EARLY EVIDENCE ON MANDATORY SUSTAINABILITY REPORTING ASSURANCE MARKET DEVELOPMENT IN THE EUROPEAN UNION: THE CASE OF LITHUANIA

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Abstract

The rapid growth of corporate sustainability reporting (Eugénio et al., 2022), encompassing environmental, social, and governance (ESG) factors, has become crucial for business transparency (Uyar et al., 2020) and accountability, enhancing companies' reputations, and competitiveness, and reducing capital costs (Hazaea, et al., 2022; Alshbili et al., 2021; Ghitti et al., 2023; Montero-Navarro et al., 2021; Zhou et al., 2023). Despite its benefits, the quality and credibility of sustainability reports vary, with issues like greenwashing undermining stakeholder trust (Bernini & La Rosa, 2024; de Villiers et al., 2024). Traditionally voluntary sustainability reporting is becoming more and more regulated, particularly in the European Union (EU), where the new Corporate Sustainability Reporting Directive (CSRD) mandates comprehensive reporting and assurance standards. This CSRD not only mandates sustainability reporting but also creates a regulated market for sustainability reporting assurance (SRA) services, with EU member states deciding whether these services will be limited to statutory audit firms or include consulting firms (Farooq & de Villiers, 2019; Yan

et al., 2022). With mandatory assurance beginning in 2025, there is uncertainty about the market’s readiness, given the historical voluntary assurance landscape and the nature of mandatory sustainability assurance.

This study examines the intentions and readiness of Lithuanian audit firms to provide sustainability reporting assurance services under the new EU Corporate Sustainability Reporting Directive. The research data was collected from a survey of 74 (out of 155) Lithuanian audit companies in April 2024. Results show that 29,73% of sample audit firms have intentions to enter the SRA market. Two profiles of the audit firms intending to provide SRA services were drawn: 1) large audit firms (with 6 or more certified auditors), mostly operating in global professional networks with an existing and expanding (along with CSRD requirements) base of sustainability reporting clients, and 2) small local audit firms with no or low base of sustainability reporting clients, yet aiming to pursue the new business opportunity. Overall, the majority of small audit firms are unwilling or undecided to offer SRA services due to a lack of resources and expertise. Larger firms, particularly the Big 6, demonstrate a higher readiness to enter the SRA market by having specialized departments established and auditors appointed. Their strategies for providing SRA services include partnering with consulting firms, training existing staff, and hiring experts, while the most significant issues are the absence of approved sustainability-specific assurance standards and guidelines and a lack of human resources. All sample companies agreed that there is a need for methodological guidance and training in sustainability reporting and assurance matters, while more than half of them indicated that the lack of assurance standards and guidelines, not yet approved national laws, and the lack of human resources are key issues in the development of SRA services. The findings highlight the anticipated dominance of larger audit firms in the SRA market and underscore the need for methodological guidance, training, and supervision from regulatory and self-governing bodies.

Our study provides valuable insights into the intentions and readiness of Lithuanian statutory audit firms and statutory auditors to offer sustainability reporting assurance services, thus serving as a useful benchmark for other EU countries. By understanding the factors influencing audit firms’ decisions to provide SRA services and the challenges they face, policymakers and regulatory bodies in other EU countries can tailor their strategies to support the development of the SRA market.

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