

1 December 2023

Tom Seidenstein, Chair
The International Auditing and Assurance Standards Board
529 5th Avenue
New York, New York 10017

Dear Tom

RESPONSE TO EXPOSURE DRAFT OF PROPOSED INTERNATIONAL STANDARD ON SUSTAINABILITY ASSURANCE (ISSA) 5000, GENERAL REQUIREMENTS FOR SUSTAINABILITY ASSURANCE ENGAGEMENTS

We appreciate the opportunity to provide feedback on the exposure draft for ISSA 5000 *General Requirements for Sustainability Assurance Engagements* issued in August 2023.

In this letter, we are submitting the viewpoints of assurance practitioners (accounting and non-accounting firms) and regulators based in Singapore. In developing our response, we also sought comments from our Sustainability Reporting Advisory Committee (SRAC)¹, represented by a diverse group of industry leaders and champions of sustainability reporting.

We commend the IAASB for developing an overarching standard for limited and reasonable assurance engagements. The draft ISSA 5000 provides a global framework for sustainability assurance engagements, which will enhance the credibility and reliability of sustainability disclosures reported by companies.

In Singapore,

- 6%² (30 issuers) of 535 SGX-listed issuers publishing their sustainability reports for FY2022 had sought external assurance, with ISAE 3000 (18 reports) being the most adopted framework, followed by SSAE 3000 (8 reports) and SSAE 3410 (4 reports); and
- the SRAC has recommended for companies to obtain external limited assurance on Scope 1 and Scope 2 Greenhouse Gas (GHG) emissions. Assurance can be provided by registered audit firms and accredited Testing, Inspection & Certification (TIC) firms using local standards modelled on finalised ISSA 5000 and ISO 14064-3. We are currently analysing the feedback from the public consultation that closed on 30 September 2023.

Overall, we support the issuance of draft ISSA 5000. Having a profession-agnostic assurance standard, suitable for reasonable and limited assurance across any related

¹ A committee set up jointly by Accounting and Corporate Regulatory Authority (ACRA) and Singapore Exchange Regulation (SGX RegCo) to advance sustainability reporting and assurance by in Singapore. For details, see [ACRA and SGX RegCo set up a Sustainability Reporting Advisory Committee](#).

² SGX Group and NUS Centre for Governance and Sustainability: [Sustainability Reporting Review 2023](#), Nov 2023.

sustainability topics, would support a consistent performance of assurance engagements across the globe and deliver a quality audit. In turn, this will add credibility to corporate disclosures and enhance public trust in our capital markets.

Our comments are premised on the operationalisation of draft ISSA 5000, in the context of a jurisdiction where the sustainability assurance sector is fast developing and mandatory assurance may be imposed on selected disclosures at the start. We propose the following:

- Prescribe a standard specifically for greenhouse gases (Scope 1, 2 and 3) under ISSA 5000, and withdraw ISAE 3410. This will reduce the complexity of applying a general ISSA 5000 standard to a specific scope. It will also enable requirements to be nuanced to aid application by assurance firms new to carbon accounting assurance;
- Provide transitional relief for non-accounting assurance firms to adopt ethical and quality management standards that are “at least as demanding” as IESBA code and ISQM 1 requirements. By allowing a gradual scale-up over time, non-accounting assurance providers are more likely to use this standard, laying the foundation for one assurance standard to be used globally. Guidance targeted to this group is also necessary to achieve consistent application; and
- More detailed requirements or guidance is likely needed on complex areas such as materiality assessment, assurance on net-zero targets, evaluation of the appropriateness of estimates and forward-looking information and related fraud risks. If the IAASB issue the requirements or guidance, the risk of inconsistent interpretation and application can be reduced.

Our detailed responses are included in Appendix A.

We thank the IAASB for the opportunity to respond on the Exposure Draft.

Yours faithfully

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Accounting and Corporate Regulatory
Authority, Singapore

Michael Tang
Singapore Exchange Regulation

Appendix A: Responses to the Exposure Drafts' questions

Question 1 *Overall questions*

Do you agree that ED-5000, as an overarching standard, can be applied for each of the items described in paragraph 14 of this EM to provide a global baseline for sustainability assurance engagements? If not, please specify the item(s) from paragraph 14 to which your detailed comments, if any, relate (use a heading for each relevant item).

Overall response: Agree, with comments below

- We commend the IAASB for developing an overarching standard for limited and reasonable assurance engagements. The draft ISSA 5000 provides a global framework for sustainability assurance engagements, which will enhance the credibility and reliability of sustainability disclosures reported by companies.
- In respect of '*use by all assurance practitioners*', the IAASB could develop educational materials (including a glossary of terms) designed to aid non-accounting assurance practitioners, especially those without a background in financial audit and assurance, in understanding the requirements and key assurance concepts. This could include definitions for Performance Materiality and Accumulation and Consideration of Identified Misstatement. Such an initiative would promote a consistent application of ED-5000 by addressing disparities in principles and language that may exist between this standard and other standards familiar to non-accountant practitioners.

Question 3 *Applicability of ED-5000 and the Relationship with ISAE 3410*

Is the scope and applicability of ED-5000 clear, including when ISAE 3410 should be applied rather than ED-5000? If not, how could the scope be made clearer?

Overall response: [Agree, with comments below](#)

- In Singapore, the SRAC has recommended to mandate limited assurance on Scopes 1 and 2 Greenhouse Gas (GHG) emissions, which will be disclosed in climate reports that are prepared using the ISSB standards. We understand that ISSA 5000 should apply for such assurance engagement.
- ED-5000 has clarified that ISAE 3410 should continue to be applied when the practitioner is providing a separate conclusion on a statement on GHG emissions. This may give rise to two different standards being applied on the same disclosures in the market. This may create confusion to market players, particularly retail shareholders who are unfamiliar with assurance standards.
- We suggest subsuming the extant ISAE 3410 into ED-5000. This establishes a uniform approach to assurance engagements. This would also lead to a globally consistent and comparable framework for sustainability assurance, which would benefit investors and other stakeholders.

Question 4 *Relevant Ethical Requirements and Quality Management Standards*

Is ED-5000 sufficiently clear about the concept of “at least as demanding” as the IESBA Code regarding relevant ethical requirements for assurance engagements, and ISQM 1 regarding a firm’s responsibility for its system of quality management? If not, what suggestions do you have for additional application material to make it clearer?

Overall response: [Disagree, with comments below](#)

- As ED-5000 is designed to be profession-agnostic, it will be helpful to make concerted efforts to facilitate the transition by non-accounting assurance firms and get their buy-in to this standard. We considered the following:

- a) a simultaneous implementation of IESBA code and ISQM 1 requirements will pose great challenges to non-accounting assurance firms.

To illustrate, audit firms (that have already implemented ISQC 1) was given 2 years³ to implement ISQM 1, which was issued approximately 1.5 years⁴ after the issuance of ED-ISQM 1. All assurance firms will need at least the same amount of time before implementation.

For non-accounting assurance firms currently using other control frameworks such as ISO 17029⁵, more time may be required to transit. Concurrently, the new ethics and independence standards for sustainability reporting and assurance are under development by IESBA.

- b) if non-accounting assurance firms elect to provide only limited assurance on Scopes 1 and 2 GHG emissions, whether there is a need for such firms to be required to apply frameworks that are “as least as demanding” as ISQM 1 and relevant ethics requirements.
- In light of the above, we propose the following:
 - a) give more time for non-accounting assurance firms to adopt ethical and quality management standards that are “at least as demanding” as IESBA code and ISQM 1 requirements. Guidance targeted to this group should also be developed to support consistent application of ethical and quality management standards;
 - b) if non-accounting assurance firms elect to provide only limited assurance on Scopes 1 and 2 GHG emissions, the relevant standard for ethical and quality management standard should be lowered to commensurate with the lower risks arising from such engagements as a start. In such circumstances, ISO

³ ISQM 1 was released on 17 December 2020 and took effect on 15 December 2022.

⁴ ED-ISQM 1 was released on 8 February 2019 and the final pronouncement was released on 17 December 2020.

⁵ ISO 17029 Conformity assessment – General principles and requirements for validation and verification bodies

17029 and ISO 14064 adopted concurrently as a start can be accepted as standards that are “at least as demanding” as ISQM 1; and

- c) IAASB should prescribe the factors to consider when considering standards that are “at least as demanding” (i) as IESBA Code and (ii) ISQM 1 for consistent application and provide a list of international standards that meet this requirement.

Question 7 *Differentiation of Limited Assurance and Reasonable Assurance*

Does ED-5000 provide an appropriate basis for performing both limited assurance and reasonable assurance engagements by appropriately addressing and differentiating the work effort between limited and reasonable assurance for relevant elements of the assurance engagement? If not, what do you propose and why?

Overall response: [Agree, with comments below](#)

- We appreciate the inclusion of tables with labels of “L” and “R” to highlight distinctions in work effort between limited and reasonable assurance.
- While the distinction is helpful, we propose to provide examples or illustrations to enhance understanding. For example, we are unclear on the distinction between para 131L “...differ significantly from the *expected result*...” and para 131R “differ significantly from expected *quantities or ratios*”. Providing examples or illustrations will ensure a more precise interpretation and application of the distinctions.

Question 8 *Preliminary Knowledge of the Engagement Circumstances, Including the Scope of the Engagement*

Is ED-5000 sufficiently clear about the practitioner's responsibility to obtain a preliminary knowledge about the sustainability information expected to be reported and the scope of the proposed assurance engagement? If not, how could the requirements be made clearer?

Overall response: [Agree, with comments below](#)

- Sustainability assurance may be carried by parties who are not statutory auditors of the company. These parties could also be non-accounting assurance firms. The assurance scope may be limited such as 'limited assurance' on Scopes 1 and 2 GHG emissions, which is one of many disclosures in climate reports.
- For such circumstances, the requirements in paragraph 69 and A154-A159 appear to demand a level of understanding that exceeds what is typically conducted for limited assurance engagement at pre-acceptance stage.
- For instance, an in-depth understanding of the entire entity at pre-acceptance stage can be dispensed with if the assurance provider is only engaged to provide 'limited assurance' on Scopes 1 and 2 GHG emissions. Instead, the assurance provider should be required to identify underlying incentives, pressures, and opportunities (and likelihood) for misstating those disclosures, for example, whether ambitious net-zero targets have been publicly communicated or a high percentage of directors' remuneration is tied to those targets.
- The IAASB could consider introducing similar requirements to those outlined in paragraph A303, where the practitioner may use professional judgment to determine the characteristics of the entity and its environment that are relevant to the sustainability information. This will enable practitioners to apply requirements proportionate with the scope and extent of assurance.

Question 12 *Materiality*

Do you agree with the approach in ED-5000 for the practitioner to consider materiality for qualitative disclosures and determine materiality (including performance materiality) for quantitative disclosures? If not, what do you propose and why?

Overall response: [Disagree, with comments below](#)

- We anticipate the following difficulties in applying the requirements, and call for more detailed requirements or guidance to aid our practitioners:
 - (a) **Narrative disclosures** form the bulk of disclosures in sustainability reports, and they could well be the most important disclosures to investors too. Assurance providers will need guidance (akin to setting of performance materiality) to identify disclosures that are 'material' to investors and plan for audit procedures that commensurate with the significance of identified risks and likelihood of potential misstatements;
 - (b) While we can apply a percentage to compute performance materiality for **quantitative disclosures** with clear methodology and contained population such as Scopes 1 and 2 GHG emissions, this may not always be appropriate for Scope 3 GHG emissions, which are prepared by companies with significant estimates. For example, if Scope 3 GHG emissions prepared by companies are grossly overstated, this could lead to a disproportionately high 'performance materiality' being used. Similar challenges may also arise for the audit of anticipated financial effects from material climate risks;
 - (c) Many companies invest abroad, leading to the need for 'group audit'. It is unclear how a group auditor should "determine"/"consider" materiality on quantitative/qualitative disclosures at group level, and at component level. In addition, component auditors may not be part of an audit network. It will be helpful to issue guidance to bridge the gap(s) in audit practices;
 - (d) Some companies may report using ISSB and GRI standards concurrently while other companies may report using GRI and ESRS concurrently. As **these standards use different materiality concepts**, they are likely to impact materiality assessment by the practitioners. It will be helpful to illustrate how materiality should be "determined"/"considered" for quantitative/qualitative disclosures under the following common scenarios:
 - ISSB only
 - ISSB and GRI
 - ISSB and ESRS;
 - (e) Assurance providers could provide 'limited assurance' in some engagements and 'reasonable assurance' in other engagements. It is unknown whether the scope of assurance should impact materiality "consideration"/"determination" during the audit process, from planning and performing the audit procedures

to evaluating whether the disclosures are free from material misstatement and expressing audit opinion.

- (f) If the practitioner is conducting assurance on multiple disclosures, the practitioner would need a mechanism to 'aggregate' and assess the overall impact of misstatements. Unlike financial reporting misstatements that can be measured and aggregated using financial measures, sustainability reporting misstatements could occur in different ESG areas, different metrics and in narrative disclosures. It will be helpful if the IAASB can prescribe a model to do so, supported by factors for consideration, in ED-5000.

Question 16 *Estimates and Forward-Looking Information*

Do you agree with the approach to the requirements in ED-5000 related to estimates and forward-looking information?

Overall response: [Agree, with comments below](#)

- Assessing whether the method is appropriately selected and applied can be difficult, particularly for climate change, where multiple measurement frameworks are available. Further guidance is needed on how to evaluate the appropriateness of estimates and forward-looking information.
- Recognising the potential synergy between the assurance process on net zero targets and the validation process under, say, the Science-Based Targets initiative (SBTi), we propose a collaboration between IAASB and organizations like CDP (Carbon Disclosure Panel). Such collaboration could lead to the development of guidance and, where possible, streamlining procedures, to enhance consistency and improve productivity in validation/audit processes.

Question 19 *Fraud*

Do you agree that ED-5000 appropriately addresses the topic of fraud (including “greenwashing”) by focusing on the susceptibility of the sustainability information to material misstatement, whether due to fraud or error? If not, what suggestions do you have for increasing the focus on fraud and why?

Overall response: [Agree, with comments below](#)

- The principles in ISA 240 “*The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*” outline the auditor's responsibility in relation to fraud. It is beneficial to incorporate the relevant aspects into ISSA 5000 to enhance clarity and consistency in addressing fraud concerns.
- IAASB should also supplement the above with requirements for assessing and addressing fraud risks that are specific to sustainability reporting as follows:
 - (a) "greenwashing" or intentional misrepresentation in narrative disclosures, for example, achieving carbon neutral for facilities;
 - (b) Scope 3 GHG emissions that are prepared using unverified information obtained from suppliers or consumers in the value chain, and other external sources;
 - (c) “greenwashing” allegations at product level (e.g. marketing campaigns, green products) that are not reported; and
 - (d) “green hushing” risk, for example, the ISSB standards require target(s) to be disclosed only when the company had set target(s).

Question 21 *Reporting Requirements and the Assurance Report*

Will the requirements in ED-5000 drive assurance reporting that meets the information needs of users? If not, please be specific about any matters that should not be required to be included in the assurance report, or any additional matters that should be included.

Overall response: [Agree, with comments below](#)

- For a report that provides reasonable assurance, we propose to consider communicating the inherent uncertainties and limitations of the work performed, particularly regarding forward-looking information, scenario analysis, projections, and other related matters. Users should be informed about the inherent uncertainties and limitations of the assurance engagement, especially when dealing with forward-looking information to enhance transparency.

Question 22 *Reporting Requirements and the Assurance Report*

Do you agree with the approach in ED-5000 of not addressing the concept of “key audit matters” for a sustainability assurance engagement, and instead having the IAASB consider addressing this in a future ISSA? If not, what do you propose and why?

Overall response: [Agree, with comments below](#)

- We agree with the approach of not requiring "key audit matters" (KAM) disclosures in audit reports. This implementation approach emphasises a thoughtful and gradual integration process, which is aligned with the current landscape of sustainability assurance.
- We also propose to allow practitioners to do so if they wish to report KAMs. Such disclosure can be helpful to practitioners who are expressing 'reasonable' assurance for the entire sustainability reports. It also mirrors the KAMs disclosures in financial statement audits.

Other Matters

- The IAASB's overarching approach in creating ED-5000 is commendable. This overarching framework will provide a structured and adaptable approach for future assurance standards.
- Given the diverse landscape of sustainability assurance across different jurisdictions, it is inevitable that the ED-5000 will need to be 196-pages long of requirements, accompanied with 50 pages of explanatory note. That said, a number of jurisdictions, including Singapore, are considering mandating 'limited assurance' only on Scopes 1 and 2 GHG emissions.

Non-accounting assurance practitioners and audit practitioners who are new to sustainability assurance will struggle to understand and apply the relevant requirements. Although each jurisdiction can interpret and issue local guidance to support implementation locally, such approach may lead to inconsistent practices. Accordingly, it will be helpful if the IAASB issue manageable, bite-sized standard specifically for assurance on carbon accounting (which will supersede ISAE 3410).

- Information in digital format: As users' expectations for digitalized information, especially in the context of sustainability information, continue to grow, IAASB could consider adding provisions in ED-5000 that address the unique aspects of assuring sustainability reporting presented in a digital format. This will provide assurance to users that the sustainability information presented in a digital format is reliable and can be trusted.