13 May 2024

Gabriela Figueiredo Dias, Chair
International Ethics Standards Board for Accountants
529 5th Avenue
New York, New York 10017
United States of America

Dear Gabriela

RESPONSE TO EXPOSURE DRAFTS OF PROPOSED IESSA AND OTHER REVISIONS TO THE CODE RELATING TO SUSTAINABILITY ASSURANCE AND REPORTING, AND OF USING THE WORK OF AN EXTERNAL EXPERT

We welcome the opportunity to comment on the above-mentioned Exposure Drafts issued in January 2024.

Accounting and Corporate Regulatory Authority (ACRA) is the regulator of business registration, financial reporting, public accountants, accounting firms and corporate service providers in Singapore. We aim to foster a vibrant and trusted business environment that enables innovation and growth.

In this letter, we are presenting the perspectives of sustainability assurance practitioners (SAPs) in Singapore. In formulating our reply, we have engaged with the Singapore Accreditation Council[1] (SAC) and gathered insights from focus group discussions involving accountant SAPs and non-accountant SAPs. Our response centres on the proposed ethics and independence requirements concerning sustainability assurance.

Mandatory climate reporting and assurance roadmap in Singapore

As a background, in February 2024, the Singapore Government endorsed the climate reporting and assurance roadmap developed with a private sector-led Sustainability Reporting Advisory Committee. The roadmap[2] included:

- the requirement to obtain external limited assurance over Scope 1 and Scope 2 greenhouse gas (GHG) emissions, commencing with listed issuers from FY2027 and large non-listed companies[3] from FY2029; and
- creating pathways for ACRA-registered audit firms or SAC-accredited Testing, Inspection and Certification (TIC) firms to qualify as registered climate auditors.

[1] SAC is the national accreditation body of Singapore. It is also a member of the International Accreditation Forum.

[2] ACRA: Response to the Public Consultation on Sustainability Reporting Advisory Committee's Recommendations, February 2024.

[3] Defined as non-listed companies with annual revenue of at least S$1 billion and total assets of at least S$500 million, subject to certain exemptions.

Our Support for the Exposure Drafts

We support the IESBA's efforts to establish a profession-agnostic framework outlining expected behaviours for ethics and independence provisions for sustainability assurance, with the long-term goal of aligning its demands with those of financial statement audits. This is vital to safeguard public interest, given the participation of accountant SAPs and non-accountant SAPs, as well as the increasing involvement of external experts in such engagements.

In addition, we value the collaboration between the IESBA and the International Auditing and Assurance Standards Board (IAASB) for harmonising terms and definitions. The integration of Proposed IESSA into the conformity assessment of International Accreditation Forum's (IAF) network will enhance the independence and credibility of sustainability assurance worldwide.

Overall, **we believe the proposals in the Exposure Drafts align with the IESBA's objective to mitigate greenwashing and improve the quality of sustainability disclosures.** These well-crafted proposals also address the key concerns of investors and other stakeholders.

We have summarised below key areas where refinements could be beneficial. Our responses to the specific questions[4] in the consultation paper are provided in Appendices A and B.

1. Tiering the requirements to facilitate implementation

Globally, jurisdictions are embracing diverse approaches for mandatory assurance requirements. While upholding a high standard of ethics and independence is essential, certain jurisdictions may also require more time to acquaint the SAPs from various backgrounds with these requirements.

We propose the tiering of the proposed Part 5 of the IESBA Code in the following manner:

- **Commence with the baseline requirements, including those mirroring Part 4B of the extant International Independence Standards.** This will establish a strong foundation for sustainability assurance practices and help grow the pool of SAPs. As ISSA 5000 is an assurance standard, it may also be more conceptually aligned with Part 4B (for assurance engagements), rather than Part 4A (for audit and review); and

- **Allowing the option to introduce the stricter requirements set out in the proposed Part 5, which mirrors Parts 1, 3 and 4A later**. The IAASB and the International Organisation for Standardisation (ISO) may develop more rigorous requirements for areas such as group assurance and value chain entities as sustainability assurance evolves. The stricter ethics and independence requirements could be introduced when jurisdictions mandate comprehensive sustainability assurance, allowing more time for both accountant SAPs and non-accountant SAPs to adapt their systems and processes.

[4] For questions that we did not comment on, our silence should not be interpreted as either approval or disapproval.

The integration of a tiered approach into the Proposed IESSA would obviate the need for jurisdictions to create their own tiering, thereby fostering consistency of ethics and independence requirements worldwide.

2. **Adapting the terminology and requirements in Part 5 to better align with the circumstances and practices of non-accountant SAPs**

   In Singapore, our TIC firms are applying ISO/IEC 17029[5] and ISO 14064-3[6] for the verification of GHG emissions.

   During our engagement, we noticed variations in practices between accountant SAPs and non-accountant SAPs, which could pose practical challenges in applying the Exposure Drafts. For example:

   - **the non-assurance services specified in subsections 5601 to 5610 of the Proposed IESSA do not encompass services commonly offered by non-accountant SAPs**.

     It would be beneficial to list prohibited services more relevant to non-accountant SAPs and provide guidance for evaluating and mitigating independence threats for permissible services. These services include laboratory testing, product life-cycle assessments, transition planning (including de-carbonisation), ESG rating services and classification services.

   - **certain key roles in the Proposed IESSA such as engagement leader, engagement quality reviewer, group audit firm, and component audit firm, may be unfamiliar to non-accountant SAPs.**

     It would be helpful to provide explanations and implications for these roles and terms, and develop a 'translator dictionary' to align roles and terms used in ISO/IEC 17029 and ISO 14064-3.

   We encourage the IESBA to collaborate with the IAF and the ISO to contextualise the Proposed IESSA for non-accounting SAPs. This will foster a consistent and high-quality ethics and independence framework for sustainability assurance globally.

We extend our appreciation to the IESBA for the opportunity to contribute to this consultation. We hope that our feedback will be useful for the IESBA's ongoing deliberations.

Yours faithfully

Kuldip Gill
Assistant Chief Executive
Accounting and Corporate Regulatory Authority

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[5] ISO/IEC 17029: *Conformity assessment – General principles and requirements for validation and verification bodies.*

[6] ISO 14064-3: *Specification with guidance for the verification and validation of greenhouse gas statements.*

Appendix A: Proposed IESSA and Other Revisions to the Code

Sustainability Assurance: Question 1—Main Objectives of the IESSA
Do you agree that the proposals in Chapter 1 of the ED are: a) Equivalent to the ethics and independence standards for audit engagements in the extant Code? b) Profession-agnostic and framework-neutral?

We support the IESBA's objectives of creating a profession-agnostic and framework-neutral standard. As 43% of sustainability assurance engagements are conducted by non-accountant SAPs globally[7], this approach will promote consistent ethical behaviour and independence across all SAPs.

Accountant SAPs

Currently, accountant SAPs apply Part 4B[8] when conducting sustainability assurance engagements in accordance with ISAE 3000[9] and ISAE 3410[10], which are the most used sustainability assurance standards by audit firms[11]. As the Proposed IESSA is primarily developed based on the more rigorous requirements in Part 4A, **accountants SAPs will need more time to adapt their systems and practices to comply.** They also highlighted that with ISSA 5000 being an assurance standard, it may be more conceptually aligned with Part 4B (for assurance engagements), as compared to Part 4A (for audit and review).

Non-accountant SAPs

Non-accountant SAPs will apply the proposed Part 5, which incorporates elements of Parts 1, 3 and 4A. The accounting and auditing concepts and terms in Part 5 may present challenges for non-accountant SAPs, who operate under different business models, standards and practices. For instance, ISO/IEC 17029[12] do not include detailed requirements in Part 4A and Part 4B for assessing financial interests, loans and business relationships held by an individual's immediate family in relation to the firm's clients.

We propose that the IESBA to tier the requirements, allowing jurisdictions to:

- commence with the baseline requirements, including those mirroring Part 4B of the extant International Independence Standards.
- have the option to introduce the stricter requirements set out in proposed Part 5, which mirrors Parts 1, 3 and Part 4A later, when jurisdictions mandate comprehensive sustainability assurance.

This will enable jurisdictions to tailor the requirements to their coverage and scope of mandatory assurance, and provide more time for all SAPs to transit to requirements mirroring Part 4A.

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[7] The International Federation of Accountants: A Deep Dive into Sustainability Assurance Engagements, May 2023.

[8] Our existing International Independence Standards consist of two components, namely:

- Part 4A: Independence for Audit and Review Engagements; and
- Part 4B: Independence for Assurance Engagements Other than Audit and Review Engagements.

[9] ISAE 3000 (Revised): *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

[10] ISAE 3410: *Assurance Engagements on Greenhouse Gas Statements*

[11] The International Federation of Accountants: A Deep Dive into Sustainability Assurance Engagements, May 2023.

[12] With reference to sections 4 and 5 of ISO/IEC 17029.

Appendix A: Proposed IESSA and Other Revisions to the Code

Sustainability Assurance: Question 9— Determination of PIEs
For sustainability assurance engagements addressed by Part 5, do you agree with the proposal to use the determination of a PIE for purposes of the audit of the entity's financial statements?

We support the proposal to align the determination of a public interest entity (PIE) for sustainability assurance with that for statutory audits of financial statements. The proposed alignment will allow us to leverage on the existing requirements and processes for financial audits and harness the synergy with sustainability assurance engagements.

Our stakeholders in Singapore have highlighted the following potential practical challenges in applying the proposed expanded definition[13] of a PIE:

a. The expanded definition has included PIE specified in "professional standards". The absence of a defined meaning for "professional standards" in the Proposed IESSA could lead to a broad interpretation of the term. Considering that crucial professional standards would be integrated into law and regulations, it may be prudent to reconsider this inclusion; and

b. The expanded definition is also proposed to be effective for audits of financial statements for periods beginning on or after 15 December 2024. We propose to allow for a transitional period before subjecting a wider group of entities to the more stringent independence requirements for PIEs.

Sustainability Assurance: Question 10—Group Sustainability Assurance Engagements
a) Do you support the International Independence Standards in Part 5 specifically addressing group sustainability assurance engagements? Considering how practice might develop with respect to group sustainability assurance engagements, what practical issues or challenges do you anticipate regarding the application of proposed Section 5405?

Group sustainability assurance engagements are poised to become widespread, with the increasing adoption of the European Sustainability Reporting Standards and the International Sustainability Standards Board standards. It is therefore necessary to have requirements to identify, evaluate and address threats to independence for group engagements.

Our stakeholders in Singapore have highlighted the following potential practical challenges in applying the proposed Section 5405:

[13] For the purposes of Part 4A, an entity is a public interest entity when it falls within any of the following categories:
(a) A publicly traded entity;
(b) An entity one of whose main functions is to take deposits from the public[NEW];
(c) An entity one of whose main functions is to provide insurance to the public[NEW]; or
(d) An entity specified as such by law, regulation [or professional standards][NEW] to meet the purpose described in paragraph 400.15.

Appendix A: Proposed IESSA and Other Revisions to the Code

a) **Diverse market practices for group sustainability assurance engagements**

We have observed varied market practices among SAPs in relation to group sustainability assurance engagements, which mirror the approach and process their clients use to gather data and prepare sustainability reports.

Some clients may adopt a centralised approach by using industry averages, proxies and other information provided by third-party data providers to calculate their Scope 3 emission. Other clients may opt to make qualitative disclosures, rather than quantitative disclosures.

These practices potentially reduce the involvement of component auditors, thus creating a wide gap in practices as compared to SAPs who applied the ISA 600 (Revised)[14]'s approach to conduct group sustainability assurance engagements.

b) **The absence of network arrangement for non-accountant SAPs.**

Over the years, our accountant SAPs have established networks with firms in different locations to apply the same audit methodology, ethics and independence requirements. Such arrangements make the process of identifying, evaluating, and addressing threats to independence, efficient and effective.

For non-accountant SAPs, the arrangements are more varied. Some firms have chosen to use network arrangements similar to those of accountant SAPs. Others prefer to enter individual associate agreements with their overseas counterparts. These overseas counterparts may not be familiar with the IESBA Code and/or lack a system to gather relevant information to confirm their independence.

To promote a widespread adoption of the Proposed IESSA by non-accountant SAPs, it may be prudent to allow more time for non-accountant SAPs to build their network arrangement, systems and processes. We therefore propose for the requirements to be tiered, commencing with those mirroring Parts 1, 3 and 4B.

There is also an opportunity for the IESBA to collaborate with the IAF and standard setters (e.g. the IAASB and the ISO) to issue implementation guidance in this area, together with the issuance of ISSA 5000[15] and the IESSA. Such guidance would promote consistent application and facilitate a smooth adoption of the Proposed IESSA.

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[14] ISA 600 (Revised): Special *Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

[15] In the March 2024 IAASB quarterly board meeting, it was noted that there is "*support for the development of a separate ISSA for group sustainability assurance engagements in the future*", and the Sustainability Assurance Task Force's view is that "*the most appropriate way to address respondent comments is to add selected requirements to proposed ISSA 5000 for group engagements*".

Appendix A: Proposed IESSA and Other Revisions to the Code

Sustainability Assurance: Question 12—Assurance at, or With Respect to, a Value Chain Entity
Do you support the proposed definition of "value chain" in the context of sustainability assurance engagements?

We support the proposal to align the definition of "value chain"[16] with that in the reporting frameworks. This approach is in line with the IESBA's objective to establish framework-neutral ethics and independence requirements.

Sustainability Assurance: Question 13—Assurance at, or With Respect to, a Value Chain Entity
Do you support the provisions in Section 5407 addressing the independence considerations when assurance work is performed at, or with respect to, a value chain entity?

We recognise the importance of fostering public trust in assured sustainability information, particularly where incomplete information from the value chain in Scope 3 emissions could significantly impact investment and financing decisions.

Our stakeholders have highlighted the following potential practical challenges in applying the proposed Section 5407:

- at the point of evaluating client acceptance or continuance, **the SAPs may lack the relevant and reliable information to identify and evaluate the threat** to independence concerning a value chain entity. For instance, their clients may not furnish them with the updated and/or comprehensive list of value chain entities;

- considering the scarcity of sustainability expertise in the market, **an advisory arm of SAP may have assisted value chain entities to establish the system and/or providing data for sustainability reporting**. If the collective contribution is material, this could elevate the risk of a self-review threat; and

- if water or electricity is supplied by one or two suppliers in a jurisdiction, **these suppliers would be the key value chain entities for many reporting entities**. If these suppliers require consultancy services to establish system for sustainability reporting, the advisory arm of the SAPs may refrain from bidding to avoid the risk of self-review threat to the other reporting entities. This could limit the choice of service providers for these suppliers, potentially leading to higher costs.

[16] Proposed definition of value chain: "The value chain is a reporting concept that is defined, described or otherwise specified in the applicable sustainability reporting framework. *The value chain might include, for example, a sustainability assurance client's customers and suppliers that are material for sustainability reporting purposes. The value chain does not include components.*"

Appendix A: Proposed IESSA and Other Revisions to the Code

We suggest commencing with 'baseline' requirements, which are aligned with our existing audit procedures for bank balances and accounts payables. During these audits, financial auditors will assess the independence of these counterparties, without the need to obtain independence confirmation from banks, suppliers, or their auditors. The more rigorous independence requirements could be introduced later, when the performance standard relating to value chain entities takes effect.

This approach would concentrate on identifying, evaluating, and managing the most pertinent and significant independence risks related to the assurance engagement. It would also provide flexibility for SAPs to customise procedures to suit the client's specific circumstances.

Sustainability Assurance: Question 16—Providing NAS to Sustainability Assurance Clients
Subsections 5601 to 5610 address specific types of NAS. a) Do you agree with the coverage of such services and the provisions in the Subsections? b) Are there any other NAS that Part 5 should specifically address in the context of sustainability assurance engagements?

The proposed coverage of the types of services in Subsections 5601 to 5610 is relevant and comprehensive for accountant SAPs. However, there is potential to expand the coverage for services commonly offered by non-accountant SAPs, such as laboratory testing, calibration, inspection, certification and verification services.

It would be beneficial to list relevant services that are prohibited for non-accountant SAPs, similar to the prohibited bookkeeping services for financial auditors. Additionally, guidance to evaluate and mitigate the threat of independence for permissible services would be valuable. These services could include product life-cycle assessments, transition planning (including de-carbonisation), ESG rating services and classification services.

Sustainability Assurance: Question 17—Independence Matters Arising When a Firm Performs Both Audit and Sustainability Assurance Engagements for the Same Client
Do you agree with, or have other views regarding, the proposed approach in Part 5 to address the independence issues that could arise when the sustainability assurance practitioner also audits the client's financial statements (with special regard to the proportion of fees for the audit and sustainability assurance engagements, and long association with the client)?

We support the suggested approach for handling potential threat of independence concerns when the SAP is also responsible for auditing the client's financial statements. Considering that both familiarity and self-review threats could exist in such a scenario, it is essential to give particular attention to the proportion of non-assurance fees and the long association with a client.

Appendix A: Proposed IESSA and Other Revisions to the Code

Paragraph 125 of the Explanatory Memorandum states that *"The IESBA also considered that there might be a perception that the firm or network firm focuses on the sustainability assurance relationship to the detriment of the audit engagement, or vice versa. Consequently, if the auditor also provides sustainability services to the client, Part 4A requires the firm to disclose the fees for such services as non-audit fees and consider applying safeguards regarding the proportion of non-audit to audit fees".*

In Singapore, our in-scope companies have the option to engage the same accountant SAP to conduct both statutory audits and climate assurance**.** If mandatory sustainability assurance fees are classified as non-audit fees, it may not be in line with the spirit of legislating such requirements. Labelling them as non-audit fees may also create confusion for those charged with governance, who are required to discuss the safeguards and reduce the threat, if any, to an acceptable level with the statutory auditors.

If the purpose of this classification is to assess the threat to the statutory audit independently from the sustainability assurance engagement, and vice versa, the IESBA may wish to consider creating a distinction between the financial audit fee and the sustainability assurance fee (within statutory fees category). This would provide clarity for SAPs and their clients, while maintaining the rigour in independence assessments.

Effective Date: Question 24
Do you support the IESBA's proposal to align the effective date of the final provisions with the effective date of ISSA 5000 on the assumption that the IESBA will approve the final pronouncement by December 2024?

The Proposed IESSA will bring about a significant shift from market practices for both accountant SAPs and non-accountant SAPs. Specifically:

- accountant SAPs will need to adjust their existing systems, policies, and practices under Part 4B to meet the requirements mirroring Part 4A in Part 5, while

- non-accountant SAPs will need to implement Parts 1 and 3, in addition to Part 5. They also need to consider changing their network arrangement, which may take longer than adjusting their internal systems, policies and processes to meet the requirements.

In certain jurisdictions, professional bodies may adopt the IESBA Code before regulators enact the mandatory assurance requirements. A tiered approach or giving jurisdictions leeway to determine the effective date of the Proposed IESSA in line with the effective date of local laws and regulations will ease the adoption burden. We also look forward to the IESBA coordinating this implementation timing with the IAF.

Appendix B: Using the Work of an External Expert

Using the Work of an External Expert: Question 4— Evaluation of CCO for Audit or Other Assurance Engagements
In the context of an audit or other assurance (including sustainability assurance) engagement, do respondents agree that the additional provisions relating to evaluating an external expert's objectivity introduce an appropriate level of rigor to address the heightened public interest expectations concerning external experts? If not, what other considerations would help to address the heightened public interest expectations?

As the use of multi-disciplinary teams for financial audits and sustainability assurance continues to rise, the reliance of auditors on external experts will also expand.

Our SAPs have raised the following potential practical issues when applying the proposed Section 5390:

- the detailed requirement to provide personal information (e.g. investments, loans) of their immediate family members may dissuade certain experts from participating in the sustainability assurance engagement; and

- the degree of evaluation expected of the SAP when considering "any previous public statements by the external expert or their employing organisation which advocated for the entity".

Given that external experts are not members of the financial audit team or sustainability assurance team, the proposed requirements (which are derived from the independence attributes of Parts 4A and 4B of the Code) may be unduly burdensome.

As these external experts may lack financial expertise, they may not fully comprehend the rationale behind the proposed requirements. We propose to adopt a more principles-based approach to instil a culture of ethical conduct across the broader industry instead.