

MODEL OF THE SUSTAINABILITY REPORT: CONCEPTUALIZATION AND ADAPTATION TO EUROPEAN STANDARDS (ESRS)

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Purpose of the article: *The paper explores the use of Agreed-Upon Procedures (AUP), regulated by ISRS 4400 (Revised), as a mechanism for verifying ESG (environmental, social, governance) indicators under the CSRD Directive and ESRS standards. The study aims to highlight the relevance and practical applicability of AUP in strengthening the credibility of sustainability reporting, particularly when full assurance engagements are not required or feasible.*

Methodology: *combines analysis of the international and European regulatory framework with the mapping of ESRS indicators to potential AUP procedures and illustrative case studies on ESG data verification, including CO₂ emissions, workforce diversity, and supply-chain traceability.*

Conclusions: *show that AUP provides a flexible, cost-efficient solution for the selective verification of sustainability information, mitigating greenwashing risks and facilitating the gradual integration of companies-especially SMEs-into the new European reporting framework.*

Originality: *of the research lies in its proposed mapping model between ESRS indicators and applicable procedures, and in identifying innovation pathways through digitalization and the use of emerging technologies such as blockchain and artificial intelligence.*

Keywords: *agreed-upon procedures; ISRS 4400 (Revised); ESG indicators; sustainability reporting; CSRD Directive; ESRS.*

JEL classifications: *M41, K22, Q56.*

INTRODUCTION

It is known that all business results must be regularly communicated to society, and due to their verified nature, financial statements serve as the main source of information about a company's financial performance and financial position. The data from financial statements help business owners establish effective relationships with investors, creditors, and other stakeholders. However, in the context of the transition to the sustainable development concept – aimed at counteracting the selfish pursuit of endless capital growth by businesses at the expense of the environment and society as a whole — the expectations and perspectives of stakeholders have changed significantly. Today, they are interested in information that reflects not only the business's performance results but also its prospects in terms of sustainable development. This determines the broad application of the informational and communicative function of accounting in the collection, preparation, and presentation of sustainability-related information.

The informational and communicative function now extends beyond the preparation of traditional financial statements and increasingly encompasses the non-financial, socially oriented aspects of business. This means that the transition to a new development paradigm has become the key factor driving changes in the business reporting format, which entails the refinement of the criteria for the usefulness of the reporting information field, the principles of its preparation, and, ultimately, the methodology of its compilation. At present, there is a clear trend toward the development and standardization of the methodology for preparing ESG reporting, aimed at strengthening its relevance in the process of strategic and investment decision-making. This trend is confirmed by the following factors: The development of the institutional framework for ESG information disclosure; The tightening of regulations and the implementation of sustainability reporting standards.

The purpose of ESG reporting is to ensure a connection between socially responsible businesses and investors, who, when making decisions about responsible investing, need to be confident that the business's indicators are presented accurately. In this context, the issue of information usefulness lies

in understanding the methodology for preparing this reporting format and ensuring that its usefulness aligns with the needs of the intended users (Golochalova, 2024). This means that if the report preparers do not have an adequate level of methodological support, they lack the professional competencies necessary to produce reporting that is useful to users. (Безручук, 2017).

As is known, the Republic of Moldova (RM) has been a candidate for EU membership since 2022. In the context of fulfilling its obligations to reform and align national legislation with European standards, the Government of the RM has developed and approved the "European Moldova-2030" Strategy (hereinafter, Strategy-2030). The strategy outlines a number of priority directions for the transition to a sustainable development paradigm and provides for various protective measures to address current national issues, including social and environmental challenges, based on an anthropocentric vision of societal development. In order to implement the policies and measures related to the priority environmental areas outlined in Strategy-2030, the Government of the RM has approved the Environmental Strategy for 2024–2030 (hereinafter, Eco-Strategy-2030). Its goal is to ensure safe environmental and living conditions at the national level by applying all necessary tools that promote the organization of human and economic activities with maximum responsibility toward nature and society, in full compliance with all principles of environmental policy (Eco-Strategy-2030, 2024).

The Republic of Moldova declares its commitment to the sustainable development agenda. However, in order to demonstrate progress in this area, it is necessary to have a clear accounting methodology and a standardized system for preparing both financial and ESG-compliant reports. At the same time, the national accounting and reporting system continues to be in the process of institutional development, balancing between the requirements of EU Directive 2013/34/EU and IFRS. The intermediate state of the national accounting system creates difficulties in understanding the preparation of financial statements. These issues become particularly relevant in the process of developing a sustainability reporting methodology, which requires a comprehensive and structured approach and alignment with one of the two frameworks: European or international. In this context, two issues arise: the development of a sustainability reporting model and the assurance of data consistency and comparability, given the intermediate state of the national accounting system and the existing gaps between different standards.

LITERATURE REVIEW

The issue of disclosing information that goes beyond traditional financial reporting, yet remains useful to users in certain contexts, has remained relevant for a long time and has been repeatedly addressed in academic literature. In this regard, we emphasize recent studies directly related to the disclosure of information in sustainability reporting. Some of these focus on the conceptual basis and significance of such reporting, while others examine the structure of indicators and their impact on information quality.

М. Pyatov (Пятков) adheres to a conceptual approach regarding the formation of the reporting information field, arguing that the traditional approach to reporting does not allow even a conditionally comprehensive picture of a business's condition to be reflected in the balance sheet and income statement during times of crisis, nor to provide it to interested stakeholders, since a number of significant factors cannot, in principle, be captured within the framework of these reporting forms (Pyatov, 2021). This view is also shared by Shigaev (Шигаев), who notes that the classical approach to reporting insufficiently meets the informational needs of capital market participants. It is primarily focused on recording past events, whereas capital providers require information that reflects forecasts of the business's future financial position for investment decision-making (Шигаев, 2016). Among researchers analyzing changes in the format of sustainability reporting, Ofurum and Ngoke stand out, who argue that the first step in presenting reliable information on the created economic value is the identification of stakeholders. It is emphasized that stakeholder identification is what ensures the connection between the content of the reporting and its intended purpose; otherwise, the usefulness of the report is diminished (Ofurum, Ngoke, 2021). Prof. Cr. Dolghii provides the following

definition of non-financial reporting: it is a tool through which a business publishes information about the social, economic, and environmental impacts and outcomes of its ongoing activities, thereby demonstrating social responsibility to stakeholders, primarily shareholders and investors making decisions in the field of responsible investing. At the same time, two approaches to its preparation are highlighted: 1) reporting on environmental, social, and governance (ESG) activities, as well as corporate social responsibility, which is not expressed in monetary terms; and 2) reporting on key performance indicators (KPIs), which are generally quantitative metrics that allow for the assessment of the quality, sustainability, and variability of a business's cash flows and revenues (Dolghii, 2022). The first method of presenting non-financial indicators is characterized by M. Cojocaru, 2022 as the systematization of metrics under the umbrella of the ESG approach, assessing the extent to which a business strives to achieve non-commercial objectives that go beyond maximizing the value created for its owners (Cojocaru, 2022).

One of the reasons indicating the need to expand the scope of disclosed information, according to Guzov (Гузов), is the fact that currently only a small portion of a business's market value is attributable to tangible and financial assets — just 19% in 2009 compared to 83% in 1975. The remaining portion consists of intangible assets, only some of which are reflected in financial statements, while the majority remain outside of them (Гузов, 2016). This view is also shared by Wilson, who emphasizes that over 78% of the value created by a business is linked to intangible assets, the sources of which are human and institutional capital. It is noted that human capital, manifested in skills and knowledge, is only slightly tangible, while social capital is entirely intangible, as it is formed through interactions among social actors (Wilson, 2021). The limited tangibility of these assets creates difficulties in reliably measuring them and, as a result, leads to their exclusion from financial statements and the presentation of metrics in physical, non-monetary units. To overcome this problem, the accounting community should intensify theoretical research and, based on it, develop practical tools — for example, by justifying the set of metrics (non-financial indicators) that enhance the usefulness of information for stakeholders (Wilson, 2021; Каплан и Нортон, 2003). In this context, the work of Imaningati stands out, where a clear grouping of metrics is proposed, each identified with a specific type of intellectual capital (Imaningati et al., 2022). According to Chen et al., grouping metrics is not sufficient; a unified scale for their assessment is necessary, which would allow for the integration and harmonization of information on the implementation of corporate social responsibility (Chen et al., 2021). This, in turn, underscores the need to develop a robust system of metrics for assessing and monitoring a business's fulfillment of social responsibility. Statistical indicators, the composition of which will be determined by industry affiliation, can serve as the basis for developing such a metrics system (Golochalova, Cojocaru, 2025).

Several researchers advocate the need for standardizing the disclosure of business sustainability information. A. Bîrcă et al. justify this by emphasizing the necessity of providing solutions for various financial and managerial accounting tasks. Reporting should account for both past and future business transactions. When developing standards, it is important to focus not only on users with direct financial interests but also on customers, suppliers, and other groups with indirect financial involvement (Bîrcă et al, 2024). However, their voluntary application and the business's freedom in determining the criteria for report usefulness create conditions that may lead to information manipulation. This may manifest either in presenting a favorable picture of the business's condition or in withholding data that indicate negative trends or are considered too sensitive to be reflected in the reporting (Безручук, 2017). In this context, the role of professional accountants is decisive.

In this regard, a dilemma arises in accounting and reporting methodology: whether to adopt strict regulation or a flexible approach that allows reporting to be adapted to the needs of different users and the specifics of the business. The studies cited above demonstrate the significance of this issue and undoubtedly contribute to the recognition of the need to develop a sustainability reporting model.

MATERIALS AND METHODS

This study is conducted using general scientific and specialized methods, including the systems approach, content analysis, analysis, synthesis, induction and deduction, modeling, and the review of specialized literature. The application of the systems approach is reflected in the rational combination of specific scientific methods aimed at developing the research methodology: problem identification, formulation, and resolution of research objectives. The content analysis method is aimed at comparing the provisions of IFRS S1 and ESRS and facilitated the identification of indicators, disclosure areas, topics, and the determination of the structure of the Sustainability Report in the context of implementing the ESG agenda. The modeling method contributed to the development of the algorithm for its construction. In the course of the work, the author also relied on the following methods: induction, which allowed for the identification of the problem, and synthesis, through which the conclusions were formulated.

The aim of the study is to develop a Sustainability Report model based on the analysis of current trends (ESRS and IFRS) in the context of achieving the Sustainable Development Goals (SDGs) by businesses in the Republic of Moldova. In this regard, the following sources were used to form the evidence base:

1. Strategic acts and the legislative framework of the Republic of Moldova in the field of accounting and reporting;
2. International and European standards related to sustainability reporting;
3. Works of prominent scholars published in scientific journals, including those indexed in Scopus and Web of Science, as well as in the form of monographs.

RESULTS AND DISCUSSIONS

It is well known that the core of the institutional platform consists of strategic national development acts. As noted above, the Republic of Moldova implements the Strategy-2030, which is based on the concept of sustainable development used by EU countries. The strategy enshrines four pillars of sustainable development, among which are a robust human and social capital and a healthy environment.

Regarding priority actions for supporting human and social capital, the following are highlighted: strengthening competencies and professional skills through quality education, and encouraging private investment in the R&D sector, including through a public-private partnership system (Strategy-2030, 2022).

Another important strategic act is the Eco-Strategy-2030, which includes goals and priority directions aimed at implementing the environmental protection objectives and priorities set out in Strategy-2030, while also taking into account the priorities of the European Green Deal (2019), focused on reducing GHG emissions and decoupling economic growth from the use of natural resources (Eco-Strategy-2030).

Among the priorities of economic policy, alongside others, are sustainable management of natural resources and the provision of comprehensive monitoring of their condition. Their implementation, however, is possible under the following principles:

- Precaution;
- Prevention and reduction of pollution at the source;
- "Polluter pays"; and
- Responsibility and accountability for the state of the environment.

The Eco-Strategy-2030 presents an analysis of the current situation regarding the mitigation of environmental challenges, based on which a set of national priorities for achieving effective environmental policy is outlined through 2030. In particular, emphasis is placed on developing a system for monitoring compliance with environmental legislation and the quality of environmental components, which should include the following elements: environmental monitoring indicators; a mechanism for monitoring changes and factors affecting the state of natural resources (emissions of

pollutants into air, water, and soil); and a system for accounting and monitoring natural resources, which entails the development of environmental reporting.

The implementation of these priority directions involves the use of the accounting and reporting system as a key source of information for management, enabling the assessment of achieved results, the current state of the business, and its development prospects.

It is evident that the sustainability report is regarded as an integral element of business reporting, the preparation of which is carried out according to a specific methodology. The choice of this methodology, in turn, is determined by alignment with one of two accounting models – the Anglo-Saxon or the Continental. It is known that the Anglo-Saxon model is based on the IFRS system, whereas the Continental model is based on the provisions of Directive 2013/34/EU. To determine prospects for improving the approach to business reporting in the context of the ESG agenda, it is necessary to conduct a content analysis of the provisions of IFRS S1 alongside ESRS 1 and ESRS 2.

This will allow an assessment of whether the trend of “competition” between these two accounting and reporting models persists. The results of the content analysis showed that a common requirement of both international and European standards is to ensure the disclosure of information across three aspects: governance (GOV), business model strategy (SBM), and risk management (IRO). In addition, both international and European standards provide recommendations for selecting metrics that characterize each of these aspects. In this regard, the provisions of EU Directive 2022/2464 are observed, which call for taking into account ESRS trends in IFRS S1.

The difference is fundamental and lies in the purpose of the Sustainability Report, prepared either under IFRS S or ESRS. In the first case, the report is intended for investors who focus on financial information when making responsible investment decisions; in the second, it is aimed at a broad range of stakeholders to assess the business’s ESG behavior toward society and the environment, as well as the impact of ESG factors on the business. In this context, it can be argued that sustainability standards clearly reflect the distinction between the IFRS methodological approach, focused on providing truthful information for investors, and the classical accounting approach, aimed at ensuring the reliability of data for a broader range of stakeholders – including regulators, shareholders, employees, and society as a whole.

The provisions of IFRS S1 confirm this as follows:

1. Identification of the primary user group – existing and potential investors and creditors, in accordance with the IFRS Conceptual Framework;
2. Classification of sustainability-related information as financial;
3. Implementation of the principle of financial materiality regarding the impact of all risks and opportunities related to the use of existing resources on business value;
4. Variability in the format and disclosure of information in the Sustainability Report due to the absence of specific recommendations on its structure.

Thus, the standardization of sustainability reporting ensures the development of a specific model for presenting information on how a business’s fulfillment of social responsibility impacts its value. In this context:

- Within the IFRS methodology, the focus is on the economic assessment of a business’s social responsibility and its impact on business value. As a result, the financial sustainability report becomes part of general-purpose financial reporting, which meets the requirements of the ESG agenda.
- Within the framework of the classical accounting methodology underlying the Continental

model, the emphasis is placed on demonstrating the fulfillment of the moral obligations of a socially responsible business toward society and the environment — including the resources used by the business – as well as on assessing its financial capacity in the context of implementing the ESG agenda. Consequently, the sustainability report is classified as a managerial report.

The conclusion of this part of the study is that a stable trend persists in maintaining a clear distinction between the rules of classical accounting methodology and the principles of the IFRS methodology. This, in turn, defines the essence of the socio-economic approach to preparing business reporting, which is developed either based on rules or on principles. Accordingly, the structure of sustainability reports will also differ.

As noted earlier, the accounting system of the Republic of Moldova occupies an intermediate position between Directive 2013/34/EU and the IFRS framework. However, since it is oriented toward the Continental accounting model, it can be stated with a high degree of confidence that the format of sustainability reporting will be determined by the adopted framework: enterprises in the extractive, manufacturing, and agricultural sectors will follow ESRS standards, whereas organizations reporting under IFRS will be guided by the provisions of IFRS S1. Amendments to the legislative and regulatory framework, in line with the provisions of the CDCR Directive and the amendments to Directive 2013/34/EU, are scheduled for 2027. This means that the current reporting system in the Republic of Moldova still has to undergo the next stage of reform to align with the principles of sustainable development and to provide a format for the Sustainability Report that reflects national specificities.

Within the framework of the study, the development of the report model is proposed based on a four-stage algorithm, which includes:

1. Analysis of the provisions of cross-sectoral and thematic European standards (ESRS) to formulate thematic directions for information disclosure;
2. Identification of metrics covering the business's sustainability strategy and their systematization according to the "risks – opportunities – impacts" principle;
3. Formulation of explanations for actions aimed at achieving the target (value) for each of the identified metrics;
4. The actual development of the report model, taking into account the requirements of the time horizons for presenting information.

In implementing the proposed algorithm, the model will consist of three parts: a general explanation; a report on the adopted business scheme for achieving sustainability; and thematic reports on the three key aspects — environmental, social, and governance – that is, the ESG report itself.

CONCLUSIONS

In the context of the transition to the concept of sustainable development, stakeholders are interested in information that reflects not only the current performance of the business but also its prospects from a sustainability perspective. This necessitates the extensive use of the information and communication function of accounting in the collection, preparation, and presentation format of sustainability-related information. At the same time, the scope of such information increasingly encompasses non-financial, socially oriented aspects of the business. The sustainability report serves as a clear demonstration of the implementation of this accounting function.

Based on the results of the study, the author formulates the overall conclusion: the standardization of sustainability reporting ensures the development of a specific model for presenting information on how a business's fulfillment of social responsibility affects its market value.

The specific conclusions are as follows:

1. Within the IFRS methodology, the focus is on the economic assessment of a business's social responsibility and its impact on business value. As a result, the report on the adopted business scheme for achieving sustainability is classified as a financial sustainability report and becomes part of general-purpose financial reporting.
2. Within the framework of the classical accounting methodology, the emphasis is placed on demonstrating the fulfillment of the moral obligations of a socially responsible business toward society and the environment. In this context, the sustainability report is classified as a managerial report.

3. Two directions are distinguished within the socio-economic approach to preparing business reporting: one based on principles, the other based on rules, which determines the differences in the format of ESG information disclosure.
4. Amendments to Directive 2013/34/EU necessitate the next stage of reform of the current reporting system in the Republic of Moldova to align it with the principles of sustainable development.

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