

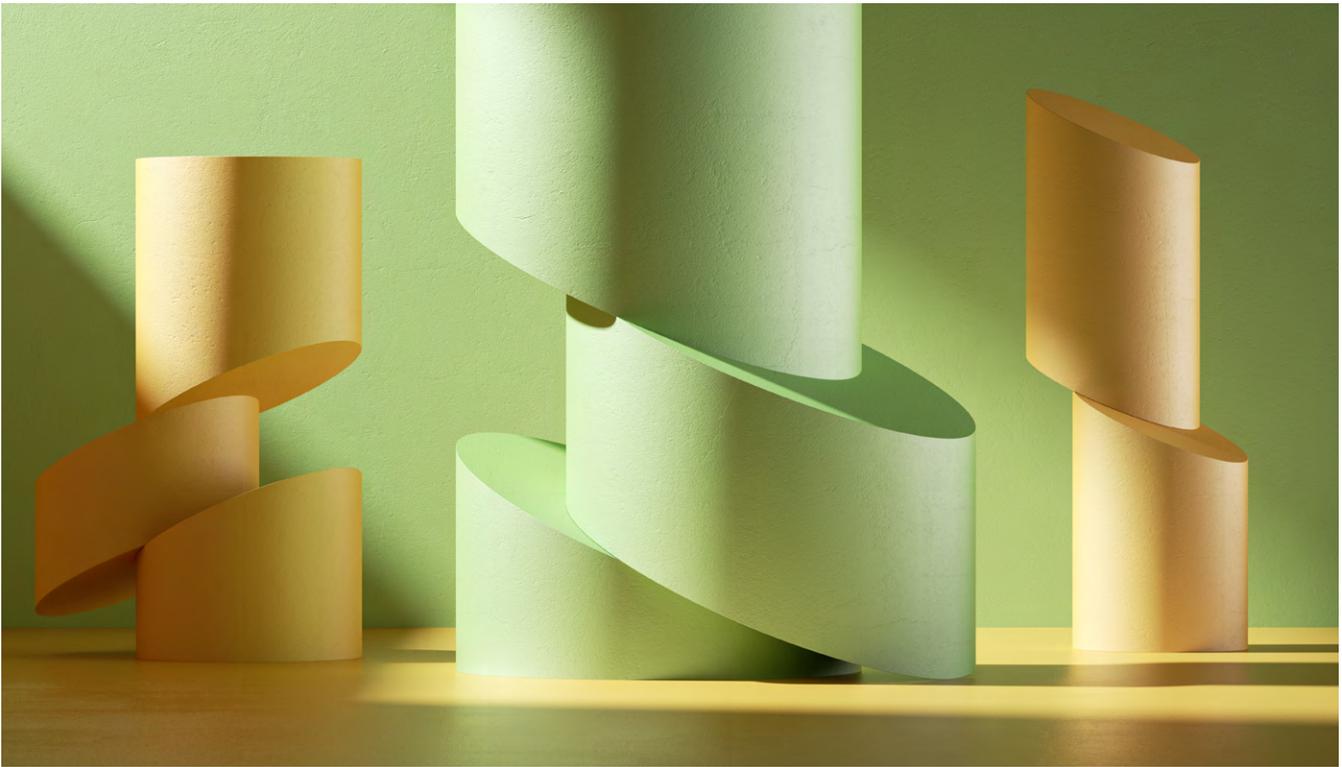
SUSTAINABILITY INFORMATION
FOR SMALL BUSINESSES



THE OPPORTUNITY FOR PRACTITIONERS



International
Federation
of Accountants



OVERVIEW

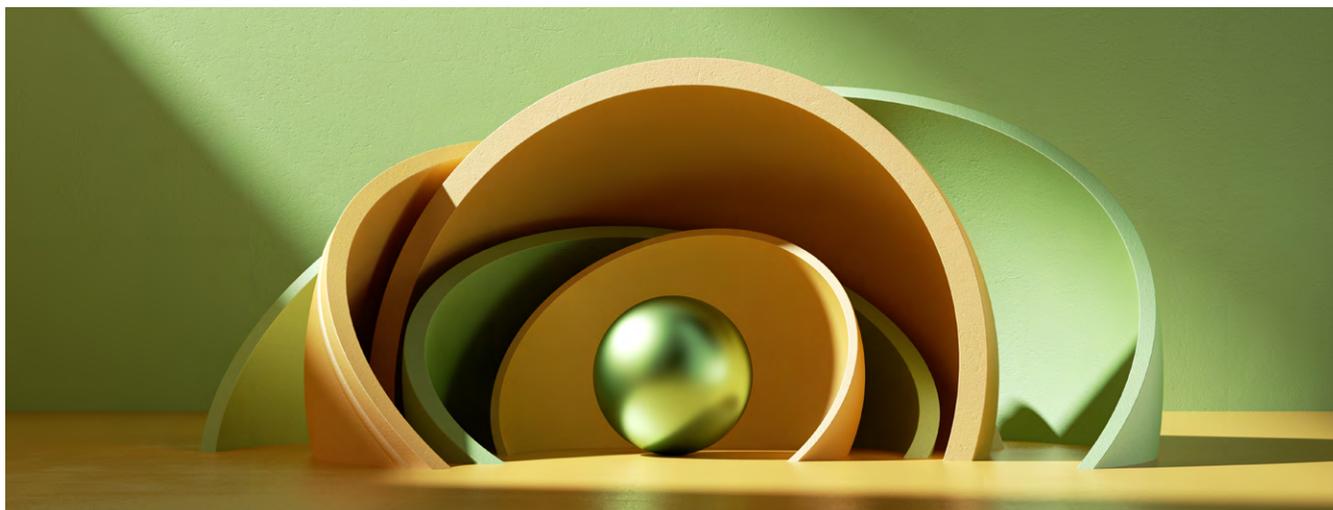
Sustainability information¹ is gaining increased attention and traction as the center of global discourse for many reasons, not least because of the attention on sustainability in business and economies. The focus on business resilience and survival has become even more critical due to the Covid-19 pandemic, which has also contributed to putting certain social issues and businesses' impact on climate further in the spotlight. During 2021 many businesses have been looking for the "next normal." Meanwhile, the momentum for a new international sustainability standard setting-board has continued to build².

The **IFAC SMP Advisory Group** believes sustainability information is already important for small and medium-sized entities (SMEs) and small and medium-sized practitioners (SMPs), not just in the long-term.

This publication outlines some of the benefits for SMEs using and even reporting on sustainability information, highlighting the range of services practitioners can provide, including advisory, reporting, Agreed-Upon Procedures (AUP) engagements and assurance. It also explains how SMPs can build skills, knowledge and take initial steps. The primary target audience of this publication is SMPs (i.e., practitioners), but SMEs and other stakeholders may also find it useful.

¹ There is no commonly used definition of Sustainability or 'Non-Financial' Information. For this publication, sustainability information is a catch-all phrase for information relating to employees, suppliers, customers, the community, human rights, and environmental, social and governance (ESG) matters.

² See IFAC's latest advocacy initiatives [Sustainability Standards](#) | IFAC



THE IMPORTANCE OF SMES & SUSTAINABILITY INFORMATION

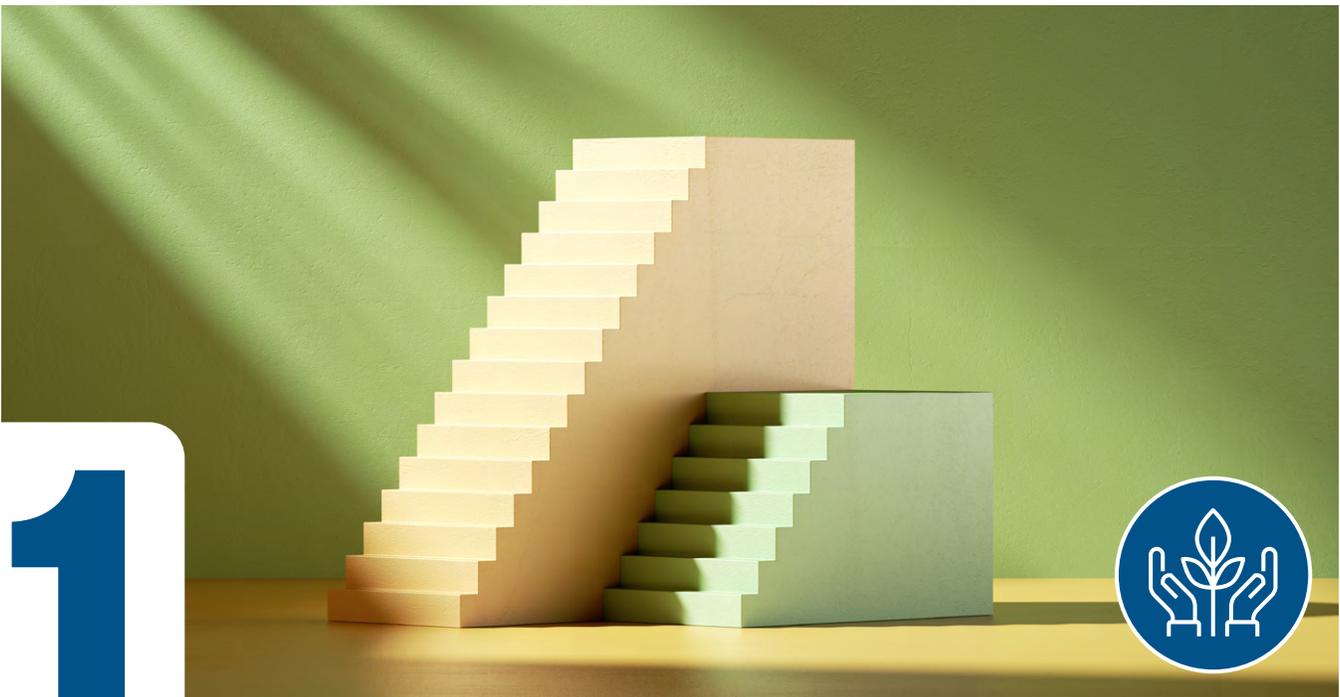
SMEs are **critical** to the health, stability and sustainability of the global economy: they account for the majority of private sector Gross Domestic Product (GDP), wealth and employment creation, social impact, and carbon footprint. Worldwide SMEs represent over **90 percent** of the business population and are usually defined by reference to quantitative thresholds set by jurisdictions (e.g., number of employees, amount of assets, and level of revenues). However, the reality is that SMEs vary greatly in their size, age, sector, ownership, business models and aspirations, and are not easily addressed by a one-size-fits-all approach.

There are significant benefits from using sustainability information for internal decision making and enhancing the way a business thinks and plans, as well as how it reports its story. The following are three areas of emphasis:

- Having readily available, relevant and reliable sustainability information to enable better-informed business decisions, enhance strategic planning and risk management and therefore sharpen a focus on integrated thinking.
- Reporting on sustainability information to external stakeholders and business partners who are demanding it.
- Requesting a practitioner to undertake an AUP engagement or obtain independent assurance on sustainability information.



SMEs have an important part in achieving the UN **Sustainable Development Goals**. In particular, Goal 8: 'Promote inclusive and sustainable economic growth, employment and decent work for all', Goal 9: 'Build resilient infrastructure, promote sustainable industrialization and foster innovation' (e.g. **Unlocking the potential of SMEs for the SDGs**) and Goal 13: 'Take urgent action to combat climate change and its impacts'.



HAVE READILY AVAILABLE, RELEVANT AND RELIABLE SUSTAINABILITY INFORMATION TO ENABLE BETTER-INFORMED BUSINESS DECISIONS, ENHANCE STRATEGIC PLANNING AND RISK MANAGEMENT AND THEREFORE SHARPEN A FOCUS ON INTEGRATED THINKING.

For some SMEs, the main value and use of sustainability information is for internal decision making, rather than external reporting. Relevant, timely, comparable and accurate sustainability information assists SMEs to think holistically about their strategy, business model and impact on the environment and society. Indeed, there are many sustainability matters that management simply cannot afford to ignore if they want to remain resilient, effectively manage risk and make informed decisions to ensure their sustainable future success. For example, if the business needs a reliable supply of

water for its production process, a drought from the impact of climate change would be a risk to monitor.

The insights gained from both financial and non-financial (i.e., sustainability) information are maximized when an integrated approach connects the two. For example, some opportunities may result in good financial returns, but may also need to be considered holistically if their outcomes could harm the business' reputation or result in legal action. Others could bring short-term gains but be detrimental to future business performance.

The **Value Reporting Foundation** International Integrated Reporting Framework defines integrated thinking as:

“The active consideration by an organization of the relationships between its various operating and functional units and the ‘multiple capitals’ that the organization uses or affects. Integrated thinking leads to integrated decision making and actions that consider the creation of value over the short, medium, and long term.”

A central theme with integrated thinking for SMEs is based on breaking down internal silos between people and departments so that the organization can collectively better understand the key elements of the business. These elements include the governance, strategy, business model, and opportunities and risks in the context of trends and issues affecting the business. Integrated thinking also involves an organization considering the different resources consumed, and the relationships it relies on, leaving it in a better position to make decisions that help ensure its viability and resilience over time. These considerations are often very important for SMEs where management resources may be limited, although in many instances owner-managers may already be intuitively thinking in an integrated manner and just need to sharpen their focus. One advantage for SMEs is that compared to larger organizations with more complex business models, the implementation process of integrated thinking can be easier and less time consuming.

There is increasing pressure in certain industries for companies to have more sustainable practices. For example, SMEs' contribution to waste pollution is **estimated** at 60 – 70% of the world total.

There are significant advantages from establishing (or enhancing) processes, systems and controls for identifying, measuring and analyzing sustainability information. This can include improving efficiencies and differentiation from competitors. The **benefits** of environmental activities for SMEs include improving financial performance and lowering costs by facing up to business risks and finding solutions to them, this can include improving the company's reputation and solidifying the legitimacy in its relationship with stakeholders. Sustainability information provides the basis for optimizing sustainable business practices, including ensuring that working conditions promote health and safety, championing diversity and inclusivity and reducing waste and energy costs. The risks of inaction can be considerable.

The IFAC and International Integrated Reporting Council (IIRC) publication '**Creating Value for SMEs Through Integrated Thinking – The Benefits of Integrated Reporting**' helps SMEs, including not-for-profit organizations, adopt integrated thinking and reporting and realize its benefits.

Sustainability Information Advisory Services

In recent years there has been an increase and diversification in the provision of business advisory services. The **IFAC Practice Transformation Action Plan – A Road Map to the Future** covered evolving the firm operating model and building advisory services as one of the key areas to be "future-ready". This included re-evaluating services provided and moving from transactional to strategic services focused on using data-driven insights. It also highlighted the importance of specialization, which could be on matters relating to sustainability.



As trusted advisers, SMPs are well positioned to provide guidance and recommendations to an SME's management on sustainability matters. This is because they know the business, as well as the industry and environment in which it is operating. They can discuss sustainability information matters that may not currently be on the businesses radar and combine financial and non-financial knowledge to provide direction on the best course of action on range of different matters, such as:

- Capturing reliable data to provide accurate, timely, relevant and comparable sustainability information.
- Designing reporting, internal risk management and governance systems and advice on process improvements.
- Optimizing sustainable and responsible business practices (e.g., reduce resources and energy costs and invest in new equipment and processes to improve efficiencies). This could be based on insights from customized metrics that can mix ratio and data visualization analysis to combine a non-financial metric with a financial metric.
- Advising on strong governance within family businesses, including alignment with modern business governance practices and the need for early **succession planning**.
- Designing and monitoring indicators and sustainable goals based on the company's strategy.
- Undertaking scenario analysis to facilitate risk assessments (e.g., helping to understand exposure to the impact of climate change on operating margins).
- Mapping of key stakeholders and identifying supply-chain risks and opportunities.
- Advising on becoming a **Certified B Corporation** (B Corps) as "a business that meets the highest standards of verified social and environmental performance, public transparency and legal accountability".



Professional accountants in public practice are required to adhere to the highest ethical standards. IFAC member organizations are required to adopt and implement ethical standards no less stringent than those stated in the **International Code of Ethics for Professional Accountants (including International Independence Standards)** issued by the International Ethics Standards Board for Accountants (IESBA).

The IESBA Code includes independence requirements, some of which prohibit firms from providing certain types of non-assurance services (NAS) to their audit clients. For example, the NAS must not involve assuming a management responsibility for the audit client. Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.

The provisions were recently **revised** clarifying and addressing the circumstances in which firms may or may not provide a NAS to an audit or assurance client. These will be effective for audits and reviews of financial statements for periods beginning on or after December 15, 2022.



REPORT ON SUSTAINABILITY INFORMATION TO EXTERNAL STAKEHOLDERS AND BUSINESS PARTNERS WHO ARE DEMANDING IT.

In recent years there has been a rise in SMEs reporting sustainability information and this trend is expected to increase. There are multiple reasons, such as supply chain pressures (the “trickle down” effect from large businesses who wish to or are required to ensure their supply chain meets specific standards), regulatory requirements and stakeholder demands (e.g., demand from banks or from insurance companies who need reliable information to meet their own regulatory demands). SMEs may wish to report voluntarily to demonstrate that they remain ahead of their game vis a vis their competitors, too.

SMEs will respond differently to these pressures depending on their size, sector, ownership, business models and available resources. SMEs that have implemented **ISO 14001**, the international standard for environmental management systems, are likely to have processes and information that are also needed to report on sustainability impacts and performance.

In addition to improving internal management processes and decision making as highlighted above, reporting on sustainability information should be viewed as an investment – not just as a cost – as it can lead to other significant benefits, including:

- Creating greater trust and credibility with customers, suppliers, other stakeholders, and society.
- Maximizing the potential to transfer, sell, or hand over the business by providing a better basis for valuation.
- Securing financing at a reasonable cost. Many lenders will want to know how financial capital has been deployed in the past and the businesses future intentions based on a holistic strategy and a well-rounded plan. In addition, it may enable access to finance that may otherwise be unavailable,

such as public grants that require a procurement application.

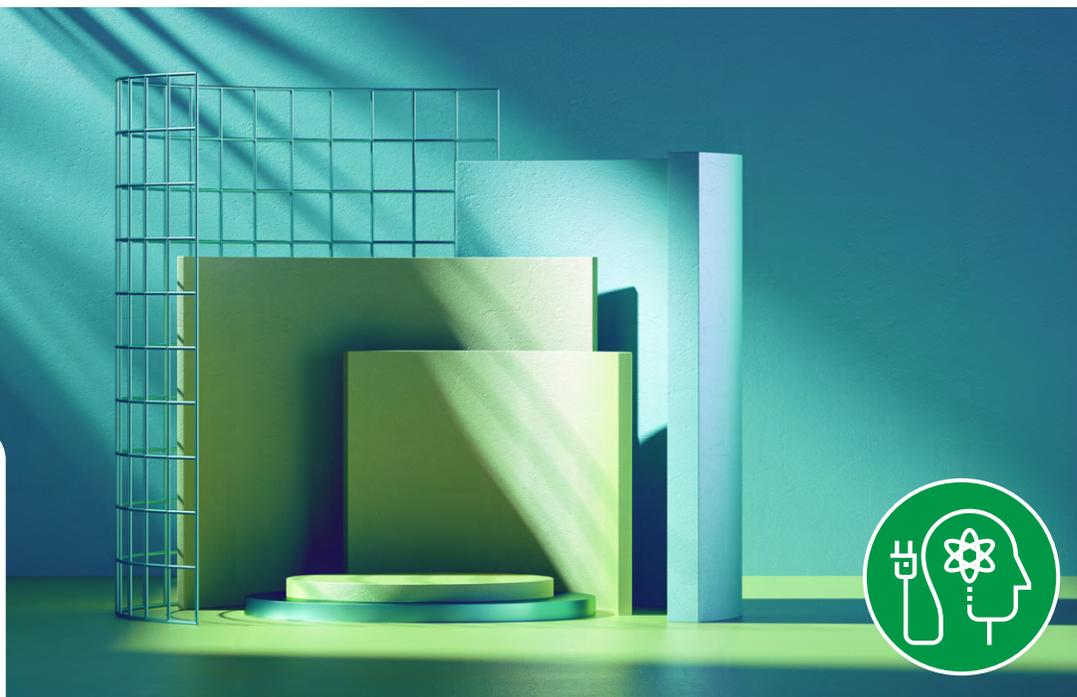
- Attracting and retaining talent. Employees want to work for organizations that set out to have a positive impact on the environment and society. **Research** indicates that the majority of Millennials will not take a job if the company does not have a strong corporate sustainability reporting (CSR) policy and that Gen Z make **career choices** based on the sustainability approach of an organization and are **'the first generation to prioritize purpose over salary'**.

IFAC believes that imposing mandatory sustainability reporting requirements for all SMEs would create considerable burden. IFAC supports a voluntary approach and believes that it is vital SMEs are factored into the global sustainability reporting system and standards developed can be scalable in their application.

Sustainability Reporting Services

SMEs can have limited resources and often rely on professional accountants to provide high-quality sustainability reporting services and expert advice. The **2018 IFAC Global SMP Survey** highlighted that over 85% of SMPs provided business advisory or consulting services, with this service line anticipated to have the highest future growth. Fourteen percent of firms were providing enhanced corporate reporting services (e.g., integrated reporting, sustainability reporting and CSR reporting) and this likely will have risen in recent years and will continue to increase.

3



REQUEST A PRACTITIONER TO UNDERTAKE AN AUP ENGAGEMENT OR OBTAIN INDEPENDENT ASSURANCE ON SUSTAINABILITY INFORMATION.

Agreed-Up Procedures (AUP) Engagements

An AUP engagement involves a practitioner performing the procedures that have been agreed upon – either with the SME, or with someone else who specifically requested the work – on financial or non-financial subject matters. A report communicates the procedures performed and the related findings; no assurance is obtained, and neither is a conclusion nor opinion expressed.

AUP engagements offer flexibility to SMEs, as the service can be tailored to different circumstances and can encompass anything on which AUP procedures are performed, including information, documents, measurements or compliance with laws and regulations. AUP engagements are commonly performed on both financial and non-financial information for a variety of purposes due to regulation or demand. One increasingly relevant example would be recalculating the volume of greenhouse gas emissions reported to a regulatory authority.

AUP Services

SMPs can provide AUP engagements on both financial and non-financial subject matters using the **International Standard on Related Services 4400 (Revised), Agreed-Up Procedures Engagements**.

The International Auditing and Assurance Standards Board (IAASB) recently revised the standard, which is effective for AUP engagements for which the terms of engagement are agreed on or after January 1, 2022. The present version of ISRS 4400 remains valid until this new effective date.

In December 2020, IFAC published '**Agreed-Upon Procedures Engagements – A Growth and Value Opportunity**', which covers the benefits of offering such services, when an AUP engagement is appropriate, examples of both financial and non-financial subject matters, as well as six short case studies with example procedures that might be applied.

Assurance Engagements³

Independent assurance enhances the credibility and trust in an SME's reported non-financial information. An assurance engagement involves a practitioner aiming to obtain sufficient appropriate evidence to express a conclusion designed to enhance the degree of confidence of the intended users about the subject matter information. For example, an entity may prepare and report certain sustainability information by measuring or evaluating aspects of sustainability relevant in its circumstances, such as identified environmental or social metrics and targets, against applicable criteria. It can then request a practitioner to perform an assurance engagement thereon. In conducting an assurance engagement, the objectives of the practitioner are to

obtain either reasonable assurance or limited assurance, as appropriate, about whether the subject matter information is free from material misstatement, and to express a conclusion regarding the outcome of the measurement or evaluation of the underlying subject matter. This is done through a written report that conveys an assurance conclusion and that describes the basis for the conclusion.

Assurance Services

SMPs are well-placed to deliver high quality assurance of sustainability information based on international standards given that the provision of assurance services under the IAASB's standards are premised on the following (and given that SMPs would be able to meet these requirements):

- The practitioner is a member of a firm that is subject to International Standard on Quality Management (ISQM) 1⁴, or other professional requirements, or requirements in law or regulation regarding the firm's responsibility for its system of quality management that are at least as demanding as ISQM 1.
- The practitioner and members of the engagement team are subject to the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the IESBA or other professional requirements or legal or regulatory requirements that are at least as demanding.



- The practitioner complies with the requirements of the standard addressing their own competence – including assurance skills and techniques – and the competence of others who perform the engagement.

Relevant IAASB standards, include:

- **ISAE 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Statements.** This is the IAASB's umbrella standard that applies to all assurance engagements within the ISAE series. Where a subject-matter specific ISAE is relevant to an engagement (e.g., ISAE 3410 in the next bullet point, below), that ISAE applies in addition to ISAE 3000 (Revised) – the practitioner shall comply with the requirements of ISAE 3000 (Revised) and that subject-matter specific ISAE.
- **ISAE 3410 Assurance Engagements on Greenhouse Gas Statements** deals with assurance engagements to report on an SMEs greenhouse gas statement.

³ Other than audits or reviews of historical financial information

⁴ International Standard on Quality Management 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (ISQM 1) is effective December 15 2022 and replaces the IAASB's current standard - International Standard on Quality Control 1 (ISQC) 1.

In June 2021 IFAC, and AICPA-CIMA published a global benchmarking study, **'The State of Play in Sustainability Assurance'**, which captures and analyzes the extent to which listed companies are reporting and obtaining assurance over their sustainability disclosures, which assurance standards are being used, and which companies are providing the assurance service.

91% of companies reviewed reported some level of sustainability information.

51% of companies that reported sustainability information provided some level of assurance on it.

63% of these assurance engagements were conducted by audit or audit-affiliated firms.

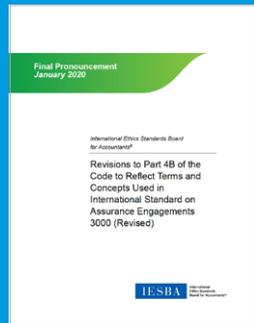
For SMEs this reveals an indicative trend, as the importance of reporting and assuring sustainability information is being increasingly recognized.

To support the application of ISAE 3000 (Revised), the IAASB's Extended External Reporting (EER) Assurance Engagements project has developed additional **guidance**, which marks a significant step forward in supporting the evolving field of assurance for non-financial reporting.

IFAC also published **'Using ISAE 3000 (Revised) in Sustainability Assurance Engagements'**.

Importantly, when performing AUP and Assurance service engagements, SMPs are required to comply with requirements for quality management and professional ethics at the firm and engagement level that are designed to ensure quality and to protect the public interest.

In 2020 IESBA released **revisions** to the independence standards for assurance engagements other than audit and review engagements (Part 4B) to reflect terms and concepts used in ISAE 3000 (Revised). The revisions were effective as of June 15, 2021.

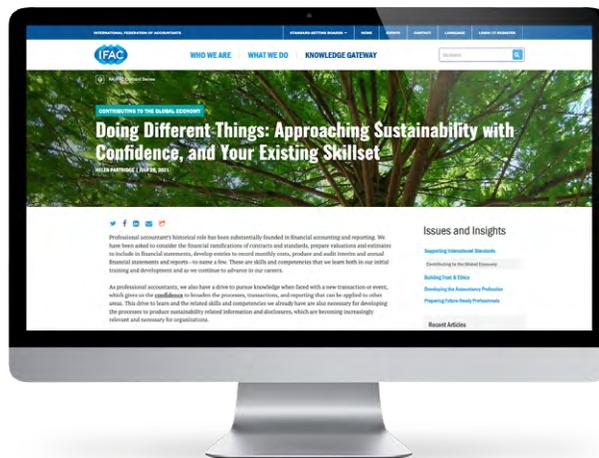


Building Knowledge and Competencies and Taking Initial Steps

The future offers SMPs significant opportunities to grow and adapt to serve a rapidly changing world. In this new era, sustainability matters will be increasingly important both to servicing clients, remaining relevant and attracting and retaining next generation talent.

Small firms should start their own journey by considering their internal sustainability policies and procedures. This could involve consideration of how their firm looks after employees, its choice of suppliers, how it offsets carbon emissions and its impact on the local community and environment. The firm also needs to embrace the mindset of continuous change and evolution by enabling staff to train on sustainability matters, which can be found in Professional Accountancy Organization (PAO) CPD courses and information.

Based on their educational training professional accountants have the core **skills and competencies** needed to prepare or assure sustainability information, including life-long learning to acquire new expertise to provide



advice on a range of sustainability matters. For each SMP, the journey ahead may well look different and will be determined by a range of factors specific to the firm. For a small firm to begin delivering services, it may require investment in new staff who have specific knowledge and experience, tailored training for existing staff or partnerships with other firms that have already specialized their services in this area.

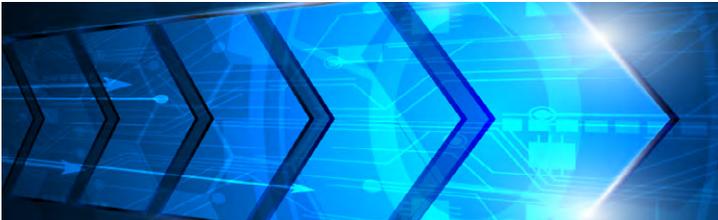
The initial steps could involve identifying which clients may fit well with a focus on sustainability matters. For example, entities providing public services (such as health care services or social enterprises), companies

providing public utility services (such as, electricity, gas, public transportation and waste collection and treatment) and not-for-profit organizations. These organizations generally have a wide network of donors, volunteers and community partners, as well as local/regional/national governments as their stakeholders who will be interested in the sustainability information being reported. The firm may also already have clients whose customers are larger entities who may be called upon to provide information on their supply chain to external stakeholders. Consideration can then be given to the different services that could be provided by the firm.



The Future is Now

The opportunities for SMPs to provide a range of sustainability advisory, reporting, AUP and assurance services to SMEs are vast. The time is now to begin the journey, make a difference and embrace what the future holds. This will ultimately benefit the practice, people and the planet.



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IFAC, with its member organizations, serves the public interest by enhancing the relevance, reputation, and value of the global accountancy profession. IFAC's three strategic objectives are:

- Speaking out and engaging as the voice for the global profession
 - Leading and developing a future-ready profession
 - Contributing to and promoting the development, adoption, and implementation of high-quality international standards
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'Sustainability Information for Small Businesses – the Opportunity for Practitioners' was prepared by IFAC with support and insights from its **Small and Medium Practices Advisory Group**.

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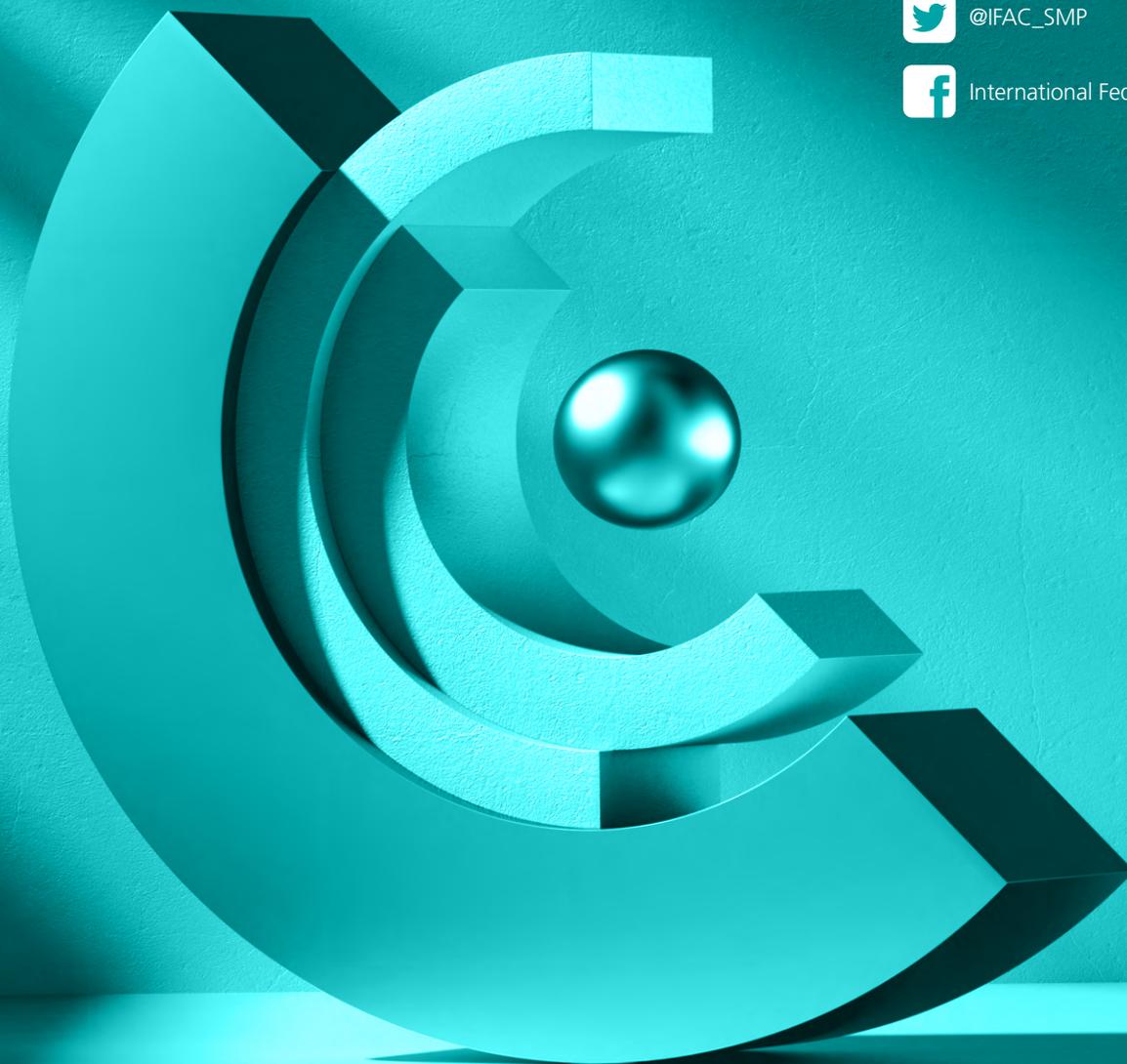
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