some transitional provisions. The standard on using the work of an external expert will be effective from 15 December 2026, with early adoption permitted and encouraged. There is a useful technical overview of the IESSA here.

Proportionality, Scalability and SME Standards

Throughout the development of the ISSA 5000 and IESSA EFAA for SMEs has been urging the IAASB and IESBA to ensure the standards and provisions are sufficiently scalable such that SMPs can cost effectively perform sustainability reporting and assurance engagements for SMEs. These global standards may have significant implications for value chain entities and their assurance providers, including SMEs and SMPs. While the IAASB and IESBA are adamant that their standards and provisions are indeed scalable and proportional, EFAA and others have expressed serious doubts.

This means that the standards are intended for sustainability assurance engagements prepared under any suitable framework or other criteria, no matter the size of the entity or assurance provider and irrespective whether the assurance is mandatory or voluntary. This includes voluntary assurance engagements performed by SMPs on reports prepared in accordance with the VSME.

The IAASB and IESBA do not plan to develop separate standards for less complex entities (LCE). Their standards occasionally provide differential treatment within the body of their standards but there is no plan to develop a sister standard to the International Standard on Auditing for Audits of Financial Statements of Less Complex Entities, known as the ISA for LCE. The ISA for LCE is a standalone global auditing standard that is designed specifically for smaller and less complex businesses. Built on the foundation of the International Standards on Auditing (ISAs), audits performed using this standard provide the same level of assurance for eligible audits: reasonable assurance.

Stay updated on the IESBA's sustainability work here

Stay updated on the IAASB's sustainability work here

The IAASB envisages that eventually a suite of standards for assurance on sustainability reporting that provide more specificity than an overarching standard may be needed.

State of play of sustainability reporting and assurance: Europe and global landscape

Trends in Sustainability Reporting and Assurance

Since 2021 IFAC's The State of Play: Sustainability Disclosure and Assurance global benchmarking study series has been capturing and analyzing the extent to which companies are reporting and obtaining assurance over their sustainability disclosures[1], which assurance standards are being used, and which companies are providing the assurance service. The studies indicate 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. In February 2025 EFAA produced a report, Sustainability Disclosure and Assurance in Europe: What it Means for SMPs that examines the European data from the State of Play series. The IFAC data relates only to large exchange-listed companies and as such is not representative of the population of companies. The EFAA report benchmarks the disclosure and assurance of sustainability information by these large, exchange-listed companies in 13 countries (9 European Union (EU) Member States, Norway, Switzerland, Turkey and the UK).

One can see from Table 5 that globally[2] level nearly all companies reviewed report at least some ESG information. Furthermore, an increasing majority of companies obtained assurance on at least some of that ESG information. The four-year trend analysis indicates that while the frequency of reporting ESG information is relatively high, there continues to be a meaningful difference between reporting and assurance rates. While most assurance is being provided by audit firms, over time an increasing proportion of assurance is being provided by other assurance providers.

In Europe the reporting situation was broadly comparable to the global picture. Almost all companies reported at least some ESG information in 2022. However, in Europe a significantly greater proportion of companies, 75% versus 69%

[1] IFAC's report, and this article, use the terms ESG and sustainability interchangeably.

[2] 1,400 companies from 22 jurisdictions (G20, Spain, Singapore and Hong Kong, S.A.R.).

globally, obtained assurance on at least some of that ESG information. This is perhaps not surprising since the Non-financial Reporting Directive (NFRD), predecessor to the CSRD, that took effect in 2014 included an option for Member States to require that the non-financial information be verified by an independent assurance services provider and some Member States made use of this option in their national law.
A key difference between Europe and the global picture is in relation to who provides the assurance on ESG information. In Europe the vast majority (82%) of assurance on ESG information is provided by audit firms: this proportion has been rising steadily over the period 2019-2022 from 69% in 2019 to 82% in 2022 and in 2022 is much higher than the global average of 58%.
One can only speculate on why audit firms are more dominant in Europe compared with elsewhere. One possible reason is that ESG reporting is more mature and broad-based, spanning all aspects of ESG, and as such only audit firms are equipped to provide high quality assurance. Furthermore, audit firms enjoy significant efficiencies and economies of scale in this regard since they already have considerable knowledge of the client gained through the audit work. Another possible reason is that in some non-European countries, such as the US, different approaches to regulation have enabled other assurance providers to gain a strong foothold in this area, especially GHG assurance.

Table 5: Europe versus Global Averages (% of Companies)

All figures are % of companies[1]	2019	2020	2021	2022
ESG Reporting Companies	Europe 91 Global 91	Europe 93 Global 92	Europe 95 Global 95	**Europe 99** **Global 98**
Rate of ESG Assurance	Europe 54 Global 51	Europe 62 Global 59	Europe 68 Global 64	**Europe 75** **Global 69**
Assurance Provided by Audit Firms	Europe 69 Global 63	Europe 72 Global 61	Europe 75 Global 57	**Europe 82** **Global 58**

Outlook for Professional Accountants and SMPs

Depending on the final amendment of the CSRD, it will mean that sustainability reporting and its assurance will be compulsory for large or larger companies across the EU. There were expected rates of reporting and assurance to continue to grow and to converge at high levels; currently, after the Omnibus proposal, the reduction of the obligations and scope of the CSRD, if it finally succeeds in its current form, will reduce these figures. As for whether audit firms, especially the larger ones, will continue to dominate the ESG assurance market, it depends on whether EU Member States open the market to other independent assurance providers, an option allowed in the CSRD and kept in the EC amendment proposal. Few countries have chosen this option (France being one of them), allowing audit firms to tighten their grip on the assurance market.
Audit firms presently dominate the market for statutory audits. Their wide experience in assurance gives them a head start as ESG assurance widens in scope from narrow specialist assurance, such as for GHG emissions, to broad-based assurance spanning all sustainability matters. The vast majority of sustainability assurance performed by audit firms is done in accordance with the International Standard on Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements Other than Audits or Reviews of Historical Financial Information.
Before the Omnibus package, it looked likely that Europe would adopt the recently approved International Standard on Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance (indeed, the recently published CEAOB Guidelines on Limited Assurance on Sustainability Reporting conform closely to ISSA 5000), but currently, there are lots of changes to solve, and the uncertainty will continue.
Although the CSRD and the ESRS are now under discussion again to get further simplification, they have significant ramifications for sustainability reporting and assurance by SMEs. In value chain reporting, companies that are required to

report may need to include information about entities in their value chain. This is described in the current version of the ESRS as follows.

Value Chain

Reporting undertaking and value chain

The information about the reporting undertaking provided in the sustainability statement shall be extended to include information on the material impacts, risks and opportunities connected with the undertaking through its direct and indirect business relationships in the upstream and/or downstream value chain ("value chain information"). In extending the information about the reporting undertaking, the undertaking shall include material impacts, risks and opportunities connected with its upstream and downstream value chain.

Source: ESRS 1 General Requirements, European Commission, July 2023

The consequence of value chain reporting is that potentially hundreds of thousands of European SMEs, that are in the value chain of large companies that are obligated to report under the CSRD, will increasingly be asked for information from those companies. In addition, finance providers, notably banks who provide the majority share of finance to SMEs, will increasingly demand similar information to fulfill their reporting obligations and manage sustainability-related risks. As mentioned previously the EC and EFRAG have recognized this and, to avoid SMEs having to respond to a multitude of ad hoc information requests in the form of questionnaires etc., have developed the VSME. The standard, which is also expected to help drive improved sustainability performance as well as help attract customers and employees, was submitted to the European Commission on 17 December 2024 (educational videos were released the next day). The VSME is expected to be published and endorsed, or recommended for use, by the EC in summer 2025. It is likely many SMEs will choose to prepare sustainability reports based on the ESRS VSME and many SMEs will seek the assistance of their preferred advisors and accountants, often SMPs.

Eventually we may see assurance being provided on these sustainability reports prepared using the VSME. Large companies in the value chain or banks providing finance may ask for assurance either for the sake of reliability or else to meet the requirements of their sustainability reporting assurance provider. Indeed, there are already signs of this happening.

In sum, SMEs and SMPs are not included in the CSRD's scope, but indirectly, regardless of this scope, even if it is now reduced, they are involved in this sustainability journey and must be ready to cope with this issue.

How Can SMPs Provide Sustainability Services?

EFAA believes, as explained in the Call to Action: SMPs Supporting Creation of the Sustainable Economy, that SMPs are ideally placed to offer a range of sustainability services to their clients, including advisory services, reporting, agreed upon procedures engagements and assurance services.

Although it is under revision, SMPs 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 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 and assurance will be new to many SMPs and as such require the acquisition of new knowledge and expertise. We recommend nominating someone in the practice with responsibility for scoping out challenges and opportunities relating to the provision of sustainability reporting and assurance services. This lead person needs to be relatively senior and command 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 and assurance services.

2. Discuss with clients

Risks and Opportunities

SMPs are the trusted business advisor of their SME clients. SMPs are SMEs themselves, from the accountancy sector, and as such share an affinity with and understanding of other 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 impacts, risks and opportunities relating to sustainability reporting and assurance.

From a risk perspective, clients may be seeking to pre-empt an investor or lender's information demands or to comply with the regulation 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, even, have this information subject 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 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, the VSME is available as a basis for reporting by non-listed SMEs.

Assurance

SME clients that voluntarily publish sustainability reports may choose to lend these reports credibility by way of assurance or an agreed upon procedure. 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 or an agreed upon procedure.

Sustainability reporting assurance in the EU always seems to be limited, but the higher the level of assurance provided, the more confidence users can have in the information being assured. Hence, assurance providers must also be ready to provide reasonable assurance that the markets or other stakeholders require.

Many SMPs will already be preparing the financial reports and / or conducting financial statement audits, or some other assurance service on financial information, for SMEs. Hence, it seems a logical next step to offer the equivalent services for sustainability to existing clients.

While there are few if any legal or regulatory hurdles to offering a reporting service – and SMPs already have in-depth knowledge of existing client and many of the skills they have honed preparing financial reports are transferable to preparing sustainability reports – offering assurance is more complicated. First, they will need the permission of their local regulator to enter the market for sustainability reporting assurance. This will include demonstrating their competence and independence. And then determine what standards of assurance to use. The relevant assurance standards may vary from one jurisdiction to another until UE agrees with the applicable sustainability assurance standard. This standard may be closely aligned with the International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*, which already comes with a useful implementation guide that provides practical non-authoritative guidance. Then there are Guidelines on Limited Assurance on Sustainability Reporting that conform closely to ISSA 5000.

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 and assurance 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 or banks providing them finance, to prepare a voluntary sustainability report in accordance with the VSME. Some SMEs may even be asked to have assurance on this sustainability information.
- For the practice to meet those needs, what capabilities will the reporting and / or assurance teams 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. That said, SMPs should not underestimate or overlook the existing capabilities of the practice. Professional accountants are in many ways a natural fit for sustainability services. Many have transferable skills and knowledge such as making estimates, comparing data, developing expectations, 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 solve problems, and being effective communicators. They also have personal attributes that can be leveraged such as an inquiring mind, ability to solve problems, and being effective communicators.

The SMP will likely need to obtain new subject-matter knowledge. For example, sustainability reporting and assurance will require an understanding of the relevant reporting standards (ESRS, VSME, ISSA 5000 etc.) as well as how to measure things like Scope 1, 2 and 3 greenhouse gas emissions. The key objective is to identify what capabilities the SMP lacks so that the practice can start obtaining these.

4. Build in-house or buy in capabilities, expertise and technological tools

SMPs can obtain the capabilities they lack by either building them in-house 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 in-house

While sustainability reporting and 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 or building networks

SMPs do not need to become experts in every aspect of sustainability. Rather professional accountants are well placed to lead multi-disciplinary teams on sustainability reporting and assurance engagements. They can collaborate with external subject-matter experts (e.g., environmental engineers, sustainability consultants, industry experts, and human resources specialists) and provide the necessary quality management and ethical underpinning. They are also ideally placed to help clients understand and interpret the financial impacts of sustainability issues. SMPs may need to find the talent for sustainability teams. Presently this is a major challenge. There is only a small pool of people, albeit a growing one, with a background in sustainability reporting and assurance.

SMPs may wish to consider various actions and initiatives to build capacity as outlined in Table 7.

Table 7: Actions and Initiatives to Build Capacity

- Combine in-house 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 staff through extensive in-house 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 a stand-alone team taking on all the sustainability work by themselves, they utilize their sustainability teams as in-house consultants, 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 new business will likely come from existing clients.

The practice will need to stay updated on regulatory and industry trends. They will need to monitor changes, trends and best practices, provide informed advice to clients, and adapt to evolving standards.

SMPs are encouraged to leverage technological innovations and solutions. For example, use tools for measuring carbon emissions or tracking supply chain sustainability. These tools can be either bought in - most likely the case with SMPs – or developed in-house. Integrating these technologies into their sustainability services enables SMPs to provide their clients with innovative solutions to improve their own sustainability performance.

Stay updated on sustainability knowledge here.

5. Position practice as purpose-driven

SMPs, the benefit of providing sustainability 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. Furthermore, being and being seen to be a purpose-driven practice makes the practice look authentic and persuasive when promoting its sustainability services to existing and potential clients – 'walk the talk'!

Positioning the practice as purpose-driven can mean many things. The practice might craft an authentic sustainability narrative about its sustainability journey, showcasing its expertise and dedication to creating a sustainable world. Highlighting the challenges and solutions make the narrative transparent and authentic.

The practice might focus on becoming a net zero practice. The practice could create a plan detailing steps to reduce emissions, promote sustainability, and achieve net zero status. Once the plan is implemented the practice can share its progress with clients, demonstrating its commitment to sustainability and its understanding of the challenges it presents. Organizations like Net Zero Now, used by many practices as well as PAOs, can help.

Ultimately it might entail the practice gaining B-Corp Certification. Many practices have already done this: see the list here. This IFAC Gateway article explains how one practice made the transition. But note that some consider the transition process to be rather burdensome.

6. Help clients get started

IFAC's Small Business Sustainability Checklist is a useful diagnostic tool that SMPs can use as the basis for sustainability services offered to their SME clients. The checklist is designed to be tailored by each business according to its own unique circumstances, including its industry sector, lifecycle, and products and services provided. It lists a comprehensive range of initiatives and actions to be considered in terms of sustainability factors. Not all actions in the Checklist will be relevant to every SME client. For many SMEs it will be a step-by-step journey with the SMP accompanying them on every step of that journey.

Most SMEs will be new to sustainability reporting, even more so assurance on 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.
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 organisations need to have in place to be suitable for assurance. For independence reasons, SMPs providing assurance need to be careful not to provide too much detail in aggregate or take on management responsibility. But if they 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.

7. Provide sustainability advisory services to clients

In this article Peter Ellington, CEO of Triple Bottom Line Reporting, recommends the following initiatives:

a. Integrate sustainability into financial reporting and advisory services - incorporate sustainability factors into clients' financial reporting, risk assessments and performance analysis, providing a holistic understanding of their financial health and the likely impacts of sustainability factors on their business.

b. Identify material sustainability matters – conduct a materiality assessment using EFRAG's ESRS Implementation Guidance (IG) 1 Materiality Assessment to identify material items for clients. Offer targeted advice and support on their sustainability journey including workshops where clients can be advised on their impacts, risks and opportunities and what action to take.

c. Develop tailored sustainability solutions - recognise each client's unique sustainability journey, offering bespoke solutions addressing their specific sustainability goals and challenges.

d. Educate clients on the business case for sustainability – demonstrate to clients, using success stories, case studies and insights, the benefits of integrating sustainability into their operations including cost savings, enhanced brand reputation, better access to finance, and improved long-term resilience.

e. Set up a net zero service - develop a net zero consultancy service using carbon emissions estimation tools (in due course the EC may provide such a tool). Create tailored net zero plans for each client and help them develop a compelling authentic narrative about their sustainability journey.

f. Engage with clients on sustainability concerns - reach out to clients to assess their needs and offer tailored advice and support to help them achieve their sustainability goals.

g. Share sustainability knowledge - host workshops, webinars and events to educate existing and potential clients on sustainability topics, reinforcing practice's position as thought leader and trusted advisor.

h. Develop a sustainability audit function – develop a service that assesses clients' reports and plans for adapting to sustainability issues.

i. Provide tax and incentive advice related to sustainability - offer guidance on tax incentives, credits and deductions related to sustainable practices and investments. Help clients identify opportunities to reduce their tax burden while improving their sustainability performance.

Resources

CEAOB

Guidelines on Limited Assurance on Sustainability Reporting, September 2024

European Commission

Frequently Asked Questions on the Implementation of the EU Corporate Sustainability Reporting Rules, August 2024

Questions and answers on simplification omnibus I and II , Feb 26, 2025

Simplification: Council gives final green light on the “Stop-the-clock” mechanism the boost EU competitiveness and provide legal certainty to businesses.

EFAA for SMEs

SMPs Supporting Sustainability *(webpage)*

Sustainability Recommended Readings *(webpage)*

Latest from Brussels (electronic newsletter)

Sustainability Disclosure and Assurance in Europe: What it Means for SMPs, February 2025

The role of small- and medium-sized practices in the sustainable transition of SMEs, August 2023

Call to Action: SMPs Supporting Creation of the Sustainable Economy, July 2021

EFRAG

European Sustainability Reporting Standards (ESRS) *(sector agnostic Set I published in July 2023)*

ESRS Implementation Support *(webpage)*

Voluntary Sustainability Reporting Standard for Unlisted SMEs (ESRS VSME) *(final standard to be published by Commission in early 2025)*

ESRS VSME Educational Videos, December 2024

IFRS

IFRS Sustainability Standards Navigator *(webpage)*

IFRS Sustainability Knowledge Hub *(webpage)*

IFAC

Small Business Sustainability Checklist, November 2023 *(online version under development)*

IAASB

International Standard on Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance (*and implementation support*) January 2025 *(webpage)*

IESBA

The International Ethics Standards for Sustainability Assurance (including International Independence Standards (IESSA) (*and implementation support*) January 2025 *(webpage)*

EFAA Members

Association of Chartered Certified Accountants – ACCA

The Association of International Accountants – AIA

Association of Professional Financial Managers of Azerbaijan – APFM

Chamber of Auditors of Azerbaijan Republic – CAAR

Chamber of Financial Auditors of Romania – CAFR

Chamber of Accounting Services (GZS – Zbornica racunovodskih servisov)

Consejo General de Economistas – CGE

Conseil national de l'ordre des experts-comptables – CNOEC

Deutscher Steuerberaterverband e.V. – DStV

Instituut van de Bedrijfsrevisoren/ Institut des Réviseurs d'Entreprises – IBR-IRE

Albanian Institute of Authorized Chartered Auditors – IEKA

Institute for Tax Advisors and Accountants – ITAA

Nederlandse Beroepsorganisatie van Accountants – NBA

Ordem dos Contabilistas Certificados – OCC

Society of Certified Accountants and Auditors of Kosovo – SCAAK

EFAA for SMEs - European Federation of Accountants

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