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Guide Published to Assist SGX-Listed Issuers in Conducting Internal Review of Sustainability Report

Executive Summary

Since 2016, issuers listed on the Singapore Exchange Securities Trading Limited ("**SGX-ST**") have been required to issue a sustainability report for each financial year ("**FY**"). Currently, the issuers must describe in their sustainability reports their sustainability practices on a "comply or explain" basis with reference to six primary components set out in the rules under the Listing Manual of the SGX-ST ("**Mainboard Rules**") and Section B: Rules of Catalyst of the Listing Manual of the SGX-ST ("**Catalist Rules**") (collectively, "**Listing Rules**"), including the [Sustainability Reporting Guide](#) set out thereunder ("**SR Guide**").¹

With effect from 1 January 2022, an issuer is required under the Listing Rules to subject its sustainability reporting process to internal review by the internal audit function. As mentioned in the SR Guide, the internal review should be conducted in accordance with the [International Standards for the Professional Practice of Internal Auditing](#) ("**Standards**") issued by The Institute of Internal Auditors.

To provide a "navigating map" on conducting an internal review of sustainability reports, the Institute of Internal Auditors Singapore ("**IIA Singapore**") published on 4 November 2022 the [Guide to Internal Review of Sustainability Report](#) ("**Guide**"), co-developed with Ernst & Young LLP (EY). It is built on the requirements of the sustainability report set out in Rules 711A and 711B of the Listing Rules, the SR Guide and the guide on implementing the Recommendations of the Task Force on Climate-related Financial Disclosures ("**TCFD**"). The Guide is not meant to be construed as the definitive manner to conduct the internal review of sustainability reports in Singapore.

The Guide aims to provide easy reference for its users in preparation for the conduct of an internal review of a sustainability report. Its key aspects include:

1. Requirements for a sustainability report;
2. Seven principles to be considered during the internal review; and
3. Guidance on the internal review process.

We provide a brief overview of the Guide's key aspects below.

¹ Set out in Practice Note 7.6 of the SGX-ST Mainboard Rules and Practice Note 7F of the SGX-ST Catalyst Rules.

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Requirements of a Sustainability Report

Rule 711B of the Listing Rules ("**Rule 711B**") requires the sustainability report to describe the sustainability practices of an issuer with reference to the following six primary components:

1. Material environmental, social and governance ("**ESG**") factors;
2. Climate-related disclosures consistent with the TCFD recommendations;
3. Policies, practices and performance;
4. Targets;
5. Sustainability reporting framework; and
6. Statement by the board of directors ("**Board**") and associated governance structure for sustainability practices.

The internal audit function should ensure that the sustainability report covers the primary components. If any components are excluded, the issuer must disclose the exclusion, describe what has been performed instead, and its reasons for doing so.

It should be noted that the second component on climate-related disclosures is being implemented on a graduated basis.

1. For FY commencing 1 January 2022: all issuers are to adopt climate reporting on a "comply or explain" basis;
2. For FY commencing 1 January 2023: climate reporting is mandatory for issuers in three industries: (i) financial; (ii) agriculture, food and forests products; and (iii) energy.
3. For FY commencing 1 January 2024: climate reporting is mandatory for an additional two industries: (i) materials and buildings; and (ii) transportation.

For more details, please see our December 2021 Legal Update on "Enhanced Disclosures on Climate-Related Information & Board Diversity Policy for SGX-Listed Companies" [here](#).

Principles to be Considered

In conducting the internal review, the internal audit function may apply the guiding principles established by the TCFD.

Principle	Details
1: Disclosures should present relevant information	<ul style="list-style-type: none"> • Information provided should pertain to the actual and potential impact of ESG-related issues on the environment, society, and value creation of the issuer.

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Principle	Details
2: Disclosures should be specific and complete	<ul style="list-style-type: none"> • Disclosures and significant components of the sustainability report should conform to that established in the Practice Notice and Rule 711B. • Historical and future-orientated data and information should be included for evaluation against commitments and to assess possible future implications. • For issuers with a presence beyond Singapore, the internal auditors should be satisfied that the governance, risk management and control processes that govern the collection and presentation of data and disclosures are representative of the issuer's geographic presence.
3: Disclosures should be clear, balanced, and understandable	<ul style="list-style-type: none"> • Information should be clear, concise, and free from bias. • Internal auditors should be satisfied that the sustainability metrics and associated narratives have been integrated with other disclosures to provide a coherent set of information on ESG-related risks and opportunities, as well as actual and potential impacts.
4: Disclosures should be consistent over time	<ul style="list-style-type: none"> • All sustainability disclosures should utilise consistent formats, language and metrics (including reference to adopted reporting frameworks) to allow for inter-period comparisons.
5: Disclosures should be comparable among issuers within a sector, industry or portfolio	<ul style="list-style-type: none"> • Disclosures should enable a meaningful comparison of strategy, business activities, risks and performance across issuers and within sectors and jurisdictions.
6: Disclosures should be reliable, verifiable and objective	<ul style="list-style-type: none"> • To provide assurance that disclosures are accurate and verifiable, checks should be performed. • Internal auditors should assess the adequacy and effectiveness of governance, risk management, and control processes that govern the collection and presentation of climate-related data (pursuant to IPPF Standard 1220.A1).
7: Disclosures should be provided on a timely basis	<ul style="list-style-type: none"> • Issuers should adhere to SGX deadlines for the issuance of the yearly report. For more information on the applicable timelines, please see our December 2021 Legal Update here.

Internal Review Process

Pursuant to paragraph 5.3 of the SR Guide, the internal review should adhere to the Standards. Issuers should recognise that the process should be tailored to suit the industry, as well as the issuers' objectives in undertaking the review.

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The process may be broken up into three key stages: (i) planning; (ii) performing the engagement; and (iii) report findings and conclusion.

(A) Planning

The internal review and testing plan should be designed to ensure that compliance requirements are fully met, and that potential gaps in regulatory and international requirements or expectations will be identified.

Steps	Details
Scoping	<ul style="list-style-type: none"> • Apart from checking compliance with local regulatory reporting requirements, the internal audit function should scope in the internal review of processes and associated controls for the six primary components of the sustainability report for the first year, except for the material ESG factors component where the internal audit function can accordingly assess and determine areas to focus on as part of their multi-year audit plan. This is because material ESG factors would depend on current business strategy, market conditions, and stakeholder conditions. • The Guide outlines a process – identify, rate, prioritise, validate – for identifying top areas for review as part of the internal audit plan.
Testing plan	<ul style="list-style-type: none"> • A clear testing plan should be developed and documented prior to the internal audit engagement in order to contextualise the objectives of the internal review. It should cover: <ul style="list-style-type: none"> ○ sustainability regulatory compliance; ○ the definition of responsibilities across the Three Lines;² ○ testing methodology that makes use of a range of approaches; and ○ a risk-based testing plan that ensures appropriate audit coverage is achieved.

(B) Performing the engagement

Steps	Details
Identifying supporting documents	<ul style="list-style-type: none"> • Internal auditors must identify sufficient, reliable, relevant and helpful information to achieve the engagement's objectives. The Guide sets out examples of audit evidence (namely information, data and documentation) that can facilitate the assessment of reporting accuracy. • Where necessary, internal auditors should conduct live walkthroughs to better understand the ongoing design and assess the operational

² This refers to the Three Lines Model set out on page 7 of the Guide, intended as a reference on how vital organisational roles can work together to identify, prioritise and assess ESG-related risks and opportunities. The governing body delegates and oversees the management and internal audit bodies. Meanwhile, management provides **first line roles** (provision of products/services to clients and manages risk) and **second line roles** (expertise, support, monitoring and challenge on risk-related matters). **Third line roles** (independent and objective assurance and advice on all matters related to the achievement of objectives) are covered by internal audit.

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Steps	Details
	effectiveness critical of key controls where automated data management systems are involved.
Analysing and evaluating	<ul style="list-style-type: none"> Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations. Key focus areas would include assessing processes and controls, identifying process gaps and data quality issues, and assessing defined tolerance thresholds for data accuracy. When conducting the review on the primary components of the sustainability report, internal auditors may wish to take into account the general guidelines and considerations set out in the Guide.
Documenting	<ul style="list-style-type: none"> Internal auditors must document reliable, relevant and valuable information to support the engagement results and conclusions.

(C) Report findings and conclusion

The internal review report should present the auditor's opinion and recommendations for improvements in the areas reviewed. The Guide recommends that the report should cover the following areas:

1. Detailed audit observations and findings;
2. Root cause analysis on findings, classified into three categories (people, process, or policy);
3. Effect of misstatements identified;
4. Risk rating;
5. Management comments that cover the agreed-upon action plan, as well as the persons responsible; and
6. Date of implementation.

Upon finalising the report content with management, the report should be presented to the Audit Committee and the Board.

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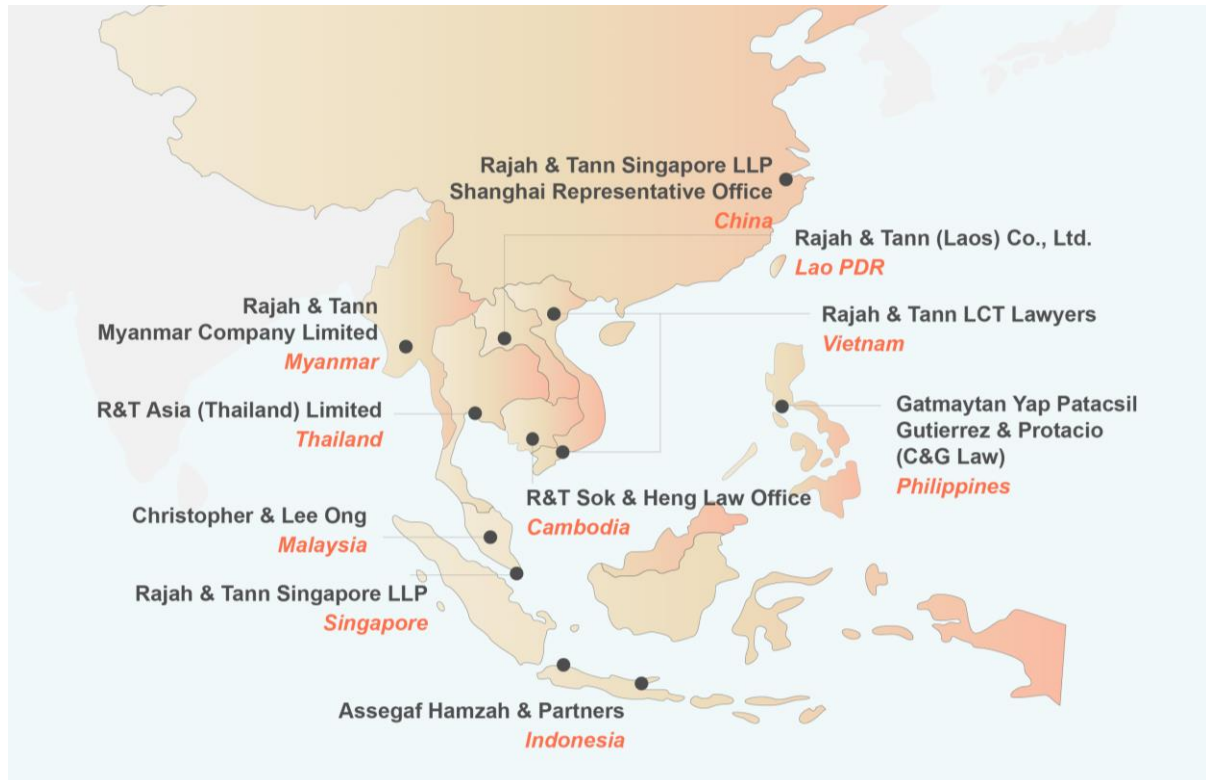
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