



Internal Audit on Sustainability Reporting Process

Key Considerations for Developing your ESG Audit Strategy – September 2023

Environmental, Social, and Governance (“ESG”) Reporting

ESG Reporting is a disclosure of an organisation's environmental, social, and governance initiatives and data. It allows the organisation to be more transparent to its stakeholders on how they manage the ESG risks and mitigation plan.

Snapshot of Singapore ESG Reporting Requirements

	Regulatory Requirement	Regulatory Requirement Details	Responsibility
Effective 1 January 2022	Compliance with SGX Sustainability Reporting requirements	<p>Sustainability Report Practice Note 7.6 The company should provide climate-related disclosures, consistent with the TCFD recommendations. If the company is under the identified industries, mandatory climate-related disclosures, consistent with the TCFD recommendations is required from 1 January 2023/2024 onwards, depending on the industry type.</p> <p>Sustainability Report Listing Rule 711A Companies listed on SGX must issue a sustainability report for its financial year, no later than 4 months after the end of the financial year, or where the issuer has conducted external assurance on the sustainability report, no later than 5 months after the end of the financial year.</p> <p>Sustainability Report Listing Rule 711B The sustainability report must describe the sustainability practices with reference to the following primary components: (a) material environmental, social and governance factors; (aa) climate-related disclosures consistent with the recommendations of the Task Force on Climate-related Financial Disclosures; (b) policies, practices and performance; (c) targets; (d) sustainability reporting framework; and (e) Board statement and associated governance structure for sustainability practices.</p> <p>Any primary component exclusion requires disclosure of such exclusion and describe what it does instead, with reasons for doing so, except for component (aa) for identified industries under Practice Note 7F (e.g., financial).</p> <p>Sustainability reporting process must be subject to internal review. The company may additionally commission an independent external assurance on the sustainability report.</p>	<p>Sustainability Report Practice Note 7.6.3 The Board has ultimate responsibility for the issuer's sustainability reporting and determining the ESG factors identified as material to the business and that they are monitored and managed.</p> <p>Management has responsibility to ensure that the ESG factors are monitored on an ongoing basis and properly managed (e.g., Sustainability, Finance, Legal, Strategy, Operations, Compliance teams etc)</p>
	Compliance with MAS Guidelines on Environmental Risk Management requirements	Guidelines established for Banks, Asset Managers and Insurer. Guidelines coverage, 1) Governance and strategy, Risk Management, Disclosure (Bank), 2) Governance and Strategy, Research and Portfolio Construction, Portfolio Risk Management, Stewardship, Disclosure, (Asset Manager), 3) Governance and strategy, Risk Management, Underwriting, Investment, Disclosure (Insurer).	<p>Guidelines on Environmental Risk Management A clear allocation of responsibilities for management of environmental risk in accordance with the three lines of defence model. E.g.: Board – Approval of framework/policy Senior Management – Development and implementation of framework/policy/ tools/ metrics</p>
Effective 8 June 2022			

Environmental, Social, and Governance (“ESG”) Reporting

Snapshot of Singapore ESG Reporting Requirements (Cont’d)

Regulatory Requirement

Regulatory Requirement Details

Responsibility

Effective 1
January 2023

Compliance with MAS Disclosure and Reporting Guidelines for Retail ESG Funds

This guidelines applies to an authorised or recognised scheme which: **(a)** uses or includes ESG factors as its key investment focus and strategy. This means that ESG factors significantly influence the scheme’s selection of investment assets; and **(b)** represents itself as an ESG-focused scheme.

Disclosure and Reporting Guidelines for Retail ESG Funds

The responsible person of an ESG Fund should indicate in the respective OPERA form 1, 2, 1-A or 2-A that the scheme is an ESG Fund and ensure that the Annual Report and additional disclosures are made as required under paragraph 13 & 14 of the guidelines.

MAS has established a series of regulations designed to reduce the risk of greenwashing. These are laid out in the Code on Collective Investment Schemes (“CIS Code”) and the Securities and Futures (Offers of Investments) (Collective Investment Schemes) Regulations (“SF(CIS)R”) and were most recently updated in Circular No. CFC 02/2022.

Going Forward

1. **A digital ESG disclosure**
2. **Sustainable Financing Solution**
3. **Perform internal audit plan or gap analysis**

1. MAS and SGX have launched ESGenome in September 2022, a digital disclosure portal for companies to report ESG data in a structured and efficient manner, and for investors to access such data in a consistent and comparable format. Companies are encouraged to use the platform to disclose and track performance of metrics that are disclosed in their sustainability reports or as part of their internal workflow management and tracking. Currently, usage of ESGenome is not mandatory.
2. MAS would anchor sustainable finance external review, certification, assurance, and ratings firms in Singapore, as they would play a key role in ensuring the transparency and integrity of sustainable finance solutions. This would strengthen local technical capacity for sustainable finance-related assurance and verification.
3. Establish **Sustainability Report internal audit plan**.

Perform internal audit and monitor the implementation of remedial actions in response to the audit findings.

ESG within the Organisation

As the pace and impact of societal and environmental disruption continues to intensify, organizations need to build capacity to drive ESG performance and resilience.

Strategy

Integrate ESG factors to drive innovative and brand-enhancing strategies, including strategic choices across the value chain.



Communication

Optimize strategic communications to stakeholders to navigate changing expectations and credibly demonstrate prioritization and management of ESG risk and opportunities.



Human resources

Invest in leading practices around employee health and safety, diversity, equity, and inclusion, and development to attract, retain and incentivize talent to innovate, drive productivity and deliver on the business strategy.



Sustainability function

Design and activate strategies to deliver on the corporate strategy, purpose and ESG objectives to drive performance.



Operations

Prioritize and measure opportunities for cost savings, risk mitigation, and reputation enhancement and implement solutions to reduce resource inputs and wasteful outputs.



Internal audit

Integrate ESG risk and compliance considerations into the internal audit plan to instill discipline and enhance controls related to material ESG risks.



Finance

Incorporate ESG-related risks into investor engagement, pricing, forecasting and budgeting, capital-allocation and annual reporting.



Legal

Understand and manage risk and liability considerations related to ESG performance – e.g., inadequate, or inaccurate disclosure of material financial risks.



Compliance

Broaden the integration of ESG performance into the existing management control frameworks to support compliance around ESG risk.



Risk

Identify, manage and respond to latent and emerging ESG risks; integrate ESG risk capabilities into existing risk and control frameworks.



The Role of Internal Auditor in ESG

ESG Audit evaluates the ESG risks of your organization's operations. It also assess the effectiveness of your ESG initiatives; the progress you are making toward your corporate ESG commitments.

Internal Auditors should perform risk assessments that include obtaining an understanding of the company and its environment. Those assessments must now consider the potential impact of ESG risks on the financial statements.

The role of Internal Auditor in ESG

Must consider

ESG risks that:

- ✓ Affect the business and operating environment.
- ✓ Have a material effect on the financial statements.

Must improve their ability to

- ✓ Capture information about ESG-related matters that may affect the financial statements.
- ✓ Assess the risks of material misstatement of the financial statements resulting from such matters.
- ✓ Evaluate such matters to determine whether they may need to be reflected in the financial statements.



Internal Audit Approach

Some of the common approaches to integrating ESG risk and reporting in Internal Audit Plan:

Standalone reviews

- To highlight policies, controls, and responsibilities with respect to ESG strategies as of a particular point in time.
- For example, the existence of governance structure? Are the relevant monitoring controls established?

Focused reviews

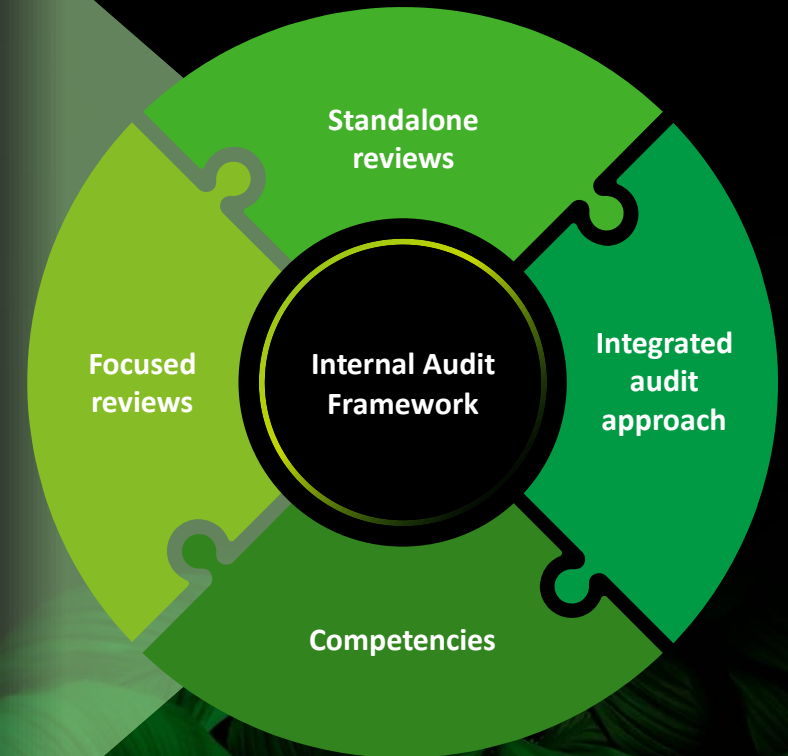
- For ESG areas of high stakeholder concern or low-risk appetite.
- These deep dive reviews can provide valuable assurance in key ESG areas, to ascertain that individual ESG program elements are operating as they should.
- Internal audit teams may layer in periodic checkpoints, such as six-month check-ins or quarterly updates, to ensure that action or mitigation plans are implemented, and issues are effectively remediated.

Integrated Audit Approach

- This approach can be used as part of any audit as a pulse check on the business that provides reasonable assurance that ESG-related activities are being appropriately identified, considered, and documented.

Investing in ESG Competencies

- Devoting resources to research and monitor ESG regulatory guidance and updates, understand ESG risk and reporting trends and frameworks in your industry, and benchmark ESG topics in your industry.
- Build ESG knowledge through targeted training or via certifications such as the Global Reporting Initiative's Professional Certification Program or Competent Boards' ESG Certificate Program.



Leveraging the COSO Framework for ESG Reporting



Control Environment

- Setting “control” consciousness (typically from management and the board) that guides ESG reporting objectives while setting the stage for the processes and discipline needed to govern controls.
- Establishing the organization’s commitment to creating structures that provide ethical, independent, sustainable, and accountable oversight of internal controls development and performance.

Risk Assessment

- Guiding with clear objectives that support the identification and analysis of specific ESG risks to the achievement of organizational objectives.
- Considering both internal and external stakeholder needs.
- Identifying and assessing changes impacting internal controls (e.g., regulatory changes, M&A, geographical exposures, tech rollouts).

Control Activities

- Establishing policies and procedures that effectively mitigate or manage identified ESG risks, in alignment with risk assessments performed.
- Tailoring control activity appropriately where practical.

Information and Communication

- Gathering or generating timely, relevant, and reliable ESG data to support effective functioning of internal controls.
- Verifying that appropriate performance measures (e.g., Key Performance Indicators and performance matrices) and communication processes are established to describe and share ESG information both internally and externally.
- Using risk assessments to guide selection of critical ESG factors to monitor and disclose.

Monitoring

- Using review activities (separate from reviews performed as control activities) to support the organization in assessing whether all COSO components are present and functioning.
- Employing ongoing evaluations built into business processes, periodic separate evaluations (e.g., conducted by internal audit), or independent third-party reviews.
- Communicating deficiencies in a timely manner to those responsible for corrective action.

Connect with Us

We help you become a more sustainable, resilient organization capable of delivering lasting financial and business value through these three areas:



We help organisation to understand appropriate policy, control landscape, and responsibilities around your matured ESG program.

We perform an in-depth review to provide valuable assurance on key ESG areas, where stakeholders have concern, or where risk appetite is low.

We use this approach as pulse check on the business as part of any audit performed to ensure ESG related activities are being appropriately identified, considered, and documented.

Get in touch



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