EARLY EVIDENCE ON AUDITOR'S INTENTIONS AND READINESS TO PROVIDE MANDATORY SUSTAINABILITY REPORTING ASSURANCE SERVICES IN THE EUROPEAN UNION: A STUDY OF REGULATORY EFFECT IN LITHUANIA

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Abstract

Sustainability reporting has expanded in recent years making a major impact on financial markets (Hazaea et al., 2022). Yet, the credibility of sustainability reports remains an issue (Bernini & La Rosa, 2024) due to greenwashing and a lack of oversight. The European Union's (EU's) new Corporate Sustainability Reporting Directive (CSRD) introduces mandatory sustainability reporting assurance (SRA), establishing a new regulated SRA market whose characteristics are not yet clear. This study aims to identify the intentions and readiness of Lithuanian audit firms to provide SRA services under CSRD. It employed a survey method and collected data from 74 Lithuanian audit firms. The results show that only 29.73 percent of sample companies intend to enter the SRA market indicating a relatively low interest in providing such services, mainly due to a lack of resources, expertise, and underdeveloped regulations. Those interested are either large audit firms with an existing base of clients compliant with CSRD or small local companies seeking new business opportunities. Our findings show a generally low level of readiness, with only a few companies having made arrangements to start providing new services. It underscores the need for in-depth training, methodological guidance, and supervision to ensure the efficient functioning of the Lithuanian SRA market.

Keywords: Sustainability Reporting, Sustainability Reporting Assurance, Audit Firms, CSRD, Big 6

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1. INTRODUCTION

The rapid growth of corporate sustainability or environmental, social, and governance (ESG) reporting, marks a significant transformation within the businesses and financial markets. Previously seen as supplementary tools in addition to financial reports for the accountability and transparency of companies (Uyar et al., 2020), over the last years there was a significant increase in the scope (International Federation of Accountants [IFAC], 2024) and importance of sustainability reporting on a global scale (Correa Porcel et al., 2024; Hazaea et al., 2022). Research across various fields shows that companies reporting on sustainability enhance transparency, reputation, branding, and employee engagement, increase competitiveness, and reduce costs of capital (Ghitti et al., 2024; Montero-Navarro et al., 2021; Zhou et al., 2023) while ignoring it could negatively affect company's reputation and its market value (Omar & Zallom, 2016). In the long run companies with higher levels of sustainability reporting tend to have better financial performance, even though the short-term impact on the performance measures might be negative (Sicoli et al., 2024).

Due to the growing number of sustainability reporting companies and the scope of such reports (Eugénio et al., 2022; Fernandez-Feijoo et al., 2018; Maroun, 2020), the integrity and credibility of sustainability reporting are of particular importance. Yet, the quality of reported sustainability information varies widely across companies and a proper understanding of whether the information is trustworthy is not promoted among stakeholders (Bernini & La Rosa, 2024). The company's greenwashing practices involve the manipulation of information (Olatubosun & Nyazenga, 2021), conveying misleading information (Baldi & Pandimiglio, 2022; Montgomery et al., 2024) threaten the accuracy and reliability of the reported information as well as stakeholders' trust in it (de Villiers et al., 2024; Montero-Navarro et al., 2021). Sustainability reporting is mostly voluntary and is associated with the lack of regulatory and supervision framework, oversight mechanisms, unified measurement systems, and accurate data (Dorfleitner & Utz, 2023), resulting in fragmented non-financial information (de Villiers et al., 2024).

Acknowledging the importance of sustainability reporting and greenwashing prevention for companies, their stakeholders, and financial markets, multiple jurisdictions around the world, including the USA and European Union (EU), have strengthened regulations in this area extending the scope of mandatory sustainability reporting and sustainability reporting assurance (SRA), introducing unified mandatory reporting standards and taxonomies. Previously SRA was mostly discretional (IFAC, 2024) for the state of SRA around the globe and provided both by audit and various consulting firms (Farooq & de Villiers, 2019; Yan et al., 2022). However, the new EU Corporate Sustainability Reporting Directive (CSRD) made SRA mandatory. This induced the formation of a new regulated professional services market, where the supply and demand will have to form at a much more rapid and regulated pace than it happened with, for example, the statutory audit service market. Although the first mandatory limited-scope assurance services will have to be provided in 2025, the EU-wide sustainability reporting and assurance regulations and tools are still under development. Moreover, the EU countries are still in the process of transferring the CSRD to the national legislation.

Acknowledging the choices the EU member states have to make regarding SRA service providers, their licensing and qualification assurance, supervision, etc., there are many uncertainties regarding the development of the supply side of this market. Coming from the historical development of the voluntary SRA market (Yan et al., 2022) and the current structure of the SRA market (IFAC, 2024), the EU member states should make an uneasy decision about whether the provision of SRA services will be delegated to statutory audit firms only or will also include consulting firms. On the other hand, prospective service providers have to make uneasy decisions about entering this complex, new competencies and resources requiring and possibly still unstable market, whose size is not yet clear. Even though the first mandatory limited assurance tasks will have to be performed in 2025, there is no up-to-date and reliable data about the auditors and consulting firms' intentions, actions, and readiness to provide sustainability assurance services as well as issues they face in this process. Empirical findings on this matter are practically non-existent. The only similar research we found was conducted by Eugénio et al. (2022) in Portugal and questioned audit professionals' perceptions regarding, at that time, voluntary assurance of non-financial reporting. The study found that very few Portuguese auditors provided SRA. Nevertheless, the respondents agreed that such reports should be assured by statutory auditors, while professional audit bodies should play a more proactive role in the development of this market.

This study aims to provide evidence of the Lithuanian audit firms' intentions and readiness to provide SRA services under the new EU CSRD. As far as we are aware, this is the first study exploring auditors' intentions and readiness to provide mandatory SRA in the EU. It has high practical importance to regulators and professional audit bodies not only by allowing them to estimate the statutory auditors' interest in sustainability assurance services, the difficulties they face, and the steps they have taken so far but also by enabling them to estimate if the statutory auditors will be able to satisfy the demand for such services in the market and what regulatory interventions are needed.

The structure of this paper is as follows. Section 2 reviews the legal background of sustainability reporting and assurance in the EU and relevant literature on SRA, as well as presents an overview of the Lithuanian audit market. Section 3 outlines the methodology that has been used to conduct empirical research, while Section 4 explains the results of our survey on the intentions and readiness of Lithuanian audit firms to provide mandatory SRA services, and Section 5 contains a discussion of the results. Section 6 finalizes the paper with conclusions.

2. LITERATURE REVIEW

2.1. Legal background of sustainability reporting and assurance in the European Union

The first mandatory sustainability reporting regulation in the EU is associated with the Non-Financial Reporting Directive (NFRD) 2014/95/EU (The European Parliament & The Council of the European Union, 2014). This directive required publishing nonfinancial information on companies' ESG performance together with their annual management report. The NFRD applied to approximately 12 thousand companies and groups across the EU, including large undertakings with an average number of more than 500 employees, listed companies and their groups, financial institutions, and other public interest entities. The NFRD aimed to increase the relevance, consistency, and comparability of non-financial information disclosed by complying companies across the EU (Hummel & Jobst, 2024). However, it was heavily criticized for the deficiencies in reaching to do so, the limited number of companies in scope (Mittelbach-Hörmanseder et al., 2021), and increased quantity but not the necessary quality of sustainability disclosures (Poulsen & Sigurjonsson, 2024).

The new CSRD 2022/2464 was adopted at the end of 2022 and entered into force on January 5, 2023, with a few phases of application. The CSRD expanded and strengthened the requirements concerning the social and environmental information that companies must report. Several other regulations concerning sustainability reporting taxonomy, electronic reporting format, the requirement to include sustainability information in the management report (forbidding issuing a separate sustainability report) and Sustainable Finance Disclosure Regulation (SFDR) were also adopted or undergo revision stages. Companies under the CSRD's jurisdiction will be required to submit sustainability reports according to the European Sustainability Reporting Standards (ESRS), while for the sake of transparency, disclosures of sustainability targets, risks, and plans become also required and must be easily accessible on the company website. The CSRD also introduced a requirement for mandatory SRA. In the first four years, the CSRD allows a limited SRA, including identification of applicable standards, but past this period the market must move to reasonable assurance (Eugénio et al., 2022). The EU member states can define whether such assurance will be carried out by the statutory audit firms or other assurance service providers (consulting firms). According to CSRD, by October 2026 the European Commission shall develop and adopt standards for limited SRA.

The new regulation will create specific challenges and opportunities for market participants, regulators, supervisory bodies, assurance service providers, and researchers. It will bring a large amount of sustainability-related data enabling new research perspectives incorporating not only large but also smaller companies (Hummel & Jobst, 2024). Among the other topics future research is expected to focus on the shift from voluntary towards mandatory standard standard-setting and application and as major players of accounting standard-setting enter the field of sustainability reporting and assurance (Pesci et al., 2023). This also involves the research on the development of a mandatory sustainability assurance market, including, the issues related to the supply part of the market: who the service providers will be, how they will be certified, what the mechanisms of supervision and quality assurance will be, what the effectiveness and efficiency of the market will be, how it will affect the quality of sustainability reporting and impact stakeholders' decision making.

2.2. Auditors role in sustainability reporting assurance

Sustainability reporting assurance has been receiving growing attention in scientific research highlighting the relevance and importance of assurance in promoting and ensuring sustainability (Hazaea et al., 2022). Previous studies on sustainability and other non-financial reporting assurance explored the content of assurance statements (Ball et al., 2000; Fuhrmann et al., 2017), the types of SRA (Channuntapipat et al., 2019) the determinants of sustainability reports assurance decisions (Sierra et al., 2013), whether the assurance should be voluntary (Jones & Solomon, 2010), and the impact of assurance on the credibility of sustainability reports (Fuhrmann et al., 2017), and greenwashing prevention (Hazaea et al., 2022).

SRA has not been and still is not legally required in most countries, except for the EU where, under the new CSRD, sustainability reporting and assurance will gradually become mandatory for more than 50,000 companies. Hence, up to this the motivations for reporting companies to engage in such practices lie elsewhere (Eugénio et al., 2022). Although some early literature demonstrated mixed perceptions towards the need for external SRA (Jones & Solomon, 2010), the majority of the studies indicated that voluntary external assurance of sustainability reporting serves as a useful control mechanism over the sustainability information (Hazaea et al., 2022), increases its credibility (Park & Brorson, 2005) value and usefulness (Ackers, 2009), significantly influences users' perceptions of the quality and credibility of the disclosure (Karagiannis et al., 2022; Maroun, 2020), results in the confidence of stakeholders on such reports (Ackers, 2009).

Independent assurance of sustainability reporting can be conducted by a variety of external parties, including statutory audit firms, specialized consulting companies, certification organizations, and institutional or individual experts (Marx & van Dyk, 2011). Previous studies mostly group sustainability assurance service providers into two categories: statutory audit firms and consultancy (non-audit) firms (Farooq & de Villiers, 2019; Yan et al., 2022). The majority of independent SRAs are provided by statutory audit firms (Ackers, 2009; Eugénio et al., 2022; Yan et al., 2022), while assurance provided by Big 4 auditors is associated with a higher overall level of audited sustainability reports and their credibility (Fernandez-Feijoo et al., 2018). The study by the IFAC reports that in 2022, as much as 58% of assurance reports worldwide were signed by audit firms, and EU companies more frequently chose statutory audit firms for SRA than companies elsewhere in the world (IFAC, 2024). The choice of service providers can also be a calculated decision based on the company's ESG performance (Diab & Eissa, 2024). For example, Sun et al. (2017) found that companies with higher corporate social responsibility (CSR) ratings are more likely to hire industry-specialist auditors while those with better product quality-related CSR performance more often select non-specialized auditors. The choice of assurance company could also be related to the alignment of audit and sustainability assurance services in the hands of a single provider facilitating the transfer of knowledge and thus enhancing the quality of both services provided (Ruiz-Barbadillo & Martínez-Ferrero, 2020). Previous research indicates that statutory audit firms hold an advantage over consulting firms in assurance procedures, whereas consulting firms excel in industry or process-specific, sustainability knowledge (Farooq & de Villiers, 2019; Yan et al., 2022). Overall, there is no consensus on which type of assurance providers should be chosen by reporting entities to undertake assurance services. While several studies discussed why reporting entities chose some assurance services over others, the motivation for audit firms to enter the SRA market is merely researched.

Despite the rapidly growing demand, SRA remains a challenging task for both assurance service providers and reporting companies (Yan et al., 2022). While assurance of financial reporting is guided and restricted by explicit rules and laws, auditing standards as well as professional practices developed over the number of years, resulting in standardized, high-quality, and reliable assurance statements, this is still little applicable to SRA (Boiral et al., 2019; DeSimone et al., 2020). Limited or merely non-existent regulations and sustainability assurance tailored standards, the absence of enforcement mechanisms, lack of clearly defined or standardized guidelines lead to inconsistency in SRA application and a lack of norms regarding service providers' conduct (Boiral et al., 2020; Yan et al., 2022). For example, while accounting firms most commonly use ISAE 3000 as assurance standards for SRA, consultancy firms mostly refer to AA1000 Assurance Standard[1], and the reasons for such differences are yet to be explored (Farooq & de Villiers, 2019; IFAC, 2024). Perego (2009) found that audit firms are associated with a higher quality of assurance regarding reporting format and procedures used while consulting firms — regarding recommendations and opinions. The transition from voluntary to mandatory sustainability reporting and assurance will represent a significant change and challenge in the market (IFAC, 2024). This transition will require changes in regulatory and supervisory mechanisms in the market as well as improved rigour in data collection, enhanced reporting systems, processes, internal controls, and governance within entities compliant with sustainability reporting regulations. This raises some questions from the SRA supply perspective. Will audit firms other than the Big 4 be motivated to enter the sustainability assurance market? How many statutory audit firms will possess the necessary resources, knowledge, skills, and expertise to enter the sustainability assurance market and efficiently ensure the credibility of sustainability reporting? What differences will exist in the development and efficiency of the supply side of the SRA market among the EU countries?

2.3. An overview of the Lithuanian audit market

Based on the Lithuanian Chamber of Auditors (Lietuvos Auditorių Rūmai [LAR], 2022), in 2022 there were 155 firms providing auditing and related services in Lithuania with 5427 audits performed. Over the past decade, the number of audit firms in Lithuania has shown a consistent negative trend with an average decrease of 18.06%. In terms of size, the Lithuanian audit market is dominated by small audit firms. As many as 63% of all audit firms have only one auditor, 21% have two, 6% have three, and 10% have four or more auditors. Notably, the Big 6 audit firms are among the largest market players by the number of auditors with KPMG having 12 auditors, Ernst & Young (EY) — with nine auditors, Grant Thornton — with nine, PricewaterhouseCoopers (PwC) — with six, Deloitte — with six, and BDO — with six auditors. A large company segment is also represented by a few local companies, such as In Salvo Ltd. (with nine auditors) and Auditas Ltd. (with seven auditors). In 2022 revenue of Lithuania audit firms amounted to almost €103,37 million, coming from numerous services, with revenue from audits contributing 33% of the total, consulting 32%, accounting for 27%, and other services 8%. The top five companies in terms of revenue were all members of the Big 6. As of December 31, 2022, the list of certified auditors in Lithuania included 324 individuals, 18.83% of whom had their services suspended. Over the last decade, the Lithuanian market has witnessed a decrease in the number of auditors and an increase in their average age. In 2012, there were 395 auditors in Lithuania, but by the end of 2022, this number had decreased by 18% to 263 auditors. The average age of auditors has increased every year since 2012, reaching 53.45 years of age in 2022.

At the time this study was made Lithuania was in the process of transferring CSRD requirements into national regulations. The new Law on Audit, which includes provisions on SRA services, was adopted in June 2024, while the other regulations were still under development. Lithuania extended the provision of SRA services not only to certified statutory auditors and certified statutory audit firms but also to independent accredited assurance providers. To our knowledge, this decision makes Lithuania one of a few countries in the EU (along with France and Spain), where the provision of SRA is allowed to the other accredited service providers following EU regulations (although many countries have not yet made the final decision). After adopting the new provisions Lithuania faces challenges in setting up the oversight system of SRA engagements applicable to all service providers, not only for statutory auditors and statutory audit firms.

The new regulation and supervision will inevitably shape the Lithuanian SRA market and have an impact on the quality and credibility of sustainability reports. There is no data available on voluntary SRAs provided by Lithuanian audit and consulting firms. However, based on worldwide practices, it is expected that larger audit companies will more actively approach the possibility of entering the newly developing mandatory sustainability assurance market due to their size, composition of audit clients, and the knowledge on sustainability accumulated within their global network.

3. RESEARCH METHODOLOGY

The current study is exploratory and aims to collect new data on audit firms' intentions, opinions, and self-evaluated readiness to provide SRA services, along with their comments. Therefore, the study relies on qualitative and descriptive analysis of

[1] https://www.accountability.org/standards/aa1000-assurance-standard/

survey data. Exploratory studies are commonly used to investigate new phenomena and gain insights into complex and under-researched areas. In this case, the study explores the emerging mandatory SRA market and the factors influencing audit firms' decisions to enter this market. The research data was collected through a survey of Lithuanian audit firms that were officially registered as providing services at the end of 2023. A survey is one of the most common methods to collect new evidence from a large population of respondents ensuring their anonymity. The other methods used in similar studies involved semi-structured interviews, mixed methods (survey and interview), or case analysis (Hazaea et al., 2022). According to the Lithuanian Chamber of Auditors, 154 audit companies were providing audit services at the end of 2023. The questionnaire was disseminated to all Lithuanian audit companies in April 2024. A total of 74 fully filled-in responses were collected, representing a response rate of 48%. This results in a 90% confidence level with a 7% marginal error for the supply side of the Lithuanian audit market. Based on the collected data, only 22 audit firms intended to provide SRA services as of April 2024, making the scope of data too small for econometric analysis. This limitation underscores the need for further research and larger-scale studies extending to other EU countries to provide more robust statistical analysis and generalizable findings.

In the survey, a total of 15 questions were asked which were divided into three sections: general information, intentions to provide SRA services, and readiness to provide SRA services. Part of the questions were closed-end questions with answers yes/no, while others were open questions and required audit firms to fill in the information. Most of the questions provided a possibility to comment and add additional information which was moderately used. The general information section of the questionnaire asked:

1.1. How many certified auditors work full-time in your firm? (indicating the size of the audit firm),

1.2. Is your audit firm a member of a global professional network?

1.3. Is your audit firm one of the Big 6 audit firms?

1.4. How many clients does the audit firm have that are/will be (in 2025) compliant with sustainability reporting under the CSRD?

The second section of the questionnaire collected self-reported intentions of Lithuanian audit firms to provide CRS assurance services. This section included five questions, one of which had multiple additional items to answer:

2.1. Is your audit firm planning to provide SRA services?

2.2. What has led to your choice not to provide sustainability reporting services: a) lack/absence of human resources, b) lack of/unavailable technological resources, c) insufficient time to prepare, d) not yet adopted legislation, e) lack of professional standards and guidelines?

2.3. Has the provision of sustainability reporting services been discussed at meetings of the audit firm's governing bodies?

2.4. Have the audit firm's governing bodies taken a strategic decision on the provision of sustainability reporting services?

2.5. How many certified auditors are planning to provide sustainability reporting services?

The third section of the questionnaire asked Lithuanian audit companies to disclose their self-reported readiness to provide CRS assurance services. A total of six questions were asked, two of which had multiple additional items to answer:

3.1. Has an operational unit been established/a responsible person appointed to provide SRA services?

3.2. How does your firm plan to provide SRA services for specialized areas, e.g., environmental performance: a) we plan to recruit specialists in specialized areas, b) we plan to train the existing specialists, c) we plan to contract independent service providers/consulting firms?

3.3. Has your audit firm any signed cooperation in place to provide sustainability reporting services?

3.4. Is methodological support required to assist the auditor in preparing to provide sustainability reporting services?

3.5. Is training required for the auditor in preparing to provide sustainability reporting services?

3.6. Please indicate the challenges encountered when preparing to provide sustainability reporting services: a) lack/absence of human resources, b) lack of/unavailable technological resources, c) insufficient time to prepare, d) not yet adopted legislation, and e) lack of professional standards and guidelines.

4. RESEARCH RESULTS

4.1. Intentions of statutory audit firms to provide sustainability reporting assurance services

The evidence of Lithuanian audit firms' intentions to provide SRA services was the key aspect of our survey and is summarized in Table 1. Our results revealed that 22 audit companies (representing 29.73% of the sample) are planning to be assurance services providers for sustainable reporting in Lithuania. In comparison, 44 audit companies (59.46% of the sample) reported not having intentions to enter this market and provide SRA services.

Table 1. Intentions of Lithuanian audit companies to provide SRA services

Intentions to provide SRA services (N = 74)	*Intending to provide SRA services*	*Non-intending to provide SRA services*	*Undecided/Other*
Number of audit companies	22	44	8
% of the total sample	29.73%	59.46%	10.81%

Audit companies were asked if the issue of providing SRA services was discussed and if the decision was taken by the board or shareholder(s) of the audit company. 40.54% of the sample companies indicated that governing bodies discussed questions concerning the provision of SRA services and have made the decision in this respect, while 48.65% of audit companies responded that the question was not yet discussed by governing bodies. The remaining 10.81% of the audit companies indicated still have this issue under debate.

The literature review indicated that the voluntary SRA market is dominated by large, mainly the Big 4, audit firms. In our survey, we explored if the Lithuanian market is in line with this trend. The distribution of audit companies by their size and intentions to provide SRA services is presented in Table 2, while Table 3 presents the distribution of the companies according to their participation in global professional networks, including those in Big 6 (EY, KPMG, PwC, Deloitte, Grant Thornton, BDO).

Table 2. Intentions to provide SRA by a company size

Intentions to provide SRA by a company size		*Intending to provide SRA services*		*Non-intending to provide SRA services*		*Undecided/Other*	
	Number of certified auditors	*Frequency*	*Percentage (%)*	*Frequency*	*Percentage (%)*	*Frequency*	*Percentage (%)*
Company size	0	-	-	4	9.09%	1	12.50%
	1	5	22.73%	31	70.45%	2	25.00%
	2	5	22.73%	6	13.64%	2	25.00%
	3	2	9.09%	3	6.82%	3	37.50%
	4	1	4.55%	-	-	-	-
	5	-	-	-	-	-	-
	6	6	27.27%	-	-	-	-
	7	1	4.55%	-	-	-	-
	10 and more	2	9.09%	-	-	-	-
Total		**22**	**100.00%**	**44**	**100.00%**	**8**	**100.00%**

In line with previous research (Eugénio et al., 2022; Yan et al., 2022) and our assumptions, all large sample companies (having six or more certified auditors) reported having intentions to provide SRA services. Less expected, as many as 12 companies with one–three certified auditors identified being interested in entering the SRA assurance market. Still, the majority (44) of small audit companies indicated that they are not interested in providing SRA services. In our questionnaire, we provided a possibility to comment, on why such an approach toward providing SRA services was taken. Of those 44 audit companies (59.46%) not having intentions to provide SRA services:

- 13 audit companies decided not to provide SRA services as they do not have the necessary level of general and reporting-related knowledge on sustainability; their auditors do not have sufficient skills and abilities to apply such knowledge in practice;
- 12 audit companies' decision not to provide SRA is based on a lack of competent human resources;
- 10 audit companies mentioned still-unadopted legal acts, no assurance standards adopted at the EU level, and no national standards or guidelines;
- nine audit companies mentioned that they require more time to prepare to carry out these services appropriately;
- four audit companies' decision is based on not having sufficient technological resources and expertise.

There were also eight audit companies (10.81% of the sample) that still have not decided to provide SRA services. Of those:

- three audit companies informed that they would prepare and will provide SRA services if there is demand from their clients and assurance of sustainability information will be subject to any mandatory requirements in Lithuania;
- one audit company is considering providing SRA services in the future;
- the remaining four audit companies did not explain the reasons why they still do not have any decision concerning the provision of SRA services.

Similar to the findings of Alsahali and Malagueño (2022), it seems that in the current situation, small Lithuanian audit companies and auditors need assistance to facilitate a mutual understanding of the benefits of entering this market as well as of the main aspects of the assurance engagement requirements introduced by the CSRD. On the other hand, sustainability and its reporting are a complex field of activities that is becoming a heavily regulated area in the EU. Assurance of sustainability reporting might be a too challenging field for small audit firms having limited human and material resources.

As presented in Table 3, membership in a global professional network (of audit and other professional service companies) is a crucial factor in determining an audit firm's intention to provide SRA services. Out of the sample companies that identified themselves as belonging to a professional global network (N = 9), all five Big 6 audit firms, that responded to this survey, clearly expressed their intent to participate in the mandatory SRA market, confirming that belonging to Big 6 audit firms will remain an important determinant for participation in mandatory SRA market (Fernandez-Feijoo et al., 2018). Answers of the other three audit firms belonging to the global networks and intending to provide SRA services have split. Two of those companies indicated intention to participate in the SRA market while one of them reported not having intentions for such services. All three of those audit firms were smaller by the number of auditors (having one–three certified auditors).

Table 3. Intentions to provide SRA services and membership in a global professional network

Intentions to provide SRA services and membership in a global professional network	*Intending to provide SRA services*		*Non-intending to provide SRA services*		*Undecided/Other*	
	Frequency (N = 22)	*Percentage (%)*	*Frequency (N = 44)*	*Percentage (%)*	*Frequency (N = 8)*	*Percentage (%)*
Member of global network	7	31.82%	1	2.32%	0	-
Of those, the Big 6	5	22.73%	0	-	0	-
Of those, other networks	2	9.09%	1	2.32%	0	-
Local audit companies	15	68.18%	43	95.45%	8	100%

The survey data confirmed that intentions to provide SRA services are also related to the volume of audit firm clients compliant with the EU CSRD. A total of 16 sample audit firms indicated having clients, which will publish sustainability reports compliant with CSRD (see Table 4). Most of the sustainability reporting clients having audit firms indicated their intent to provide mandatory SRA while only two decided not to pursue this possibility suggesting that such clients will have to look for SRA services elsewhere. Interestingly, our data shows that eight of 22 companies intending to provide SRA services, currently do not have any clients compliant with CSRD. Out of those companies, just one operates in a non-Big 6 global network, while the others are local companies. Our data reinforces the importance of the global networks (especially Big 6) SRA, as most clients having audit firms indicated being a part of a global network. Interestingly, most audit firms having five or more sustainability reporting clients in 2024 indicated that they expect the number of clients to grow three to five times in 2025.

Table 4. Intentions to provide SRA services by the number of sustainability reporting clients

Audit firms, having clients compliant with CSRD		*Audi firms intending to provide SRA services*			*Audit firms non-intending to provide SRA services*	
		Frequency	*% as of all intending (N = 22)*	*Of those members of a global network*	*Frequency*	*% as of all non-intending (N = 44)*
Number of clients compliant with CSRD	None	8	36.36%		42	95.45%
	1	4	18.18%		1	2.27%
	2–4	1	4.55%		1	2.27%
	5–9	3	13.64%	1	-	
	10 and more	6	27.27%	6	-	
	Total compliant	14	63.64%	7	2	4.55%

Those audit firms, that do not plan to provide SRA services, commented that they are small audit companies, their clients are not big companies and there are no requirements for their clients to report sustainability information in the near future. Some of the audit firms indicated that they do not plan to provide such services yet, but after having acquired certain needed competencies, and after receiving relevant guidelines, standards, and templates, they will reconsider decisions concerning providing SRA services.

4.2. Readiness of statutory audit firms to provide sustainability reporting assurance services

Besides collecting evidence on the intentions to enter the SRA market, we also aimed to explore the current readiness of audit firms to provide SRA services. For this purpose, the data from 22 audit firms, which reported their intent to provide SRA services, were analysed. The analysis questioned if those firms have a dedicated sustainability team established, what are the key issues they are facing and whether they plan to rely on internal or external experts in sustainability-related matters.

Collected data indicated that only five audit firms that are planning to provide SRA services had established a specialized SRA department or appointed a manager, responsible for SRA matters. All those companies represent Big 6 audit firms. These firms also indicated that at least half of their current certified auditors will be engaged in SRA services. None of the local audit firms (irrespective of their size) indicated having a specialized SRA department or person dedicated to SRA services. The local audit firms reported a varying number of auditors planning to provide SRA services. Around 41% (seven out of 17) of local audit firms planning to provide SRA services indicated that SRA services will be provided by the same number of auditors, as now are providing statutory financial audits, while the others indicated having a lesser number of auditors planning to specialize in SRA, except for one small audit firm, which indicated to have more auditors working for SRA than in statutory audits. Based on the survey responses, audit firms, planning to provide SRA services, indicated that 57 auditors plan to provide SRA services. This number is an important indicator for the Lithuanian Chamber of Auditors, responsible for such auditors' certification and training.

Understanding the complexity and specialized focus of SRA services, we expected that Lithuanian statutory audit firms would have to expand their competencies in sustainability, reporting, and assurance. This could be achieved by a few alternative strategies: outsourcing some activities to consulting firms, building competencies in-house by hiring new employees knowledgeable in sustainability or training the current staff.

Table 5. Approaches of audit firms, intending to provide SRA, for acquiring SRA competencies

Audit firms intending to provide SRA services		*Strategy on how audit firms plan to provide SRA services*			
Size (by a number of certified auditors)	*Number of audit firms*	*Plan to hire specialized experts*	*Plan to train existing employees*	*Plan to make agreements with consulting companies*	*No strategy*
1	5	1	1	3	2
2	5	2	2	1	-
3–5	3	0	1	2	1
6 and more	9	4	9	8	-
Total	**22**	**7**	**13**	**14**	**3**

As presented in Table 5, Lithuanian audit firms intend to use all those alternatives. The most popular strategic direction to ensure the required SRA competencies is to make agreements with consulting companies, as indicated by 63.64% of audit firms intending to provide SRA services. It was followed by strategic approaches to train existing employees (59.09% of audit firms) and hire specialized experts (31.82% of audit firms). Three small audit firms disclosed that they do not yet have an approach to how SRA competencies will be built. Similar to our previous findings, large and especially Big 6 companies seem to be the best prepared and understand the scope and complexity of SRA tasks. All of them have plans to use one or more approaches how to build SRA competencies, giving priority to training their staff (100% of firms in this group) and making agreements with consulting companies (89% of firms). However, only two of the audit firms intending to provide SRA services indicated (both belonging to Big 6) that they already have some agreement with an external party or with a global network for assistance in providing SRA services.

Our survey also questioned the key issues and problems the audit firms are facing in entering the SRA market. The majority of the firms intending to provide SRA services indicated a lack of approved sustainability-specific assurance standards and guidelines as the key issue (indicated by 15 out of 22, or 68% of firms), followed by not yet adapted local laws (transferring CSRD to national law) and insufficient competencies (both mentioned by four out of 22, or 63.64% of firms), lack of human resources (50%), lack of time to prepare (23%), lack of technological resources (23%), and the insufficient involvement of the network to which the audit firm belongs. All 22 audit firms intending to provide SRA services unanimously indicated that a need for methodological guidance and training in sustainability as well as its reporting and assurance matters is necessary. This reinforces a need for organized high-quality training and methodological guidance from both governance and self-governing bodies, such as the Lithuanian Chamber of Auditors.

5. DISCUSSION

The early evidence on the intentions of Lithuanian statutory audit firms to provide SRA services revealed some interesting and novel results. Overall, our survey indicated that only approximately one-third (29.73%) of Lithuanian statutory audit firms have intentions to enter the SRA market. This is a rather low number questioning if the supply of the SRA services will be sufficient to meet market demand for such services. It also justifies Lithuania's decision to extend the ability to perform SRA services to independent consulting firms. This study did not survey the consulting firms, therefore, we cannot debate their intentions and readiness to enter this market. Based on the development of the voluntary SRA market (Eugénio et al., 2022; Yan et al., 2022), we can reasonably expect that the Lithuanian SRA market will be dominated by the statutory audit firms, especially Big 6, as those firms are larger and have higher access to human and material resources. Moreover, based on Ruiz-Barbadillo and Martínez-Ferrero (2020) and Fernandez-Feijoo et al. (2018), who confirmed the connection between financial auditors and SRA providers, it is also very likely to expect that assurance of both financial and sustainability reporting will be concentrated in single hands, most likely Big 6, facilitating the transfer of knowledge and enhancing the quality of both services provided.

Based on our survey, two profiles of the audit firms intending to provide SRA services were identified: 1) large audit firms (with six 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 (three and fewer auditors) with no or low base of sustainability reporting clients, yet aiming to pursue the new business opportunity. Previous research on the voluntary SRA market shows that large audit firms have a competitive advantage over smaller audit firms (Yan et al., 2022), therefore, we expect that large audit firms will dominate the Lithuanian SRA market, at least in the first stages of its development. It is very likely, that they will not be able to service all requests, so selecting clients will become an issue (Hegazy et al., 2023). Moreover, at this early stage, it is questionable if small audit companies will be able to provide high-quality SRA. To ensure this a robust regulatory and supervisory framework is needed. Also, based on evidence from the voluntary SRA market (Farooq & de Villiers, 2019), it is expected for small firms to make strategic alliances with consulting firms and other audit companies combining sustainability, process, and audit-related competencies, although our results indicated that no actions in this respect were yet taken. In the future, we might also see fragmentation and segmentation of the Lithuanian audit market with smaller audit firms not being able to serve larger clients due to limited service offerings.

The results revealed that the readiness of Lithuanian statutory audit firms to provide SRA services is low. Only a few of them, mostly Big 6 audit firms, have already established a specialized SRA department or appointed a manager responsible for SRA matters, however intending audit firms indicated that at least half of their current auditors will be joining SRA services. Most audit firms planning to provide SRA services intend to expand their competencies in sustainability, reporting, and assurance. The most popular strategies to ensure the required SRA competencies include making agreements with consulting companies, training existing employees, and hiring specialized experts. However, only two companies indicated already having agreements with other sustainability experts. Similar to the initial stages of voluntary SRA market development (Perego, 2009) there is a need for methodological guidance and training in sustainability reporting and assurance matters, while more than half of them agreed that the lack of approved sustainability-specific assurance standards and guidelines, not yet approved national laws, and the lack of human resources are key issues in the development of SRA services. Based on such findings we suggest that in Lithuania the regulatory and self-governing bodies, such as the Lithuanian Chamber of Auditors, should provide high-quality training and methodological guidance to support audit firms in navigating the SRA market effectively and ensuring high-level assurance. Our results also indicate that the participation of independent assurance service providers in the SRA market is highly expected. On one hand, independent assurance service providers can bring more specialized, process-specific sustainability expertise (Farooq & de Villiers, 2019; Yan et al., 2022). Yet they have limited knowledge and experience in the assurance process. This even further reinforces the need for the development and approval of sustainability-specific assurance standards and guidelines with a single supervision of their implementation.

6. CONCLUSION

This study aimed to provide evidence on Lithuanian audit firms' intentions and readiness to offer SRA services under the new EU CSRD. A survey of 74 Lithuanian audit companies conducted in April 2024 revealed that only 29,73% of them have the intention to enter the SRA market. These companies represent two roughly equal segments: large audit firms (mostly the Big 6) with an existing base of CSRD-compliant clients and small local firms (with three or fewer auditors), which are likely seeking new business opportunities. The intentions of large audit firms align with our expectations based on the reviewed literature on voluntary SRA (Eugénio et al., 2022; Yan et al., 2022) suggesting that these companies will dominate the Lithuanian SRA market. However, at this early stage, we view the intentions of small audit firms as opportunistic, raising concern about the quality of their services and highlighting the need for a robust regulatory and supervisory framework. Among the remaining companies, 59.46%, all of which are small, did not report intentions to provide SRA services, while another 10.81% were undecided due to a lack of resources, expertise, and underdeveloped regulations.

The findings of this study bring significant practical, academic, and policy implications. Our research contributes to the existing academic literature on SRA by providing early empirical evidence on the formation of a mandatory SRA market. It also offers valuable insights into the intentions and readiness of Lithuanian statutory audit firms to offer SRA services, thus serving as a useful indicator to other EU countries. The findings suggest that in the early stage of SRA market development, the most effective strategy for companies requiring SRA would be to approach Big 6 and other large audit firms. Moreover, our findings highlight the limited number of auditors committed to providing SRA services, signalling strong career prospects for individuals interested in sustainability and business opportunities for consulting companies offering training in this field. Additionally, the strategies of Lithuanian audit firms to build SRA competencies through partnerships with consulting companies and by training existing employees, provide practical examples for other EU countries looking to enhance their audit firms' capabilities in SRA. 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. Policymakers and professional bodies should support initiatives aimed at building competencies in sustainability, reporting, and assurance among SRA providers, be they audit or independent assurance service providers, to meet the growing demand for high-credibility sustainability reporting.

This study also had some limitations and opened up possibilities for further research. Firstly, it gathered self-reported intentions and readiness of Lithuanian statutory audit firms to enter the SRA market before CSRD requirements were transferred to national regulation, professional bodies started providing consultations or training, or the first mandatory SRA services were provided. Market dynamics could shift significantly once these developments occur, making it relevant to repeat the study and update the data with new evidence. Additionally, the study focused solely on the Lithuanian SRA market, providing only a single-country perspective. Future research could extend the study to other EU countries, particularly those representing small open economies. Finally, the survey did not include consulting firms as SRA providers, leaving it as a relevant area for future research. Overall, the development of a mandatory SRA market offers numerous research opportunities, mirroring topics in statutory financial audits and exploring the interaction between financial and SRA.

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