International Audit and Assurance Requirements and Good Practices on their Implementation

A Regional Case Study of the European Union Focusing on Ireland, Portugal and Sweden

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PREFACE

High-quality corporate reporting is essential for creating a transparent investment climate, which is necessary for increasing capital formation and achieving an optimal allocation of resources for sustainable development. In this light, Member States of the United Nations in 1982 established the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) as an open and neutral forum, with a view to achieving reliable and comparable corporate reporting on a global basis.

In the wake of the 2030 Agenda for Sustainable Development, the expansion of non-financial reporting has led to an increasing number of initiatives and frameworks for reporting on issues such as environmental footprints, social impact and good governance. This expansion provides a renewed opportunity for ISAR to convene global reporting stakeholders and facilitate deliberations on how to harness the potential of accounting for sustainable development. Accordingly, during the fourteenth session of the United Nations Conference on Trade and Development (UNCTAD) and the 2016 World Investment Forum, the ISAR High-level Policy Dialogue on Sustainability Reporting underscored the importance of establishing a harmonized set of core indicators on companies' performance that could contribute to the achievement of the Sustainable Development Goals.

Consistent implementation of international standards and codes on financial and non-financial reporting requires an effective system to monitor compliance and enforcement. As such, over the past few years, ISAR has been deliberating on the practical implementation of such a system, leading to the new UNCTAD publication, *Monitoring of Compliance and Enforcement for High-Quality Corporate Reporting: Guidance on Good Practices*[1].

These developments show that ISAR is strategically positioned to identify priorities and gaps in policy formulation in the areas of financial and non-financial reporting, and to articulate practical solutions for capacity-building in implementing accounting standards and codes aligned with international best practice.

It is therefore my pleasure to present the 2016 volume of *International Accounting and Reporting Issues*, which sheds light on the role of accounting in attaining the Sustainable Development Goals, and on good practices on monitoring the compliance and enforcement of international standards and codes on corporate reporting.

Mukhisa Kituyi
Secretary-General of UNCTAD

[1] UNCTAD, 2017, *Monitoring of Compliance and Enforcement for High-Quality Corporate Reporting: Guidance on Good Practices* (United Nations publication, New York and Geneva).

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ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
ACRA	Accounting and Corporate Regulatory Authority
FAR	Swedish Professional Accountancy Organization
GDP	gross domestic product
ISCA	Institute of Singapore Chartered Accountants
IAASA	Irish Auditing and Accounting Supervisory Authority
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
ISAE	International Standards on Assurance Engagements
ISQC	International Standards on Quality Control
OROC	Ordem do Revisores Oficiais de Contas (Portugal)
UNCTAD	United Nations Conference on Trade and Development

INTRODUCTION

The past two decades have seen the emergence of international standards and codes on corporate reporting, issued by various global standard-setters. The adoption of the 2030 Agenda for Sustainable Development, outlining the Sustainable Development Goals, has provided momentum for enhancing the role of accounting in supporting sustainable development. Although reporting standards and codes are being articulated at the global level, their implementation and enforcement remain under the purview of national authorities. Similarly, the monitoring mechanism of the Sustainable Development Goals is being progressively structured at the national level. The monitoring mechanism calls for adequate standards that take into consideration both the 2030 Agenda and the existing capabilities of standard stakeholders, including Governments and preparers. As a result of these complex interrelations, harnessing the contribution of corporate reporting to sustainable development has posed challenges for Member States in terms of achieving consistent implementation and enforcement, and for global standard-setters, as they seek to establish standards and codes aligned with the Sustainable Development Goals.

This edition of *International Accounting and Reporting Issues* discusses research in the interrelated areas of sustainability reporting, monitoring of compliance and enforcement, and good practices on the implementation of international audit and assurance standards, within the context of the contribution of accounting to capital formation and sustainable development.

Chapter I describes the ongoing work of UNCTAD towards the harmonization of sustainability reporting and selection of core indicators for the Sustainable Development Goals. It also includes discussions conducted at the thirty-third session of ISAR.

Chapter II presents a case study of Singapore on compliance monitoring and enforcement mechanisms in relation to corporate reporting, auditing and the regulation of professional accountants.

Chapter III contains a regional case study of the European Union, with a focus on the experiences of Ireland, Portugal and Sweden in the implementation of international audit and assurance requirements.

CHAPTER I

ENHANCING THE ROLE OF REPORTING IN ATTAINING THE SUSTAINABLE DEVELOPMENT GOALS: DISCUSSION ON THE SELECTION OF CORE COMPANY SUSTAINABILITY REPORTING INDICATORS

This chapter presents the ongoing work of the UNCTAD secretariat on core reporting indicators in alignment with the Sustainable Development Goals, enriched with discussions held during the thirty-third session of ISAR.[2] Section A provides background information on how the 2030 Agenda for Sustainable Development has increased the need for high-quality information on company performance and impact. Section B indicates some of the major challenges in company reporting on sustainability and the Sustainable Development Goals. Section C discusses key criteria and principles for the selection of core indicators for the Goals, and section D contains a list of tentative indicators proposed at the thirty-third session of ISAR. Section E presents conclusions and the way forward for the work of ISAR.

A. BACKGROUND

In 2015, Member States of the United Nations adopted the 2030 Agenda for Sustainable Development, containing 17 Sustainable Development Goals and 169 targets (A/RES/70/1). In resolution 70/1, the General Assembly stated that the Goals and targets would be followed up and reviewed using a set of global indicators focused on measurable outcomes. Consequently, the Inter-Agency and Expert Group on Sustainable Development Goal Indicators was established to develop a global indicator framework to monitor implementation of the 2030 Agenda.

As indicated in the Report of the Inter-Agency and Expert Group on Sustainable Development Goal Indicators (E/CN.3/2016/2), Member States will develop their national indicators in line with its principles, according to which targets are defined as aspirational and global, with each Government setting its own national targets guided by the global level of ambition but taking into account national circumstances. Full development of the indicator framework is a process that requires time and the possibility of refinement as knowledge and data availability improve. In addition, the Report states that "global monitoring should be based, to the greatest possible extent, on comparable and standardized national data, obtained through well-established mechanisms from countries to the international statistical system". Efforts should be made to fill data gaps and improve international comparability through the increased adoption of internationally agreed standards at the national level, strengthening of national statistical capacities and improved reporting mechanisms.

Such developments have a direct impact on the corporate reporting agenda. Target 12.6 explicitly encourages companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle. Indicator 12.6.1 requires data on the number of companies publishing sustainability reports. The Inter-Agency and Expert Group has designated UNCTAD and the United Nations Environment Programme as custodians of this indicator, and the two bodies are preparing a joint metadata guidance to support the structuring of the Sustainable Development Goals monitoring framework. Several other Sustainable Development Goal indicators refer to data already being provided by many enterprises in their reports, such as on the use of energy and water, carbon dioxide emissions, waste generation and recycling. Other such indicators also cover factors such as human resource management, gender equality and community development.[3]

[2] This chapter was prepared by the UNCTAD secretariat based on research, drawing on inputs made by participants at the thirty-third session of ISAR.

[3] See annex I for details concerning the indicators most frequently reported on, according to UNCTAD research on the sustainability reporting practices of large companies.

Such information is normally provided by companies as part of their sustainability reporting, which is becoming a mainstream business practice worldwide.[4] Many initiatives and frameworks have evolved, contributing significantly to raising awareness of sustainable development challenges and good company practices in addressing such challenges.[5] The *Carrots and Sticks: Promoting Transparency and Sustainability – An Update on Trends in Voluntary and Mandatory Approaches to Sustainability Reporting* indicates that there is a growing number of sustainability reporting instruments and number of countries in which they are applied. Such instruments were the exception rather than the rule a decade ago, yet their number has more than doubled in the last three years.[6]

Company reporting may therefore be an important data source for the Sustainable Development Goal monitoring framework. As a primary source of information on company performance, corporate reporting can enrich and enhance mechanisms for Sustainable Development Goal monitoring by providing stakeholders such as Governments and capital providers with the means to assess the economic, environmental and social impacts of companies on sustainable development. However, to do so, further efforts are needed towards harmonization and comparability in sustainability reporting. According to recent UNCTAD research on the sustainability reports of large companies worldwide, 71 per cent of such reports refer to the guidelines of the Global Reporting Initiative (including third and fourth generation – G3 and G4 – sustainability reporting guidelines),[7] 56 per cent to certificates issued by the International Organization for Standardization and 51 per cent, to the principles of the United Nations Global Compact. *Carrots and Sticks* identified 383 sustainability reporting instruments worldwide. The increasing diversity of sustainability reporting requirements, the volumes of reported information and their lack of comparability and reliability pose significant difficulties to both users and preparers of such reports. Such factors also undermine their credibility for decision-making, including the assessment of the contributions of companies towards achieving the Sustainable Development Goals.

Addressing this challenge, the thirty-second session of ISAR reiterated the need for reliable and comparable reporting by enterprises of the financial and non-financial aspects of their performance and the integration of sustainability information into reporting cycles. The session highlighted the increased urgency of addressing this issue, given the recent adoption of the Sustainable Development Goals, and requested UNCTAD to conduct further work, in collaboration with the consultative group on corporate reporting and the Goals, with a view to identifying good practices related to the Goals and facilitating the harmonization of sustainability reporting (TD/B/C.II/ISAR/75).

This chapter outlines the main issues related to enhancing the role of company reporting in the framework for monitoring the Goals and discusses whether and how these two systems may be aligned, including based on the global monitoring indicators for the Goals and the harmonization of existing requirements and practices. It provides an overview of key challenges, discusses selection criteria and key principles for reporting on the 2030 Agenda and elaborates on possible Goals-related indicators in company sustainability reporting to illustrate a way forward.[8] The chapter incorporates comments and inputs made by consultative group members at its meeting and at a follow up webinar in 2016 organized by UNCTAD, the United Nations Environment Programme and the Group of Friends

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4 There is no commonly accepted definition of sustainability reporting. The term is generally used with regard to information that is not part of the traditional financial statements in the annual reports of companies. Other frequently used terms include the following: reporting on sustainable development, non-financial reporting, extra-financial reporting, corporate social responsibility reporting, social reporting, and environmental, social and governance reporting. Integrated reporting is based on the premise that sustainability reporting should be built on the integration of financial and non-financial information. Sustainability reporting as used here refers to reporting on the economic, environmental, social and corporate governance performance of a reporting entity and its impact on sustainable development.

5 See TD/B/C.II/ISAR/74 for more information on trends and initiatives in sustainability reporting.

6 KPMG (Klynveld Peat Marwick Goerdeler), Global Reporting Initiative, United Nations Environment Programme and Centre for Corporate Governance in Africa, 2016, *Carrots and Sticks: Global Trends in Sustainability Reporting Regulation and Policy*, available at https://assets.kpmg.com/content/dam/kpmg/pdf/2016/05/carrots-and-sticks-may-2016.pdf (accessed 6 June 2017).

7 See https://www.globalreporting.org/standards/ (accessed 6 June 2017).

8 Core indicators for the Goals focus on core universal issues while leaving room for additional reporting requirements. Consultations showed that while harmonization was critical for the comparability and usefulness of sustainability reporting, flexibility was needed to reflect the specificities and varieties of company activities towards sustainable development, including at an industry level, and for providing scope for innovation, given the evolving nature of sustainability reporting.

of Paragraph 47[9] during the thirty-third session of ISAR, as well as ongoing discussions as part of the intersessional work of ISAR. Representatives of Member States, regional organizations, academia, the private sector and a large number of entities involved in sustainability standard-setting efforts were involved in fruitful discussions on agenda item 4, Enhancing the role of reporting in attaining the Sustainable Development Goals: Integration of environmental, social and governance information into company reporting (TD/B/C.II/ISAR/76). In particular, the following issues were suggested for discussion:

- Would the harmonization of sustainability reporting in line with requirements to monitor the Goals enhance the role of reporting under the 2030 Agenda?
- Are selected indicators in the economic, environmental, social and institutional areas correctly addressing the issue of harmonization of sustainability reporting?
- Is consistency required between financial and non-financial reporting for the integration of environmental, social and governance factors into company reporting? What are the main challenges?
- Should corporate indicators in line with the Goals be reported at a large entity level or at a consolidated level? How should this challenge be addressed?
- What are the main challenges in aligning the Goals monitoring framework and the data reported by companies? Are there good practices to be shared?
- How can global forums such as ISAR further contribute to consensus-building in sustainability and Goals reporting?

B. COMPANY REPORTING ON THE 2030 AGENDA FOR SUSTAINABLE DEVELOPMENT: MAIN CHALLENGES

Company reporting with regard to the 2030 Agenda is a complex issue involving challenges in harmonizing sustainability reporting in general and more recently, challenges in aligning such reporting with the Goals-monitoring framework and its indicators. The following challenges were considered at the thirty-second session of ISAR:

- Lack of coordination, comparability and harmonization in sustainability reporting.
- Need for consistent integration of sustainability information into a reporting cycle and consistency of sustainability and Goals-related reporting with existing financial reporting frameworks.
- Need to address a new dimension of the materiality principle by considering common needs of a broader range of users of sustainability reports.
- Mandatory versus voluntary requirements.
- Scope of the application and relevance of requirements for the non-listed and small and medium-sized enterprises (SMEs) sector, including within a company value chain.
- Independent verification and assurance.
- Compliance, monitoring and enforcement of sustainability reporting.
- Lack of resources, particularly in developing countries and countries with economies in transition.

Following the adoption of the 2030 Agenda, discussions on enhancing the role of corporate reporting in its implementation further stressed the importance of the harmonization of sustainability reporting. During the discussions, participants raised additional issues related to aligning such reporting with requirements for monitoring the Goals, in particular, whether the monitoring framework and its indicators might provide an opportunity to facilitate the harmonization of sustainability reporting, based on a limited number of core indicators for the Goals.

One of the issues discussed was whether company reporting related to the Goals should be carried out at the corporate consolidated level, reflecting a group impact on the 2030 Agenda, or at the national level, reflecting the impact of a firm on the national economy of a host country, or at both levels. Delegates noted that while the impact on a community should be reflected at the national level, group-level consolidated sustainability reporting was critical as a means to change corporate behaviour and business models in line with the 2030 Agenda. Consolidated reporting was also an important tool for assessing the corporate contribution to sustainable development and for raising awareness

[9] The latter is a government-led initiative established in 2012 following the United Nations Conference on Sustainable Development. The current members are Argentina, Austria, Brazil, Chile, Colombia, Denmark, France, Norway, South Africa and Switzerland.

of good corporate practices. It was also critical to address issues of alignment between enterprise reporting and data provided by enterprises to statistics agencies on performances related to the Goals. In this regard, past efforts on the integration of international public sector accounting standards and government finance statistics could provide a framework for an aggregation methodology.[10] The International Monetary Fund had developed an internationally recognized statistical reporting framework known as Government Finance Statistics, which is used by economists at the macroeconomic level in the analysis of fiscal policy.[11] International accounting standards for the public sector took into account the macro-level needs of policymakers and policy analysts, and the development of core indicators for the Goals needed to be aligned with the statistical reporting framework of the Goals.[12] This was a challenging task; in addition, it might not be necessary to disclose such information in their reports, as companies already provided required environmental and social data to statistics agencies. However, transparency and public availability of such information, as well as its consistency with accounting data and assurability, were other factors to be taken into consideration.

This chapter does not discuss whether sustainability reporting should be mandatory or voluntary.[13] While there is a need to determine how the sustainability of company and Goals-related reporting can be encouraged and provided in a comparable and consistent manner, it is up to countries to find the most effective means of carrying this out.

C. KEY CRITERIA FOR THE SELECTION OF CORE INDICATORS FOR THE SUSTAINABLE DEVELOPMENT GOALS

Consultations indicated that the harmonization of sustainability reporting based on core indicators for the Goals should rely on specified selection criteria. Further, to achieve harmonization, it was necessary to identify the common needs of the main users of Goals-related reporting – Governments, investors and civil society – and to provide a framework that enabled consensus-building in this area. The objectives of such reporting should be clearly defined, towards the recognition and communication of company performance towards achieving the Goals. Indicators should be consistent with the monitoring framework of the Goals, covering economic, social and institutional (governance) information. In particular, it was important that core indicators for the Goals take into account the principles of the Goals-monitoring framework. These principles should be universal, integrated and interrelated in nature, covering the three dimensions of sustainable development. They should be voluntary and country-led; longer-term oriented; open, inclusive, participatory and transparent for all people; and people-centred and gender-sensitive, with respect for human rights and a particular focus on the poorest, the most vulnerable and the most marginalized.

In consultations, participants wished to know whether it was possible to select core indicators for the Goals that were universal and relevant to all corporations and single companies, regardless of type of business, industry or geographical location. In this regard, diversity and the broad scope of the Goals, as well as the diversity of a company's activities related to the Goals, were important. Meeting such criteria would facilitate the comparability of sustainability reporting. However, identifying such indicators would be a challenge. The global Goals-monitoring framework and its indicators reflected a consensus that had been reached by member States concerning the universal requirements for sustainable development, and that this consensus could be a good starting point to identify universal sustainability indicators in company reports. The selection of indicators should be based on existing sustainability reporting initiatives, requirements and company practices. The aim was not to invent new requirements, but to encourage the use of existing approaches and methodologies.

Underlying principles of Sustainable Development Goals-related reporting

In line with existing institutional foundations of the international financial-reporting system, the reporting

[10] International Public Sector Accounting Standards Board, 2014, Process for considering government finance statistics reporting guidelines during development of international public sector accounting standards, Policy Paper.

[11] See https://www.imf.org/external/pubs/ft/gfs/manual/about-gfs.htm (accessed 6 June 2017).

[12] This issue is beyond the scope of this note.

[13] There are more mandatory instruments than voluntary instruments, but growth in the latter is strong. Although over 100 new mandatory instruments have been introduced, the proportion of mandatory instruments versus that of voluntary instruments fell to 65 per cent of the total in 2016, compared with 72 per cent in 2013 (KPMG et al., 2016).

framework for the Goals needed to take into account the system's underlying reporting principles and qualitative characteristics in order to meet user needs. It was important to ensure that such a framework enhanced the coherence of financial and non-financial reporting models and allowed for the consistent integration of sustainability information into company-reporting cycles. The following points were discussed during the consultations: the relevance of the conceptual framework of International Financial Reporting Standards (IFRS) to sustainability or Goals-related reporting, the relationship between universality and materiality, consistency in measurement methodology and data comparability, clarity of reporting boundaries and an incremental approach.

Experts at the thirty-third session of ISAR took into consideration these issues, among others, and shared their views on relevant principles for reporting on the Sustainable Development Goals.

Relevance of the conceptual framework of International Financial Reporting Standards

According to an IFRS Foundation study, in 2015, more than 100 countries required the use of IFRS by public companies, while most other jurisdictions permitted the use of such standards in at least some circumstances.[14] This makes IFRS a dominant system in corporate financial reporting. The IFRS conceptual framework relates to general-purpose financial reporting, that is, financial statements targeting the common information needs of a wide range of users. The framework outlines the objectives of such reporting and its qualitative characteristics, such as relevance, materiality and faithful presentation, comparability, verifiability, timeliness and understandability, and explains cost-benefit considerations and includes going concern as the underlying assumption of financial reporting. While addressing primarily the information needs of capital providers, general-purpose financial statements are intended to meet the common needs of most users, including those who make economic decisions, in preparing and using national income statistics, regulating the activities of entities or determining taxation policies. The framework recognizes that Governments, in particular, may specify different or additional requirements for their own purposes. Such requirements should not, however, affect financial statements published for the benefit of other users unless they also meet the needs of other such users.[15]

Overall, experts at the thirty-third session of ISAR recognized the importance of having the IFRS conceptual framework undergird sustainability reporting standards. The coherence of harmonized standards with IFRS was key to ensuring that reporting on the Sustainable Development Goals was useful to all stakeholders. In this light, a representative of the International Federation of Accountants (IFAC) stressed that it was necessary to develop an approach that would help link corporate objectives to the Sustainable Development Goals in the same context of material risks, opportunities, impacts and the ability to create value over time. To ensure consistency, it would thus be advisable to closely align non-financial reporting with the IFRS framework.

Similarly, a panellist from the Dutch Ministry of Foreign Affairs highlighted the importance of engaging companies with sustainability reporting without losing sight of the existing accounting framework. Policymakers and accountants should thus be brought together to understand each other's language from the perspective of the standardization of sustainability reporting and the framework for monitoring the Sustainable Development Goals.

Relationship between universality and materiality

The principle of materiality requires specific attention. The IFRS Foundation states the following:

> Information is material if omitting it or misstating it could influence decisions that the primary users of general purpose financial reports …. make on the basis of financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to

[14] IFRS Foundation, 2015, *Financial Reporting Standards for the World Economy*, available at http://www.ifrs.org/Use-around-the-world/Documents/Financial-Reporting-Standards-World-Economy-June-2015.pdf (accessed 7 June 2017).

[15] IFRS Foundation, 2012, *A Guide through International Financial Reporting Standards* (London).

which the information relates in the context of an individual entity's financial report.[16]

However, the Association of Chartered Certified Accountants and the Climate Disclosure Standards Board, in their mapping report of the sustainability reporting landscape, recently concluded: "The identification of material matters is increasingly determined through stakeholder engagement. In practice, where sustainability matters are concerned, everything is material to someone, which begs the question: from whose perspective should materiality be identified?"[17]

Defining materiality as an entity-specific aspect may create a conflict with the criterion of universality. In the context of Goals-related reporting, materiality has a new dimension. Adoption of the Goals required multi-stakeholder consultations, and all parties agreed that certain aspects of economic, environmental and social activities were material to them. Therefore, the selection of core indicators for the Goals relies on the idea that the targets are integrated into the current materiality assessments of companies and thus guide the sustainability disclosure framework. Furthermore, enhanced transparency is required throughout the materiality assessment process that should accompany the reporting of data on the core indicators for the Goals. It is nevertheless important that companies be able to report on additional sustainability information that may not be covered by the core indicators, for instance with regard to specific issues whose materiality might not be sufficiently widespread.

During the thirty-third session of ISAR, a panellist from the Global Reporting Initiative stated that the reporting landscape had continued to raise demand for more corporate disclosures. The perspectives of stakeholders other than investors increased the number of material issues, since the objective of reporting on the Sustainable Development Goals was to present the overall impact of organizations on society and the environment.

Furthermore, balancing materiality with universality presented some challenges in terms of existing frameworks. For instance, the panellist from the Sustainability Accounting Standards Board discussed progress made by his organization in developing sector-specific standards on sustainability reporting. Participants discussed the importance of ensuring the coherence of different sector-specific standards, with a view to ensuring that data from corporate reports be adequate for Sustainable Development Goal-monitoring purposes.

One expert wondered whether companies should consider all 17 Goals or whether they should have a differentiated focus on priority Sustainable Development Goals. In response, the panellists said that the Sustainable Development Goal Compass was useful in matching companies' contributions with the relevant Goals. The UNCTAD secretariat indicated that a balance between materiality and universality could initially be achieved by establishing a framework of core indicators aligned with the Sustainable Development Goals, while allowing corporates the ability to report on additional areas deemed material by stakeholders.

Consistency in measurement methodology and data comparability

To ensure that stakeholders can use Goals-related reporting to track progress in attaining the Goals, indicators need to be comparable across entities, time and geography, thereby requiring transparent and traceable documentation on scope, data quality, methods used and limitations. This remains one of the main challenges in sustainability reporting. For example, in a survey of investors conducted in 2013, the Association of Chartered Certified Accountants and the European Sustainable Investment Forum, commonly known as Eurosif, found that 92 per cent disagreed or strongly disagreed that current non-financial reporting was sufficiently comparable.[18]

[16] IFRS Foundation, 2015, *Conceptual Framework for Financial Reporting*, Exposure draft ED/2015/3 (London), available at http://archive.ifrs.org/Current-Projects/IASB-Projects/Conceptual-Framework/Documents/May%202015/ED_CF_MAY%202015.pdf (accessed 21 August 2017). This approach is followed by most sustainability frameworks, such as the Global Reporting Initiative and the Sustainability Accounting Standards Board. The International Integrated Reporting Council defines information as material if it affects an organization's ability to create value over the short, medium and long terms.

[17] Association of Chartered Certified Accountants, 2016, *Mapping the Sustainability Reporting Landscape: Lost in the Right Direction* (London).

[18] Association of Chartered Certified Accountants and European Sustainable Investment Forum, 2013, *What do Investors Expect from Non-financial Reporting?* Available at http://www.accaglobal.com/content/dam/acca/global/PDF-technical/sustainability-reporting/tech-tp-wdir.pdf (accessed 7 June 2017).

Experts at the thirty-third session of ISAR considered the need for consistency in measurement methodology and data comparability. Indeed, if information drawn from corporate reports was to be used by national statistical offices to monitor progress in implementing the Sustainable Development Goals at the country level, data quality became an essential concern. In this light, the panellist from the United Nations Department of Economic and Social Affairs acknowledged that the Sustainable Development Goals required a harmonized monitoring effort. Corporate sustainability accounting could be a valuable information source for statistics that should be aligned with the monitoring of progress in implementing the Goals at the national level. It was thus important to develop partnerships that would facilitate dialogue among all major stakeholders, including national statisticians, corporate social responsibility experts and major corporate sustainability initiatives.

The panellist from Accounting for Sustainability, a programme within the Prince of Wales's Charitable Foundation, stressed the importance of strengthening the role of national statistical offices to foster the sharing of data across the private sector, government and civil society. Further dialogue regarding data comparability was needed between officials from national statistical offices and representatives of standard-setting bodies.

Clarity of reporting boundaries

Consistency with IFRS raises further issues related to reporting boundaries. For example, UNCTAD research shows that companies that disclose sustainability information often do not provide information related to non-operated owned legal entities or assets. However, in some instances, the entity that legally owns such non-operated entities or leased assets might be the actual user of their production. A similar situation arises in the case of joint operations, which are often operated by only one partner. If consistency with IFRS is required, it is important to ensure that guidance related to such standards is followed and that all data are divided by ownership share. This makes it important to disclose the basis for determining the boundaries of the reporting entity and other assumptions and methods that underpin sustainability reporting. In some jurisdictions, IFRS may not be required for the preparation of legal entity financial statements, but only for consolidated reports. This may pose a difficulty in compiling non-financial data, as companies may use different accounting rules in reporting statutory financial data. Consolidation rules play an important role in the process of aggregating data from the company to the corporate level, thus having an impact on the link between corporate reporting and monitoring achievement of the Goals.

At the thirty-third session of ISAR, experts stressed that the reporting boundaries for Sustainable Development Goal indicators should be consistent with the boundaries used in the IFRS conceptual framework. For instance, the panellist from the Climate Disclosure Standards Board said that the Sustainable Development Goals and corporate reporting had different audiences, objectives and levels of aggregation. Thus, one of the main challenges in aligning the Sustainable Development Goals monitoring indicators with data reported by companies lay in misalignments and asymmetries between Governments and the private sector. Corporate reporting had much potential to fit into national statistics, but the existence of different approaches to aggregation might pose a challenge.

Incremental approach

The selection of core indicators for the Goals should take into account existing data-gathering capacities or access-to-information channels of companies. Placing an excessive burden on companies may be detrimental to engaging the private sector under the 2030 Agenda. An incremental approach is therefore recommended, whereby selected indicators first address issues over which a company has control and for which it already gathers data, or situations in which a company has access to relevant sources of information.

Regarding the importance of an incremental approach, panellists from the European Commission and the European Financial Reporting Advisory Group stressed the importance of striking a balance between effective disclosures, on one hand, and the need to avoid excessive administrative burdens on reporting entities on the other. An incremental approach to Sustainable Development Goal reporting should not hinder financial stability or economic growth by imposing requirements on entities that lack the capacity and resources for adequate reporting. Similarly, the panellist from the Association of Danish Auditors said that it was important to that new requirements should be simple and should be based on existing frameworks.

A representative of Deloitte stressed the importance of raising awareness in the private sector on how the Sustainable Development Goals related to a company's mission and vision. Helping businesses understand how their core activity could contribute towards the attainment of the Goals, initially without requiring them to take additional action, could pave the way for the entrenchment of a sustainable mindset in companies.

Other discussions

In addition to the principles highlighted in TD/B/C.II/ISAR/78, experts at the thirty-third session of ISAR raised other relevant issues and challenges related to reporting on the Sustainable Development Goals.

Some experts explored the means of applying sustainability reporting in the context of public sector entities, non-profit entities, and SMEs. One delegate highlighted the gap between the experience of developed and developing countries and possible unfairness in the comparison of their efforts in this regard. Another delegate said that that all countries would be able to implement core Sustainable Development Goal reporting indicators at a basic level and could be given the choice of going beyond such requirements to include additional disclosures. Such discussions highlighted the specific challenges of harmonizing sustainability reporting in the context of SMEs, public sector entities and companies from developing countries or countries with economies in transition.

In the discussion on integrated reporting, panellists noted that such reporting sought to bridge financial and non-financial information as part of an integrated corporate report.

A few experts highlighted the need for fair and effective governance of international standard-setting bodies and commended ISAR for its role in providing an open and inclusive forum for discussions to support progress toward a high-quality reporting environment.

D. CORE SUSTAINABLE DEVELOPMENT GOAL INDICATORS IN COMPANY REPORTING

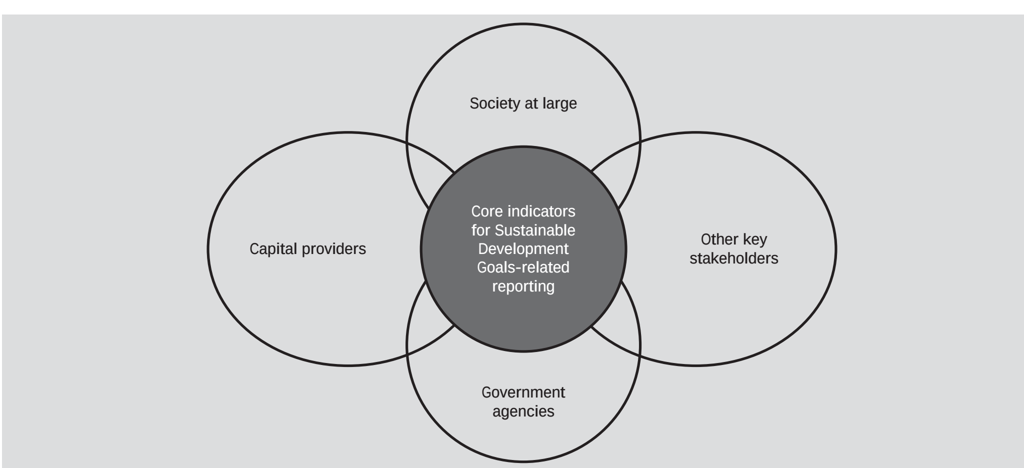
Based on the key criteria and principles described in section C, UNCTAD proposed a set of core indicators for the Goals during the thirty-third session of ISAR. These suggestions were based on an indicator framework to accompany the Goals, ongoing UNCTAD work on the harmonization of accounting and reporting and United Nations Environment Programme activities related to environmental reporting, as well as other major sustainability reporting initiatives and a survey of prevailing company reporting practices (see annex I).[19] In this regard, UNCTAD had convened a consultative group meeting in 2017 to further analyse the proposed indicators, with a view to preparing guidance materials as a way forward. This chapter presents the current working list of the core reporting indicators for Sustainable Development Goals developed by UNCTAD.

The figure below shows the approach used to identify common needs of key users of Goals-related information.[20]

19 The listed corporate reporting indicators are a proxy for the indicators on which local companies may report in their statutory reports.

20 Other key stakeholders may include existing and potential business partners, consumers, employees and the surrounding community.

Key users of information related to the Sustainable Development Goals



The current proposal covers key areas of the 2030 Agenda with a breakdown of the main issues suggested by sustainability reporting initiatives and/or being reported by companies (see table). They are also related to six types of capital suggested by the International Integrated Reporting Council: financial capital, manufactured capital, intellectual capital, human, social and relationship capital, and natural capital.

Table 1 presents some of the areas of corporate reporting that are relevant to the Sustainable Development Goals and that UNCTAD took into consideration in devising the proposal on core indicators.

Table 1 Main areas covered by the suggested indicator

Economic indicators	Environmental indicators	Social indicators	Institutional indicators
Stakeholder value	Energy	Health and safety	Governance
Economic performance	Water	Human rights and fair trade	Accountability
Financial performance	Greenhouse gases	Employment creation and labour practices	Anti-corruption
Local purchasing and supplier development	Emissions	Human resource development	
Investment related to the Sustainable Development Goals	Waste	Gender equality	
Research and development		Donations	

The proposed UNCTAD company indicators, with an indication of their relations with the Sustainable Development Goals, targets and global indicators are provided in annex II.

The following sections of this chapter provide analyses of these indicators in light of existing guidance from the United Nations, UNCTAD and the United Nations Environment Programme in related areas; UNCTAD research on the current reporting practices of large companies; prevailing sustainability reporting frameworks, with a focus on the Global Reporting Initiative guidelines as the main reference on sustainability reporting; and other issues raised by the consultative group.

Within the context of the harmonization of sustainability reporting, the UNCTAD resource person further discussed the rationale for the selection of such indicators during the thirty-third session of ISAR. She presented an analysis of the 100 largest listed corporates and their environmental, social and governance reporting practices.[21] Of these, 99 carried out some kind of reporting on sustainability. While there were differences based on geography and industry in the reporting practices of companies, the analysis revealed a number of indicators that were frequently used in reports.

Concerning the selection of companies for the analysis of sustainability reporting practices, participants discussed whether the sample selected was representative of most companies. Some stated that large companies had best practices to start with, while SMEs were often still improving their expertise in this area. One panellist said that, although it might be necessary to tailor specific disclosures for different types of entities, guidance on reporting for both big corporates and SMEs should be based on the same principles. While the level of entity maturity should be taken into consideration in the establishment of standards and codes for sustainability reporting, other experts noted that, with the current state of technological development, the cost of collecting data was constantly decreasing.

Experts from the private sector shared their experiences regarding sustainability reporting and the Sustainable Development Goals. For instance, a representative of Carillion illustrated the efficiency of

[21] Research findings will be published in a forthcoming UNCTAD discussion paper.

the proposed approach to reporting on the Sustainable Development Goals through a practical business case of his company, which had delivered additional profits by incorporating sustainable development strategy and behaviour into its activities. However, a representative of BT Group indicated that, to get from individual company reporting to a data-driven global dashboard on the Sustainable Development Goals, it was necessary to generate a more precise set of universal metrics across all the Goals.

Some experts said that the initiative to select core indicators for the Sustainable Development Goals should take into account existing frameworks. As an example, the panellist from UNI Global Union stated that the Committee on Workers' Capital had developed a set of reporting indicators in the area of workers' rights, including workforce composition and social dialogue.

Economic indicators

Participants proposed the following indicators:

- A.1: revenue and/or value added.
- A.2: taxes and other payments to the Government.
- A.3: total new investment.
- A.4: local purchasing and supplier development.

Indicator A.1: Revenue and/or value added

This indicator is relevant to indicator 8.2.1 on the annual growth rate of real gross domestic product (GDP) per employed person, as listed in the Report of the Inter-Agency and Expert Group on Sustainable Development Goal Indicators (E/CN.3/2016/2, annex III). UNCTAD research indicates that only 27 per cent of large companies worldwide reported on cash flows paid to Governments, employees, suppliers, shareholders or other investors or spent through donations. Under the G4 sustainability reporting guidelines, the EC1 performance indicator focuses on direct economic value generated and distributed, and states that companies should report value generated on an accrual basis (revenues), economic value distributed (operating costs, employee wages and benefits, payments to providers of capital, payments to Governments by country and community investments) and the difference between these two measures (economic value retained). The guidelines state that economic value generated and distributed should be reported at country or regional levels, where significant, and that companies should explain significance criteria.

Suggestions by the consultative group included indicators such as average employee salaries. The number of employees earning below a certain threshold was considered crucial information; its provision might be useful not just for a company, but for all employees in relevant supply chains. Participants also discussed moving salary-related indicators under the relevant social area and proportions of sales in national GDP. It would be worthwhile taking into consideration the issue of transfer pricing, and the guidelines issued by the Organization for Economic Cooperation and Development on country-by-country reporting, as part of the Base Erosion and Profit Shifting Action Plan.

Indicator A.2: Taxes and other payments to the Government

This indicator is relevant to Inter-Agency and Expert Group on Sustainable Development Goal indicator 17.1.2* on the proportion of domestic budget funded by domestic taxes, which is pending review by the Group. UNCTAD research indicates that 55 per cent of large companies worldwide report on tax payments. More than half of these companies already report on the proposed indicator, which is included in the *Guidance on Corporate Responsibility Indicators in Annual Reports*.[22] Such disclosure is required under the EC1 performance indicator of the G4 sustainability reporting guidelines. Discussions by the consultative group included consideration of whether total tax contribution should be reported or contributions under specific taxes. The Base Erosion and Profit Shifting Action Plan provides guidelines on the taxation of multinational enterprises and highlights the need for international coordination to enhance transparency for national tax administrations.

Indicator A.3: Total new investment

This indicator is relevant to Inter-Agency and Expert Group on Sustainable Development Goal indicator

[22] UNCTAD, 2008, *Guidance on Corporate Responsibility Indicators in Annual Reports (Sales No. 08.II.D.8*, United Nations publication, New York and Geneva).

1.b.1* on the number of national action plans related to multilateral environmental agreements that support accelerated investment in actions that eradicate poverty and sustainably use natural resources, which is pending review by the Group. UNCTAD research indicates that 33 per cent of large companies worldwide report on investments in sustainable energy supply, 31 per cent on investments or loans in environmental improvements, including green bonds, and only 1 per cent on community investments per pre-tax income.

Total new investment is an indicator in the *Guidance on Corporate Responsibility Indicators in Annual Reports*. Under the G4 sustainability reporting guidelines, the EC1 performance indicator requires, among others, disclosures of community investments. New investments can have a positive economic and social impact, as they may lead to the development of productive capacity and poverty reduction. Such investments may take into account foreign direct investment and investments made by a reporting company in other entities directly, as well as in its own operations, such as by purchasing new facilities or production technology. Suggestions by the consultative group included data on green investment and green turnover. Experts agreed that further elaboration of the definitions and measurement of such indicators was needed.

Indicator A.4: Local purchasing and supplier development

This indicator is relevant to Inter-Agency and Expert Group on Sustainable Development Goal indicator 9.3.1 on the percentage share of small-scale industries in total industry value added. UNCTAD research indicates that 19 per cent of large companies worldwide report on either the geographic division of suppliers or the share of local suppliers. Under the G4 sustainability reporting guidelines, the EC9 performance indicator focuses on procurement practices and mandates the disclosure of the proportion of spending at local suppliers and significant locations of operation. Local purchasing is an indicator in the *Guidance on Corporate Responsibility Indicators in Annual Reports*. Suggestions by the consultative group included long-term contractual arrangements in place with suppliers, existence of quality manual and inspection procedures, and responsible sourcing.

Environmental indicators

Based on research conducted by the United Nations Environment Programme23 and comprehensive reporting of environmental information, experts proposed the following indicators:

- B.1: water consumption per net value added.
- B.2: waste generated per net value added.
- B.3: greenhouse gas emissions (scopes 1 and 2) per net value added.
- B.4: chemicals, including pesticides and ozone-depleting substances.
- B.5: energy consumption per net value added.

The consultative group noted that, in addition to providing related data, it was important to encourage companies to report on the metrics of how they mitigated negative effects and on positive actions taken to reduce them.

Indicator B.1: Water consumption

This indicator is relevant to Inter-Agency and Expert Group on Sustainable Development Goal indicator 6.4.1* on the percentage change in water use efficiency over time. UNCTAD research indicates that 74 per cent of large companies worldwide reported on water consumption, and 13 per cent provided a breakdown by produced unit. This indicator appears in *A Manual for the Preparers and Users of Eco-efficiency Indicators* by UNCTAD.[24] Under the G4 sustainability reporting guidelines, the EN9 performance indicator requires the disclosure of water sources significantly affected by the withdrawal of water. Other sustainability reporting guidelines on water consumption include the World Business Council for Sustainable Development Global Water Tool,[25] CDP[26] Water Programme[27] and United Nations Global Compact Chief Executive Officers Water

23 United Nations Environment Programme, 2015, *Raising the Bar – Advancing Environmental Disclosure in Sustainability Reporting* (Nairobi).

24 UNCTAD, 2004, *A Manual for the Preparers and Users of Eco-efficiency Indicators* (Sales No. E.04.II.D.13, United Nations publication, New York and Geneva).

25 See http://www.wbcsd.org/Clusters/Water/Resources/Global-Water-Tool (accessed 22 August 2017).

26 Formerly the Carbon Disclosure Project.

27 See https://www.cdp.net/water (accessed 8 June 2017).

Mandate.[28] Discussions by the consultative group focused on the inclusion of indicators on water stress, intensity, availability and quality in the context of environmental indicators.

Indicator B.2: Waste generated

This indicator is relevant to Inter-Agency and Expert Group on Sustainable Development Goal indicator 12.5.1 on national recycling rate (tons of material recycled) and appears in *A Manual for the Preparers and Users of Eco-efficiency Indicators*. UNCTAD research indicates that 51 per cent of large companies worldwide reported on reuse of waste, 40 per cent on waste per destination and 11 per cent on waste per type.

Indicator B.3: Greenhouse gas emissions

This indicator is relevant to Inter-Agency and Expert Group on Sustainable Development Goal indicator 9.4.1 on carbon dioxide emissions per value added. UNCTAD research indicates that 66 per cent of large companies worldwide reported on scope 1 (all direct greenhouse gas emissions) and 62 per cent, on scope 2 (indirect greenhouse gas emissions from consumption of purchased electricity, heat or steam).[29] Under the G4 sustainability reporting guidelines, the EN15 and EN16 performance indicators cover scope 1 and scope 2 emissions, respectively, and require the reporting of, among others, greenhouse gas emissions by metric tons of carbon dioxide, base year, source of emission factors and selected consolidation approaches. Similarly, CDP provides guidelines on disclosures for scope 1 and scope 2 emissions in its guidelines CC8.2 and CC8.3, respectively.[30] In discussions concerning which scopes should be measured as part of this indicator, the consultative group agreed on the exclusion of scope 3, noting that the G4 sustainability reporting guidelines included indicators for scope 3 disclosures (other indirect greenhouse gas emissions – EN17), for greenhouse gas emissions intensity (EN18) and for greenhouse gas emissions reduction (EN19).

[28] See http://ceowatermandate.org (accessed 8 June 2017).

[29] For definitions of each scope, see http://www.ghgprotocol.org/calculation-tools/faq (accessed 8 June 2017).

[30] See https://www.cdp.net/Documents/Guidance/2016/CDP-Score-categories-2016.pdf (accessed 22 August 2017).

Indicator B.4: Chemicals

This indicator is relevant to Inter-Agency and Expert Group on Sustainable Development Goal indicator 12.4.2* on the treatment of waste, generation of hazardous waste and hazardous waste management, by type of treatment. However, there are no specific indicators on chemicals. Under the G4 sustainability reporting guidelines, performance indicators that contribute to transparency in chemicals management include EN24 on the number and volume of recorded significant spills, including of chemicals, and EN25 on hazardous waste. Performance indicator EN20 covers emissions of ozone-depleting substances and requires the disclosure of information on the definition, production, import and export of such substances. Similarly, an indicator on dependency on ozone-depleting substances per net value added is described in *A Manual for the Preparers and Users of Eco-efficiency Indicators*.

Internationally recognized sustainability reporting frameworks and guidelines currently do not provide specific indicators on the use of chemicals, but rather indicators that contribute only to the general understanding of chemicals management as proxies. The consultative group noted that the use of chemicals as a result of spills and normal business activity might lead to the pollution of soil, air and water. Reporting on possible sources of soil, air and water pollution as a result of business activity and measures to mitigate effects was an important element of reporting. However, some experts challenged the universality of indicators in these areas and of data availability, which reinforced the need for additional research on chemicals reporting.

Indicator B.5: Energy consumption

This indicator is relevant to Inter-Agency and Expert Group on Sustainable Development Goal indicator 7.3.1 on energy intensity measured in terms of primary energy and GDP. Energy-related indicators of the Group also include 7.2.1 on the renewable energy share in total final energy consumption and 7.b.1* on the ratio of value added to net domestic energy use, by industry. Their relevance to company reporting may be further explored. UNCTAD research indicates that 31 per cent of large companies worldwide reported on energy intensity or efficiency. Under the G4 sustainability reporting guidelines, the EN3 performance indicator requires the disclosure of information on energy consumption in an organization, including of both renewable and non-renewable fuel sources, and the disclosure of the consumption of electricity, heating, cooling and steam, as well as of methodologies and conversion factors used. Other indicators go further, including those on energy consumption outside an organization (EN4), energy intensity ratio (EN5), reduction of energy consumption (EN6) and reductions in energy requirements of goods and services (EN7). An indicator on the total energy requirement during an accounting period and the respective amounts of the previous year appears in *A Manual for the Preparers and Users of Eco-efficiency Indicators* and in the CDP framework.

Social indicators

Indicators for social reporting that incorporate guidance on corporate social responsibility reporting by the Intergovernmental Working Group of Experts (in *Guidance on Corporate Responsibility Indicators in Annual Reports*) were approved at its twenty-fourth session and include the following:

- C.1: total workforce, with breakdown by employment type, contract and gender.
- C.2: expenditure on research and development as a proportion of turnover.
- C.3: average hours of training per year per employee, with breakdown by employment category.
- C.4: percentage of employees covered by collective agreements.
- C.5: cost of employee health and safety.
- C.6: work days lost due to occupational accidents, injuries and illness.
- C.7: human rights.

Indicator C.1: Total workforce

This indicator is relevant to Inter-Agency and Expert Group on Sustainable Development Goal indicator 5.5.2 on the proportion of women in managerial positions and to indicator 8.5.1 on the average hourly earnings of female and male employees, by occupation, age group and persons with disabilities. UNCTAD research indicates that 93 per cent of large companies worldwide report on the number of employees. Sixty-seven per cent of large companies provide a breakdown by gender; 46 per cent, by geographical distribution; 39 per cent, by nationality or ethnicity; 28 per cent, by age group; 22 per cent, by management layer; and 11 per cent, by education. UNCTAD guidelines on this indicator emphasize that one of the most significant positive impacts of corporate activity is job creation. Under the G4 sustainability reporting guidelines, among disclosures on the organizational profile of a company, performance indicator 10 requires reporting on the total number of employees by employment contract and gender, with further distinctions between permanent employees, supervised workers, workers legally recognized as self-employed and employees and supervised employees of contractors. The consultative group highlighted the importance of capturing the way in which companies integrated people into their workforces.

Indicator C.2: Expenditure on research and development

This indicator is relevant to Inter-Agency and Expert Group on Sustainable Development Goal indicator 9.5.1 on research and development expenditure as a percentage of GDP. Technology is a driver for corporate competitive advantage and is a relevant component of the economic development of countries in which companies are based. Under the indicator on professional development expenditure, the consultative group considered the addition of employee training on sustainability. Some experts proposed that this indicator be moved to the economic area.

Indicator C.3: Average hours of training per year per employee

This indicator is relevant to Inter-Agency and Expert Group on Sustainable Development Goal indicator 4.3.1 on the participation rate of youth and adults in formal and non-formal education and training in the past 12 months. UNCTAD research indicates that 38 per cent of large companies worldwide report on training hours per employee. The development of staff skills is an indicator of a company's positive investment in human resources.

Indicator C.4: Percentage of employees covered by collective agreements

This indicator is relevant to Sustainable Development Goal target 8.8 to protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment. Under the G4 sustainability reporting guidelines, performance indicator 11 requires the disclosure of the percentage of employees covered by collective bargaining agreements. As noted in UNCTAD guidelines on this indicator, collective bargaining is internationally recognized as a means to increase the positive social impact of corporate activities. This indicator refers to agreements that may be conducted by a company itself, or by organizations of which it is a member, at national, regional or local levels.

Indicator C.5: Cost of employee health and safety

This indicator is relevant to Sustainable Development Goal target 3.8 to "achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all". UNCTAD research indicates that only 2 per cent of large companies worldwide report on the number of employees with health-care insurance, and 1 per cent on the cost of health-care insurance. Under the G4 sustainability reporting guidelines, performance indicator LA2 requires companies to disclose benefits that are standard for full-time employees of an organization, including, among others, life insurance, health care and disability and invalidity coverage. The consultative group noted that indicators should take into account the improvement of employee health and that indicator C.5 should be measured in monetary units.

Indicator C.6: Work days lost

This indicator is relevant to Inter-Agency and Expert Group on Sustainable Development Goal indicator 8.8.1 on the frequency rates of fatal and non-fatal occupational injuries, by gender and migrant status. UNCTAD research indicates that 44 per cent of large companies worldwide report on total lost-time incident rates, and 18 per cent, on total lost-time incident numbers; 12 per cent provide a lost-time incident breakdown by staff, subcontractor and third party. Under the G4 sustainability reporting guidelines, performance indicator LA6 requires the disclosure of information on lost days, absenteeism and total number of work-related fatalities due to injury and occupational disease. The indicator requires reporting by total workforce, as well as breakdowns by region and gender, and applies to both employees and independent contractors to whom an organization is liable for working environment safety. The consultative group noted that the indicator might be reframed as occupational accidents, injuries and illness, since work days lost were important, yet injuries and illnesses alone were also significant.

Indicator C.7: Human rights

This indicator is relevant to Inter-Agency and Expert Group on Sustainable Development Goal indicator 8.7.1 on the percentage and number of children aged 5 to 17 engaged in child labour, by gender and age group. This indicator covers human rights adherence, not only at a company itself, but also at all relevant companies in a value chain. Important sub-elements are child labour, forced labour, harassment and freedom of association. According to UNCTAD research on large company sustainability reporting practices, this area is the least commonly reported. Discussions on social indicators recalled the need to take into account the cultural contexts in which companies operated, for instance countries in which women were not allowed to participate in the workforce. The consultative group noted that this was an important section requiring priority attention and further elaboration.

Institutional indicators

A number of indicators reflecting company governance mechanisms are proposed as follows:

- D.1: corporate governance.
- D.2: donations (unspecified) and donations to community projects.
- D.3: anti-corruption.

These indicators are based on corporate governance reporting frameworks developed by UNCTAD, principles of corporate governance of the Group of 20 and the Organization for Economic Cooperation and Development,[31] and European Commission recommendation of 9 April 2014 on the quality of corporate governance reporting,[32] as well as guidelines issued by the Global Reporting Initiative and Sustainability Accounting Standards Board.[33] The indicators are also relevant to Sustainable Development Goal target 16.6 to develop effective, accountable and transparent institutions at all levels. In discussions on whether donations should be moved to the social area, the consultative group suggested that donations of a political nature might be classified more appropriately under governance data.

Indicator D.1: Governance

Governance data are often included in companies' annual statements of corporate governance. Most stock exchanges and authorities request listed companies to submit such information. However, it may be provided in many forms and places, and not always with the same level of detail. Therefore, harmonization is required to enable comparability of data. Experts proposed the following indicators on corporate governance:

- D.1.1: number of board meetings and attendance rate. The consultative group discussed whether to replace this with the structure, role and functions of a board. Some experts noted that the number of meetings might not be a good indicator and that this indicator should track attendance rates only.
- D.1.2: women board members. This indicator is relevant to Inter-Agency and Expert Group on Sustainable Development Goal indicator 5.5.2 on the proportion of women in managerial positions. UNCTAD research indicates that 99 per cent of large companies worldwide report on the number of women board members.
- D.1.3: board members divided by age range. This indicator is relevant to Sustainable Development Goal target 16.7 to ensure responsive, inclusive, participatory and representative decision-making at all levels. This indicator requires data on the proportion of positions in public institutions (Inter-Agency and Expert Group on Sustainable Development Goal indicator 16.7.1), but could also be relevant to companies. UNCTAD research indicates that 77 per cent of large companies worldwide report on age diversity and indicate the number of board members.
- D.1.4: existence of audit committee, number of meetings and attendance rate. UNCTAD research indicates that 97 per cent of large companies worldwide report on their audit committees and 74 per cent, on the number of audit committee meetings. One expert suggested that the number of meetings should not be reflected in this indicator.
- D.1.5: compensation total and compensation per board member and executive.

The principles of corporate governance of the Group of 20 and Organization for Economic Cooperation and Development include information about board member and executive remuneration as a concern for shareholders. Of particular interest is the link between remuneration and long-term company performance. Companies are generally expected to disclose information on the remuneration of board members and key executives, in order to enable investors to assess the costs and benefits of remuneration plans and contribution of incentive schemes, such as stock option schemes, to the company.

Indicator D.2: Donations

This indicator is relevant to many of the Sustainable Development Goals, depending on the purposes and needs of the target audience. For donations to be comparable across companies, donations should be grouped according to whether or not they are related to the Goals. UNCTAD research indicates that 89 per cent of large companies worldwide report on this indicator and that unspecified donations are a common corporate disclosure. Under the G4 sustainability reporting guidelines, performance indicator SO1 on local communities encourages reporting on the percentage of operations with implemented local community engagement, impact assessments and development programmes.

Indicator D.3: Anti-corruption

This indicator, on the number of convictions for violations of corruption-related legislation or regulation

[31] See http://www.oecd-ilibrary.org/governance/g20-oecd-principles-of-corporate-governance-2015_9789264236882-en (accessed 8 June 2017).

[32] See http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32014H0208 (accessed 8 June 2017).

[33] See http://www.sasb.org/standards-navigator (accessed 8 June 2017).

and amount of fines paid or payable, is suggested based on *Guidance on Corporate Responsibility Indicators in Annual Reports*, and is relevant to Inter-Agency and Expert Group on Sustainable Development Goal indicator 16.5.1* on the percentage of persons who had at least one contact with a public official, paid a bribe to a public official or were asked for a bribe by a public official, in the previous 12 months, disaggregated by age group, gender, region and population group (pending review by the Expert Group). UNCTAD research indicates that 23 per cent of large companies worldwide report on the number of employees trained in anti-corruption or money laundering; 17 per cent, on the number of cases processed through a whistle-blowing system; 16 per cent, on the number of anti-corruption audits; 11 per cent, on the number of anti-corruption cases; and 9 per cent, on the number of fraud cases. Under the G4 sustainability reporting guidelines, anti-corruption disclosures are required under performance indicators SO3, SO4 and SO5. In particular, the latter requires the disclosure of the total number and nature of confirmed incidents of corruption, incidents in which employees were dismissed or disciplined for corruption and incidents in which contracts with business partners were terminated or not renewed due to violations related to corruption, as well as the number of public legal cases regarding corruption brought against a company or its employees and their outcomes. The consultative group noted that impacts on the prevention of corruption remained unclear, although companies often measured the number of employees trained or hours of training in anti-corruption policies. Other issues discussed included universality of governance indicators, in particular applicability to non-listed companies and SMEs.

E. Conclusion: The way forward

Corporate reporting can provide an essential contribution to monitoring the implementation of the 2030 Agenda for Sustainable Development. Information on sustainability issues has the potential to enhance investment decisions, inform policymaking at the national and international levels, and align the expectations of both companies and civil society in the pursuit of sustainable development. The Sustainable Development Goals pose additional challenges and underscore the need for harmonization, comparability and integration of sustainability reporting indicators into company reporting.

As with most sustainability reporting initiatives, such indicators are primarily focused on listed or large private companies. Additional work may be necessary with regard to the specific challenges in Goals-related reporting by public sector companies and SMEs, as well as the capacity-building needs of developing countries or countries with economies in transition. Further guidance and consensus-building is necessary to select and implement core indicators for the Goals that can meet the common needs of key stakeholders.

Experts at the thirty-third session of ISAR agreed that a more in-depth discussion of the proposed indicators would take place in 2017. As set out in the agreed conclusions of the meeting, the thirty-fourth session of ISAR would include an agenda item entitled “Enhancing the role of reporting in attaining the Sustainable Development Goals: Selection of core indicators for company reporting on the contribution towards the attainment of the Sustainable Development Goals”. Furthermore, the UNCTAD secretariat and its ISAR network of experts would during the intersessional period convene another meeting of its Consultative Group on Sustainable Development Goals Reporting to prepare for the forthcoming ISAR session. The objective of these meetings would be to facilitate the harmonization of sustainability reporting, with a view to developing a guiding document to assist members States in their efforts to enhance the role of accounting in the Sustainable Development Goals monitoring mechanism.

Experts noted that global forums such as ISAR played a central role in facilitating discussion, cooperation and consensus-building among different corporate reporting stakeholders, including policymakers, accounting standard-setting bodies, preparers and users of financial and sustainability information, statistical bodies and development agencies.

Experts at the thirty-third session of ISAR agreed that the 2030 Agenda for Sustainable Development and its monitoring framework could play an enabling role in fostering an integrated approach to corporate reporting. This approach had an important role to play in improving and harmonizing sustainability reporting, in enhancing its usefulness for decision-making, and in assessing the private sector contribution towards the achievement of the Sustainable Development Goals.

CHAPTER II

MONITORING OF COMPLIANCE AND ENFORCEMENT: CASE STUDY OF SINGAPORE

This chapter presents a case study conducted in Singapore on compliance monitoring and enforcement mechanisms in relation to corporate reporting.[34] Section A provides an overview of the economic setting and general corporate reporting environment of the country. Section B contains a discussion on financial reporting enforcement and the roles of country supervisory bodies as part of the Financial Reporting Surveillance Programme. This is followed by a presentation in Section C of compliance monitoring enforcement systems pertaining to auditing and a presentation in Section D of systems for monitoring of the accountancy profession in Singapore. A summary, conclusions and lessons learned are contained in Section E.

A. BACKGROUND

General economic setting of Singapore

Singapore is situated at the southern tip of the Malay Peninsula in South-East Asia, between Malaysia and Indonesia. With a population of approximately 5.5 million, Singapore reported a GDP of S$402 billion, and per capita GDP of S$72,711 in 2015.[35]

A stable investment climate and political environment has been successful in attracting foreign direct investment from global investors and institutions over the years. According to recent research by the Economist Intelligence Unit and the World Economic Forum, Singapore has great investment potential and ranks highly among global economies on competitiveness in the world.[36]

Singapore Exchange, headquartered in Singapore, facilitates the exchange of capital and ideas to create value for people, businesses and economies. It is a multi-asset exchange operating equity, trading with the highest regulatory standards in the fixed-income and derivatives markets. As a vertically integrated business, the company provides listing, trading, clearing, settlement, depository and data services. The company is globally recognized for its strong risk management and clearing capabilities.[37] Singapore Exchange has two boards – Mainboard and Catalist – for the listing of equities of companies, comprising the needs of both established and fast-growing enterprises.

Government and regulatory bodies

The Ministry of Finance ensures the Government's fiscal sustainability in medium- to long-term plans, manages the country's reserves to balance its present and future financial needs and maintains international standards and best practices in areas such as company law, accounting standards and corporate governance principles.[38]

The Accounting and Corporate Regulatory Authority (ACRA) is the national regulator of business entities, public accountants and corporate service providers in Singapore. The Authority's goal is to make good corporate governance, quality corporate financial reporting and high-quality audit the hallmarks of Singaporean financial and corporate sectors.[39] ACRA advocates further strengthening of independent audit

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[34] This case study was prepared for UNCTAD by ISCA, with contributions from the following Singapore entities: Ministry of Finance, Accounting and Corporate Regulatory Authority, Singapore Exchange, Singapore Accountancy Commission and Accounting Standards Council.

[35] See http://www.singstat.gov.sg/statistics/latest-data#1 (accessed 9 June 2017).

[36] The Economist Intelligence Unit, 2014, Business environment rankings: Which country is best to do business in? Available at http://www.iberglobal.com/files/business_climate_eiu.pdf; World Economic Forum, 2015, *The Global Competitiveness Report 2015–2016* (Geneva), available at http://www3.weforum.org/docs/gcr/2015-2016/Global_Competitiveness_Report_2015-2016.pdf (accessed 22 August 2017).

[37] See http://www.sgx.com/wps/portal/sgxweb/home/about_us/overview/corporate (accessed 9 June 2017).

[38] See http://www.mof.gov.sg/About-Us/Our-Mission (accessed 9 June 2017).

[39] See https://www.acra.gov.sg/about_Acra/ (accessed 10 July 2016).

oversight in the region to benefit capital markets in the Association of Southeast Asian Nations (ASEAN) and inspire greater investor confidence.[40] With a view to fostering closer collaboration among regulators to raise audit quality standards, ACRA is actively involved in international audit regulator platforms, such as the International Forum of Independent Audit Regulators and the ASEAN Audit Regulators Group.

The ASEAN Audit Regulators Group complements the Forum's efforts to promote audit quality and assists other economies in the ASEAN region that are looking to institute independent audit regulation and promote greater awareness of the Forum and its activities. The Audit Regulators Group also invites non-members to participate in its events, such as inspection workshops and meetings.

The Accounting Standards Council ensures consistency in accounting standards, facilitating the comparison of financial statements between different entities and enhancing the credibility and transparency of financial reporting.[41]

The Singapore Accountancy Commission works closely with other public sector organizations that have regulatory and standard-setting roles, within the accountancy and finance sectors. The Commission promotes, facilitates and assists in the growth and development of the accountancy sector and its related fields in Singapore.[42]

Professional accountancy organization

ISCA is the national accountancy body of Singapore. The Institute's vision is to be a globally recognized professional accountancy body, bringing value to its members, the profession and wider community. There are over 30,000 ISCA members in businesses across industries in Singapore and elsewhere. The Institute has four types of membership:

- Affiliate (ISCA) (Accredited Accounting Technician (Singapore)).
- Associate (ISCA).
- Chartered Accountant of Singapore.
- Fellow Chartered Accountant of Singapore.

Established in 1963, the Institute is an advocate for the accountancy profession. It leverages its regional expertise, knowledge and networks with diverse stakeholders to contribute towards the transformation of Singapore into a global accountancy hub. The Institute is an associate member of Chartered Accountants Worldwide – supporting, developing and promoting over 620,000 chartered accountants in more than 200 countries around the world. The Institute is governed by a council, which oversees and guides the strategies to further its goal to become a globally recognized accountancy body. The Institute's income comes mainly from annual membership and admission fees, continuing professional education and other training courses.

Professional accountancy firms

Among the key players of the accountancy sector in Singapore are "Big Four" global accountancy firms, namely Deloitte, Ernst and Young, KPMG and PricewaterhouseCoopers. These firms audit about 60 per cent of the 774 companies listed on the Singapore Exchange, which represents about 64 per cent of a total market capitalization of $997 billion.[43]

Small and medium-sized practices, which employ from 20 to 650 people, also play a critical role in the country's accountancy sector. Many are home-grown firms that also serve as a local (Singapore) and/or regional office for other major global accountancy networks, such as Baker Tilly International, BDO and RSM.

The public practice segment44 employs more than 11,000 workers, most of whom perform jobs requiring professional skills. The number of public accountants has risen 36 per cent in the last decade, from 790 in 2007 to 1,076 in 2016.[45] Under the Accountants Act, anyone who wishes to practise public accountancy

[40] ACRA, 2015a, Transparency and disclosure: Practice Monitoring Programme, Ninth public report, available at https://www.acra.gov.sg/uploadedFiles/Content/Publications/Reports/2015%20PMP%20Public%20Report.pdf (accessed 9 June 2017).

[41] See http://www.asc.gov.sg/AboutUs (accessed 9 June 2017).

[42] See Committee to Develop the Accountancy Sector (CDAS) Report, available at https://www.sac.gov.sg/sites/default/files/CDAS-FinalReport-12Apr10.pdf (accessed 8 July 2016).

[43] Ibid.

[44] This segment includes public accountants who provide audit and assurance services and sign off audited financial statements – regulated by ACRA – as well as other non-audit related services such as basic accounting services, tax preparations, corporate advisory services and consultancy services.

[45] ACRA, 2016a, Practice Monitoring Programme: A decade-long journey in enhancing audit quality, Tenth public report 2016, available at https://www.acra.gov.sg/uploadedFiles/

must register with ACRA and become a member ISCA. The corporate segment[46] employs around 37,000 workers.[47]

Applicable standards for corporate reporting in Singapore

Standards in accounting

The Accounting Standards Council is empowered under the Accounting Standards Act to prescribe accounting standards for use by companies, charities, cooperative societies and societies. Accounting standards are developed in the public interest in support of the corporate governance and financial reporting framework of Singapore. The accounting standard-setting process must be robust and credible to promote public confidence in the standards developed as part of this process.

The broad policy intention is to adopt IFRS issued by the International Accounting Standards Board, subject to a local endorsement process. Convergence with international accounting standards would achieve greater transparency and comparability of financial information among companies and help lower compliance costs for companies investing in Singapore, as well as local companies moving overseas. The Accounting Standards Council announced that Singapore-incorporated companies listed on the Singapore Exchange would apply a new financial reporting framework identical to IFRS with effect on 1 January 2018.

While the Accounting Standards Council closely follows the introduction of new IFRS for possible adoption in Singapore, it will also take into account the local economic and business circumstances and context, as well as the entity to which IFRS would apply to, and adapt IFRS for use in Singapore, as appropriate.

The Accounting Standards Council states that it is useful to maintain good communication with the International Accounting Standards Board, by proactively presenting views relating to local specific issues on the Board's projects for the Board's consideration. These include participation in standard-setters meetings, reviewing and commenting on relevant research and improvement projects of the Board and working with its liaison representatives.

In 2016, the Singapore Exchange announced plans to make sustainability reporting mandatory on a comply-or-explain basis for listed companies by 2017 to meet the growing interest in sustainability from shareholders and potential investors worldwide. At the same time, the growing prominence of integrated reporting throughout the world cannot be ignored. ISCA set up a corporate-reporting committee to address the presentation and disclosure aspects in a holistic manner. The committee will provide a concerted focus to bringing different facets of corporate reporting together and promoting good practices in Singapore. This will enable ISCA to better support the needs of its members and the wider business community.

Standards in auditing

Singapore adopts the international auditing and assurance standards issued by the International Auditing and Assurance Standards Board. ACRA is responsible for the control and regulation of the public accounting profession in Singapore. The Public Accountants Oversight Committee is responsible for assisting ACRA in the discharge of this duty, and this includes a responsibility to assist the latter in determining, prescribing and reviewing the standards, methods and procedures to be applied by public accountants when providing public accountancy services, which includes the audit of and reporting on financial statements. In undertaking this function, ACRA adopts the audit standards issued by ISCA and in turn oversees the process followed by ISCA in developing and issuing audit standards.

Code of Corporate Governance

The Code of Corporate Governance came under the purview of the Monetary Authority of Singapore and the Singapore Exchange effective 1 September 2007 and was revised on 2 May 2012. The Code focuses on providing principles and guidelines to listed companies

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Content/Public_Accountants/Professional_Resources/Conference_Materials/2016/ACRA%2010th%20PMP%20Report.PDF (accessed 9 June 2017).

46 The corporate segment includes the broader population of accountants working in accounting and finance roles within businesses. These include chief financial officers, finance executives, in-house internal auditors, risk managers, business valuers and tax professionals. Their work supports the growth of companies in all industries, from manufacturing to services.

47 Singapore Accountancy Commission, 2013, *Accountancy Sector Survey 2013* (Singapore) available at https://www.sac.gov.sg/sites/default/files/ASSR.pdf (accessed 9 June 2017).

and their Boards to encourage them towards a high standard of corporate governance.[48]

B. MONITORING COMPLIANCE WITH THE FINANCIAL REPORTING FRAMEWORK, STANDARDS, AND APPLICABLE ENFORCEMENT MECHANISMS

Financial Reporting Surveillance Programme

Based on the recognition that high-quality audits alone cannot uphold good quality financial reporting, ACRA piloted the Financial Reporting Surveillance Programme in 2011, with a view to strengthening the financial reporting value chain at the source of preparation of financial statements. Under this pilot programme, reviews were carried out for financial statements of listed companies with modified audit reports.[49]

Focus on the preparation of financial statements was timely, given the local corporate culture and structural make-up. In their pursuit of growth and expansion overseas, many companies in Singapore had not invested sufficiently in internal accounting systems, processes and resources, and were unable to cope with the increased complexity and volume in accounting.[50]

The shift in regulatory focus was also a timely reminder, as some company directors appeared to be unaware of their legal duties and had the misperception that the primary responsibility to prepare quality financial statements lay with auditors, rather than companies. This observation was supported by an ACRA-commissioned survey on financial preparers conducted by the Association of Chartered Certified Accountants in 2013.

The survey showed that some 50 per cent of the respondents – chief financial officers, financial controllers and accountants – appeared to believe that the primary responsibility for the preparation of financial statements lay with auditors. In addition, views of the survey focus group held that some company officers such as directors were not fully engaged in financial reporting and that many relied on their auditors to drive the process. The lack of ownership by preparers was reinforced in a subsequent study in 2014 by the Singapore Management University in collaboration with ACRA. The auditors of 257 Singapore-listed companies proposed 3,222 adjusting entries worth S$33.9 billion for the audits of the 2013 financial year. Most of these adjusting entries were derived from factual errors or misstatements, indicating a lack of quality in the financial statements prepared by the companies before audit. This hinders an auditor's ability to conduct effective audits, which may in turn impair the reliability of audited financial statements.

Following the results of these studies, ACRA expanded the scope of the Financial Reporting Surveillance Programme in 2014 to cover public interest entities with clean audit reports. The expanded programme is aligned with the financial reporting surveillance programmes in other leading financial markets. It also addresses the concern that financial statements with clean audit reports could still contain instances of non-compliance with accounting standards,51 as revealed by ACRA's findings from inspecting auditors.[52] Furthermore, ISCA signed a memorandum of understanding with ACRA, allowing the two bodies to pool resources and expertise to raise the quality of financial reporting in Singapore.

Enforcing the financial reporting duties of directors

ACRA administers the Companies Act that applies to companies incorporated in Singapore.

The Financial Reporting Surveillance Programme enforces directors' duties in relation to financial reporting under the Companies Act. Sections 201(2) and 201(5) of the Companies Act require the directors of a company to present and bring before the company,

48 See http://www.mas.gov.sg/Regulations-and-Financial-Stability/Regulatory-and-Supervisory-Framework/Corporate-Governance/Corporate-Governance-of-Listed-Companies/Code-of-Corporate-Governance.aspx (accessed 9 June 2017).

49 Modified audit reports refer to those other than true and fair audit opinions; they are audit opinions that are qualified and include adverse opinions and disclaimers of opinion.

50 See Raising the quality bar in financial reporting: The Singapore journey, available at https://www.ifac.org/global-knowledge-gateway/viewpoints/raising-quality-bar-financial-reporting-singapore-journey (accessed 9 June 2017).

51 Accounting standards are the accounting standards issued by the Accounting Standards Council for application by companies incorporated in Singapore. They include the Singapore Financial Reporting Standards.

52 ACRA carries out the Practice Monitoring Programme to inspect the auditors' work for compliance with prescribed auditing standards. The latest annual public report is available at https://www.acra.gov.sg/publications/(accessed 9 June 2017).

at its annual general meeting, financial statements that comply with the prescribed accounting standards in Singapore and give a true and fair view of the financial position and performance of the company. The directors must fulfil both conditions in the discharge of their responsibilities under the Companies Act.

The Financial Reporting Surveillance Programme is primarily focused on compliance with accounting standards. Enquiries are made to directors when a desktop review of the financial statements indicates possible non-compliance with accounting standards. Section 31(1) of the ACRA Act (read with section 6(1)(a) of the ACRA Act and the Second Schedule to the ACRA Act) empowers ACRA to require any individual to furnish information or produce any book or document in connection with the review. ACRA may call upon an auditor of the company to assist in its queries or investigations.

Focusing on what matters to investors

The ultimate goal of the Programme is to ensure that investors are provided with reliable and meaningful financial statements for decision-making. As such, ACRA has focused its review and enquiries on areas that might have a significant impact on the key measures used by investors, such as revenue, profit and operating cash flow.

Financial statements lodged with ACRA are selected for review using a risk-based approach. Emphasis is placed on the financial statements of listed companies with the following characteristics:

- Significant public interest risks based on criteria such as market capitalization, revenue and asset size, as well as multiple employees, creditors, customers and other stakeholders.
- Operations that require significant judgement in accounting for their transactions, hence increasing the risk of misstatement.
- Industries susceptible to significant impact from adoption of new accounting standards.
- Change in listing or trading status (for example, newly listed or suspended companies) or in key stakeholders, including directors, management and auditors.
- Modified audit reports indicating potential non-compliance with accounting standards and other requirements of the Companies Act.

Because of the focus on key measures used by investors, many enquiries are made in the areas of accounting recognition and measurement, particularly in relation to complex or unusual transactions. When accounting issues are identified, ACRA analyses them, asking for detailed explanations and, where necessary, documentary evidence to support the accounting positions.

As business models and corporate strategies become increasingly complex, an appropriate accounting outcome might vary, depending on the facts and circumstances of an arrangement. Significant efforts have therefore been expended to raise specific and to-the-point enquiries so as to solicit a comprehensive response from directors. This enables ACRA to form an independent and well-informed view, rather than to accept unreservedly the judgements of directors, management and/or auditors, without having complete information.

There may be an occasional request for commercially sensitive documents such as agreements and minutes of board meetings. The information obtained is treated in the strictest confidence in accordance with the law.[53]

These documents are requested to uphold the effectiveness and integrity of the review process. There is an inherent risk for companies not to be forthcoming in providing ACRA with information that may have contradicted their existing accounting treatments. For example, in one case, a listed company omitted the provision of clauses in the agreement that contradicted its existing accounting treatment in the response to the ACRA enquiry. When ACRA identified and highlighted the omitted clauses following the review of the agreement, the listed company re-assessed its accounting treatment and restated its financial statements to recognize a profit of S$8 million in the previous year.[54]

[53] Disclosure of information is prohibited under section 34(1) of the ACRA Act.

[54] Under the Singapore Exchange Listing Manual rule 703(1), the directors of a listed company must announce restatements through SGXnet if it constitutes material information in relation to the company. In cases of severe non-compliance, companies are required to state in their published financial statements that the changes had been prompted by review under the Financial Reporting Surveillance Programme. In addition, an annual Financial Reporting Surveillance Programme report presenting the findings for the past year's review cycle, on a no-name basis, is issued. To date, two such reports have been issued.

Monitoring and enforcement

Letters of enquiry are issued to the Board of Directors to request explanations and, where necessary, supporting documents. Directors are given up to 21 calendar days to respond with a written reply for the first enquiry. All explanations are received in writing. Directors' requests for physical meetings to clarify enquiries are generally granted. Measures are taken to ensure strict confidentiality for all information provided to ACRA.

First expert opinion from the Financial Statements Review Committee of the Institute of Singapore Chartered Accountants

In order to benchmark enquiries and findings of the Financial Reporting Surveillance Programme against expert views and market practices, ACRA collaborates with the Financial Statements Review Committee to review most of the financial statements.[55] Established more than 30 years ago by ISCA, the Committee comprises more than 20 experienced audit partners from various audit firms in Singapore, with a majority from Big Four audit firms, which bring significant accounting knowledge and experience to the Programme.[56]

Measures were put in place to safeguard the confidentiality and independence of the review and deliberation processes, such as setting up small groups for discussion. More than 50 small group discussions were held in 2014 to deliberate on the enquiries and findings.

Second expert opinion from the Financial Reporting Technical Advisory Panel

When non-compliances leading to regulatory sanctions are considered complex and/or judgemental, they are referred to the Financial Reporting Technical Advisory Panel for a second independent expert opinion.

The Advisory Panel, set up by ACRA to ensure that any serious enforcement decision was not unduly prejudicial to directors, comprises senior audit partners, directors, chief financial officers, financial controllers and academia of the broader financial reporting community.

Five people are selected from the 20-member Advisory Panel to form a review group to deliberate on each case.[57] To ensure neutrality, each review group must contain three senior audit partners from different audit firms, with at least one non-auditor representative. Members must declare their independence in respect of the case before the proceedings.

ACRA retains sole discretion in deciding regulatory outcomes after considering expert opinions from the Financial Statements Review Committee of ISCA and the Advisory Panel.

In Singapore, the prescribed accounting standards are a set of principle-based accounting standards that require judgement. It is important that preparers, auditors, investors and regulators make the judgement faithfully. If two methods are appropriate to achieve the outcome while staying compliant with the accounting standards, both methods are accepted by ACRA. The judgements made should be documented in support of an honest and fair attempt to meet the principles; importantly, disclosure does not compensate for wrong accounting.

The findings are grouped initially into three categories, namely:

- Instances of severe non-compliance.
- Instances of other non-compliance.
- Areas for improvement.

All instances of non-compliance and areas for improvement are incidences where financial statements do not comply with accounting standards, differentiated by the nature and extent of the misstatements, which are assessed according to the following factors:

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[55] See ACRA, 2016b, *Working Together to Raise the Bar on Financial Reporting,* Financial Reporting Surveillance Programme, Second Report 2016, available at https://www.acra.gov.sg/uploadedFiles/Content/Publications/Reports/FRSP%20Report_2016.pdf (accessed 12 June 2017).

[56] Collaboration with ACRA is carried out on a pro bono basis. ACRA has staff to review the financial statements, primarily senior managers and directors from the Big Four accounting firms. The Committee provides an independent view on cases of non-compliance noted from the reviews. Committee members are required to declare their independence to ACRA for each case assigned to them. ACRA has an internal recusal policy to ensure that related parties (members in the same public accounting firms whose auditees are the company in review) are recused from any part of the review process for the related case.

[57] Like the Financial Statements Review Committee of ISCA, ACRA has a recusal policy to ensure that related parties (members in the same public accounting firms whose auditees are the company in review) are recused from any part of the review process for the related case.

- Quantitative factors, which would include the percentage of the following key financial line items:
    - Profit before tax.
    - Revenue.
    - Earnings per share.
    - Cash flows from operating, investing or financial activities.
    - Total assets and liabilities.
    - Net assets and net current assets.
- Qualitative factors:
    - How factual the relevant item is.
    - Whether the item resulted in a change from loss to income or vice versa.
    - Change in trends.
    - Significance of an item to the entity.
    - Whether the relevant item affects a portion of a group's business identified by a company as a significant role.
    - Compliance with the regulatory environment, loan covenants or other contractual requirements.
    - Pervasiveness of misstatement.
    - Fraudulent financial reporting.

Depending on the severity and number of cases of non-compliance, the following range of regulatory outcomes can be applied:

- Closure – when ACRA is satisfied with the explanations provided by the directors; there may be suggested areas for improvement to be considered in the preparation of the next financial year's statements.
- Advisory – when there are one or more instances of other non-compliance; does not represent a regulatory sanction. Directors are required to rectify any non-compliance in the next financial year's statements.
- Warning – when there are one or more instances of severe non-compliance. Directors may be requested to restate, re-audit and re-lodge the corrected financial statements with ACRA.
- Fine by offer of composition (such as acceptance of a fine in lieu of prosecution) –prosecution is levied on cases with instances of non-compliance that have an adverse impact on the financial statements and/or non-rectification of previous instance(s) of non-compliance.
- Prosecution leading to fines and/or imprisonment – ACRA interviews directors and takes their statements before imposing sanctions.[58]

The Companies Act, section 207, gives ACRA the right to take regulatory action against auditors for inappropriate audit opinions.[59]

C. MONITORING COMPLIANCE WITH THE AUDIT AND ASSURANCE REPORTING FRAMEWORK, STANDARDS, AND APPLICABLE ENFORCEMENT MECHANISMS

Regulatory basis

ACRA regards the Practice Monitoring Programme as an important regulatory instrument that promotes audit quality. Audit quality is the cornerstone of market confidence in the reliability of the financial information upon which the market makes decisions relating to capital allocation. The Programme provides quality assurance to the market by ascertaining whether public accountants have complied with the prescribed auditing standards, methods, procedures and other requirements. This assurance gives users of financial reports increased confidence in audit opinions. The desired regulatory outcome is for the Programme to be a constructive exercise for ACRA, the accounting profession, and the business and investor communities.

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58 Directors of listed companies who have received regulatory sanctions should also consider the implications of the Singapore Exchange Listing Manual rules. In particular, under rule 704(7) and appendix 7.4.1(k), a director who receives a warning letter from a regulatory authority must announce that fact at future appointments or re-appointments as a director of any company listed on the Exchange. Under rule 703(1), the directors of a listed company must also consider whether the regulatory sanction constitutes material information in relation to the company and, if so, an announcement should be made by the listed company.

59 See ACRA, 2015b, *Raising the Bar on Financial Reporting: Financial Reporting Surveillance Programme Inaugural Report*, chapter 2 (Singapore), available at https://www.acra.gov.sg/uploadedFiles/Content/Publications/Reports/ACRA_FRSP_A4_MR%20(A3).pdf (accessed 22 August 2017).

The Programme is administered by the Public Accountants Oversight Committee, which consists of experienced professionals from the public sector, the business community and the audit profession.

The Public Accountants Oversight Committee appoints the Practice Monitoring Subcommittee, composed of experienced public accountants, qualified professionals and a representative of the ACRA Board, to review the inspection findings raised by practice reviewers from the Practice Monitoring Programme.[60] The Public Accountants Oversight Committee appoints suitably qualified professionals as practice reviewers to carry out Practice Monitoring Programme reviews in accordance with the practice monitoring methodology and programme approved by the Committee, as shown in table 2.

[60] The role of the Practice Monitoring Subcommittee is to provide views from a technical perspective. Independence is preserved as the final deciding authority lies with the Public Accountants Oversight Committee which comprise a majority of public accountants. To prevent conflict of interest, members of the Subcommittee and the Public Accountants Oversight Committee are also recused from deliberating on cases involving public accountants from their own firms. ACRA's practice reviewers typically comprise senior managers and/ or directors with audit experience from the Big-Four audit firms.

Table 2 Process chart: Practice monitoring programme

Step 1	Step 2	Step 3
Practice reviewers appointed by the Public Accountants Oversight Committee inspect a selection of a public accountant's audits to check whether the audits have been performed in accordance with the Singapore Standards of Auditing and other requirements.	The practice reviewer's findings are reviewed by the Practice Monitoring Subcommittee, composed of experienced public accountants and lay members. The Subcommittee then reports to the Public Accountants Oversight Committee with recommended actions, if its view is that the public accountant has not complied with the Singapore Standards of Auditing and other requirements.	The Public Accountants Oversight Committee decides on the review outcome. If it concludes that the public accountant has not complied with the Singapore Standards of Auditing and other requirements, the Committee orders the public accountant to take remedial action, or issues other orders to protect the public interest.

The review process takes a consultative and iterative approach. The practice reviewers conduct on-site Practice Monitoring Programme reviews at the public accountants' offices and present their findings to the Practice Monitoring Subcommittee, which assesses the reviewers' findings; decisions are then made by the Public Accountants Oversight Committee. The public accountants under review are engaged throughout the review and deliberation process to provide clarifications, comments and views on the findings of the review.

To administer the Programme, the Public Accountants Oversight Committee adopted the Singapore standards and guidance issued by ISCA,[61] whose standards are equivalent to IFAC auditing standards and pronouncements.

Financing

ACRA has two main sources of income: statutory fees payable under the Acts administered by ACRA – including filing and registration fees for business entities – and the provision of information services related to such entities. ACRA collects registration and renewal fees from public accountants and fees for audit inspections (as prescribed under the Accountants Act). However, fees collected from public accountants form an insignificant proportion of total income. Hence, ACRA's funding is not reliant on and cannot be reasonably influenced by the audit profession.

[61] Singapore standards and guidance based on international standards and guidance include the following: Singapore Standards on Auditing, Singapore Standards on Assurance Engagements, Singapore Standards on Review Engagements, Singapore Standards on Related Services, Singapore Standards on Quality Control and Singapore Auditing Practice Notes.

Scope

ACRA's regulatory scope includes all public accountants who provide public accountancy services. For a more effective calibration of risks and efficient use of resources in ACRA's inspection activities, public accountants are broadly grouped into two categories: those practicing in firms that perform audits of listed companies (listed companies segment) and those practising in firms that perform audits of only non-listed companies (non-listed companies segment).

Due to great public interest, ACRA has direct monitoring oversight of firms and public accountants that perform audits of listed companies. In addition to detailed engagement inspections, these firms are subject to firm-level inspections on an advisory basis, entailing a review of a firm's quality controls and procedures against the requirements of Singapore Standard on Quality Control 1.

ACRA carries out annual inspections of the Big Four firms. The remaining firms in the listed companies segment that have a client portfolio of less than 10 per cent of the market capitalization of listed companies would be subject to triennial inspections, unless there are reasons for more frequent inspections.

Conducting annual inspections of the Big-Four firms is consistent with the practices of well-established audit regulator jurisdictions such as Canada, the United Kingdom of Great Britain and Northern Ireland and the United States of America. This practice has also been adopted by most of the members of the International Forum of Independent Audit Regulators, where the market dominance of these firms is similarly significant.

Inspections of firms that perform audits of non-listed companies are carried out by ISCA, with oversight by ACRA. As these firms are mostly sole proprietors who audit small and medium-sized enterprises, these public accountants are subjected to detailed engagement inspections only.

Monitoring and enforcement

The ACRA inspection programme, comprising both the firm-level and detailed engagement inspections, follows a risk-based approach. They are periodically reviewed for improvements to ensure that the inspection process remains effective, efficient and relevant. The last review exercise, carried out in late 2013 and early 2014, contains the most significant enhancements to ACRA's inspection programme since its commencement in 2005. These enhancements were aimed towards achieving three broad objectives: first, to ensure that inspections focus on risk; second, to ensure remediation of root causes that have led to audit deficiencies; third, to streamline inspection efforts in order to avoid duplication of resources.

With regard to the first objective, ACRA has moved away from cover-to-cover inspections and focuses solely on significant risk areas. This heightened focus aims to protect the public interest and differentiate the role of ACRA from that of an educator, which can be more effectively performed by professional accountancy bodies in Singapore. Furthermore, ACRA is confident that firms and public accountants will be able to remediate the less significant risk areas without direct regulatory intervention.

The second objective, in line with global efforts initiated by the International Forum of Independent Audit Regulators to target remediation at the root causes that have led to audit deficiencies, is reflected in a post-inspection root-cause analysis by ACRA into the enhanced Practice Monitoring Programme methodology.

With regard to the third objective, given the role of the Financial Reporting Surveillance Programme in monitoring non-compliance of financial statements with financial reporting standards, the Practice Monitoring Programme inspection correspondingly placed little or no emphasis on aspects relating to financial statement disclosures in detailed engagement inspections. The aim was to achieve better optimization of the use of resources and prevent the duplication of inspection efforts.

These enhancements are expected to lessen the inspection burden imposed on firms and public accountants, while ensuring that they remain rigorous and challenging in areas that matter. It will also enable better use of ACRA resources to more effectively cover risks throughout the audit market.

Company reviews

ACRA recognizes the importance of company policies and controls in promoting audit quality. For firms in the listed companies segment, the reviewers obtain an understanding of the accounting entity's system of quality control and the effectiveness of the implementation and/or compliance with company policies, in addition to engagement reviews. As part of this process, engagement reviews serve to confirm whether the individual public accountants have adhered to company policies, procedures and methodology. ACRA seeks to obtain an assessment of the state of audit quality through reviews at the company level.

Company reviews are benchmarked against Singapore Standard on Quality Control 1, which is adapted from International Standard on Quality Control 1 (ISQC 1), issued by IFAC.

During a company review, the reviewers hold a series of meetings with the managing partner and senior management team of the relevant company to discuss its policies. Following these meetings, ACRA sends a review report on the company's policies to the managing partner. The findings are reviewed and assessed separately from the findings of the engagement reviews of individual public accountants.

Engagement reviews

ACRA has formulated a risk-based selection model to rate and identify public accountants and subsequently determine the respective engagement to be inspected. The Practice Monitoring Programme selection process relies largely on the identification and assessment of risk factors relevant to public accountants or engagement. This is crucial, as it ensures that ACRA's inspections target areas where the potential risks and impact of audit failure are greatest.

The selection methodology for public accountants considers an extensive range of risk factors:

- Public accountant risk factors (such as results of prior Practice Monitoring Programme inspections and a firm's internal engagement reviews and experience levels).
- Engagement portfolio risk factors (such as portfolio concentration, size and complexity of engagements held by the public accountant).
- Firm risk factors (such as the audit firm's risk profile based on past reviews, results and robustness of the firm's internal reviews, where applicable).

To add rigour to the selection process, elements of unpredictability and thematic areas of focus, such as inspections focused on the audits of construction contracts or application of new financial reporting standards, are also considered.

The engagement selection process has been similarly enhanced to ensure that the most appropriate engagement is chosen to assess the public accountant and that it is commensurate with the risks that the audit engagement poses to external stakeholders (for example, the investing public). This process takes into account a wide range of factors, such as the size of entities in the public accountants' audit portfolio, engagements with complex accounting treatments or issues, engagements with restatements or changes in audit opinion, engagements with significant reduction in audit fees without commercial basis and complaints received about the quality of the audit performed.[62]

ACRA's risk-based approach places emphasis on key audit areas that have the highest risk of potential errors or misstatements that may affect the audit opinion. These areas are generally material in nature and generally include financial statement items or transactions with the following features:

- Require complex accounting estimates and judgement.
- Are significant or unusual.
- Are affected by significant economic, industry or accounting developments.

In addition, certain core areas are still inspected, for example fraud risk, materiality and related party transactions.

The aforementioned enhancements will enable ACRA to utilize its resources to cover more engagements and risk areas identified in greater depth, as well as to detect more effectively pervasive issues of concern across the profession.

Another key enhancement has been made in the area of reporting, whereby the scope of findings to be included in the formal inspection report has been redefined. A reportable finding is now defined as a finding in a significant risk area arising from either a deficiency in audit procedure or inappropriate professional judgement.

The change in scope aligns with the methodology shift from a cover-to-cover approach to inspection on significant risk areas only. This also implies that less

[62] Any member of the public can lodge a written complaint with ACRA (Registrar of Public Accountants) against a public accountant or public accounting entity; ACRA will consider the merits and validity of the complaint in factoring this into the engagement selection process.

severe findings such as minor deficiencies in non-significant risk areas that are unlikely to have a bearing on the inspection outcome would be excluded from the report, though these may still be verbally communicated to a public accountant.

A risk-based approach facilitates more efficient evaluation processes, as it helps audit authorities focus on the most important findings in terms of public accountant inspection and directs public accountants specific annual reports to priority remediation areas.

In addition, a draft report is provided to the public accountant prior to its completion, thus allowing the opportunity for the public accountant to confirm the factual accuracy of the case details and the other audit work performed. This approach aims to enhance transparency throughout the reporting process and minimize disagreement over facts of introduction of new evidence subsequent to the issuance of the report. This process, however, is not meant to reopen discussions arising from differences in opinions and judgement between the engagement team and the Practice Monitoring Programme inspector.

Deliberation process for engagement reviews

The findings and the public accountant's response are submitted to the Practice Monitoring Subcommittee as is, without modification.

The Subcommittee assesses the public accountant's response to the findings and, if necessary, seeks further clarification with the public accountant, before submitting a report and recommendation to the Public Accountants Oversight Committee.

The Public Accountants Oversight Committee deliberates on the report of the Practice Monitoring Subcommittee and makes the final decision as to whether a public accountant passes or fails a review and decides on appropriate consequential action to be taken. A public accountant passes the practice review if he or she has complied with the Singapore Standards on Auditing and other relevant requirements. If a public accountant has failed to comply with such standards and requirements, the Oversight Committee may order the public accountant to take remedial actions or impose sanctions, depending on the severity of non-compliance.

The main purpose of most orders of the Public Accountants Oversight Committee is to require a public accountant to improve his or her audit work in line with the Singapore Standards of Auditing and other requirements. If it is the Committee's view that it is not in the interest of the public or the public accounting profession for a public accountant to continue to practice, the Committee may refuse to renew, suspend or cancel a public accountant's registration.

Failure to pass practice monitoring programme inspection

Orders from the Committee resulting from a practice monitoring programme inspection may include the following (in ascending order of severity):

- Revisit: If the Committee finds that a public accountant has failed to comply with the Singapore Standards of Auditing and other requirements, but considers a public accountant capable of carrying out his or her duties adequately, it orders that ACRA review the public accountant again, usually within 18 months. The public accountant must have at least three of his or her audit engagements reviewed by a suitably qualified person who can mentor and advise the public accountant accordingly. This review may occur either before or after the audit has been completed and signed. The order generally applies when a public accountant fails the review for the first time and the findings are not severe.
- Hot review: If the Committee finds major instances of non-compliance with the Singapore Standards of Auditing and other requirements and determines that a public accountant needs to improve under the supervision of a suitably qualified person, the Committee orders the public accountant to have a certain number of audit engagements reviewed by another public accountant (a hot reviewer) before he or she signs the audit reports. This order usually applies to public accountants who fail their practice review for the second time or when the initial practice review findings are severe.
- Restriction and hot review: If the Committee finds more severe non-compliance with the Singapore Standards of Auditing and other requirements than a "fail with hot review" case, and considers that there is a need to protect the public interest, then in addition to ordering a hot review, the Committee can restrict a public accountant from engaging in the following activities:

- ♦ Auditing financial statements of entities required by any written law in Singapore to be audited, and other acts that are required by any written law to be performed by a public accountant.
- ♦ Auditing financial statements of all public interest entities.
- ♦ Auditing financial statements of specific industries.

A fail with restriction and hot review order usually applies to public accountants who have failed their practice review for the third time or when non-compliance is very severe.

- Suspension: if the Committee finds serious and/or repetitive instances of non-compliance and determines that it is contrary to the interest of the public or the public accounting profession for a public accountant to continue in practice, the Committee may suspend the public accountant. Such suspensions are publicly reported.
  - ♦ The suspension may not exceed two years. Upon expiry of the suspension, the public accountant can apply to reinstate his or her registration, provided that he or she fulfils certain requirements, such as continuing professional education.
- Cancellation occurs when the Committee finds non-compliance with the Singapore Standards of Auditing and other requirements to be extremely serious and/or repetitive, and when it considers that it is contrary to the interest of the public or the public accounting profession for the public accountant to continue in practice. Such cancellations are publicly reported. Trends in inspection findings are discussed in the tenth public report of the ACRA Practice Monitoring Programme (2016).[63]

Trends: New regulatory initiatives to improve audit quality

Based on its broad experience in inspection, ACRA developed and introduced an audit quality indicators disclosure framework in October 2015, comprising eight comparable quality markers that correlate closely with audit quality. The indicators are intended to encourage robust discussion about audit quality between audit committees and auditors.[64]

To further encourage public accountants to take a long-term forward approach towards improving audit quality, ACRA introduced two new regulatory initiatives that are calibrated to help specific groups of the profession.

The first initiative is targeted at public accountants practising in firms that are part of the Global Public Policy Committee networks.65 Under this initiative, ACRA seeks to trigger a 25 per cent reduction in the percentage of inspected audits of listed entity engagements with at least one finding over a four-year period (2015–2019). This mirrors the initiative driven by the Global Audit Quality Working Group of the International Forum of Independent Audit Regulators.

The second initiative focuses on public accountants that have not shown significant improvement, despite repeated findings of poor audit quality. From inspections commencing on or after 1 April 2017, the names of public accountants imposed with hot review or restriction orders on revisit inspections will be published on the ACRA website. This is an expansion of the current regime, which already publicizes the names of public accountants under suspension or cancellation orders. This initiative aims to motivate public accountants to develop sound remediation plans and actively pursue initiatives to improve the quality of their audits before their next inspections.

D. MONITORING COMPLIANCE WITH CODES OF PROFESSIONAL CONDUCT AND OTHER APPLICABLE MEMBERSHIP REQUIREMENTS AND RELATED ENFORCEMENT MECHANISMS

Regulatory basis: Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities

The Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities was

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63 ACRA, 2016a.

64 See audit quality indicators disclosure framework, available at https://www.acra.gov.sg/AQI_framework.aspx (accessed 12 June 2017).

65 The Singapore audit firms that are part of these networks are BDO, Deloitte, EY, Grant Thornton, KPMG and PwC. However, as at 31 March 2016, Grant Thornton no longer performs audits of listed companies and will therefore be part of this initiative from the perspective of Singapore when it starts to audit listed companies.

strengthened in February 2015. As a profession that serves the public interest, it is crucial that public accountants remain a profession characterized by integrity and independence; furthermore, it should serve as a valued and trusted source of information and advice. In an era of economic volatility and rapidly evolving corporate landscapes, the Code is a vital set of guiding principles for public accountants to rely upon and enable them to make appropriate decisions when faced with conflicting choices between economic interests and ethical considerations.

The current Code is largely based on the 2006 Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants, with some modifications and additional provisions for Singapore public accountants, known as "SG provisions".[66] It also specifies the setting up of safeguards to help public accountants avoid situations that could result in ethical dilemmas.[67] ISCA establishes standards and guidance on professional ethics that are issued as ethics pronouncements. These pronouncements set out high-quality ethical standards, including the fundamental principles of ethics, for professional accountants. To date, ISCA has issued EP 100 Code of Professional Conduct and Ethics (2015) and EP 200 Anti-money Laundering and Countering the Financing of Terrorism (2014).[68]

Process for assessing misconduct and disciplinary action

ISCA members shall be liable for disciplinary action if it is alleged that they are guilty of misconduct or have contravened any of rules or by-laws made pursuant to the Constitution or the Code of Professional Conduct and Ethics under the Institute's rules. The Code provides that members shall conduct themselves in a manner consistent with the good reputation of the accountancy profession and refrain from any act or default that is likely to bring discredit to the profession.

[66] SG provisions are pre-fixed with "SG" in the Code.

[67] See ACRA, 2014, ACRA strengthens Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities, available at https://www.acra.gov.sg/uploadedFiles/Content/News_and_Events/Press_releases/PR_2014_10.pdf (accessed 12 June 2017).

[68] See ISCA, 2017, Ethics pronouncements and implementation guidances, available at http://isca.org.sg/ethics/ethics-pronouncements-and-implementation-guidances/ (accessed 13 June 2017).

ACRA is responsible for the registration of public accountants, control and regulation of the practice of the profession of accountancy by public accountants, accounting corporations, accounting firms and accounting limited liability partnerships.[69] ISCA does not have jurisdiction over accounting firms or entities.

Investigation and disciplinary panel

The ISCA Council appoints a panel known as the investigation and disciplinary panel, with no fewer than 30 panellists, comprising members and lay persons (such as architects, advocates and solicitors, physicians and professional engineers). Panel members serve a two-year term. To ensure its independence, no serving ISCA Council members are appointed to the panel and, if any member of the panel becomes a Council member, his or her appointment to the panel ceases immediately.

The respective ISCA investigation, disciplinary and appeals committees are selected from this panel. The investigation committee investigates any complaints and determines whether there is a prima facie case for referral to the disciplinary committee for formal enquiry. The disciplinary committee hears complaints and metes out sanctions as appropriate. The appeals committee considers any appeals by the member concerned against decisions of the disciplinary committee.

ISCA carries out a conflict check to confirm with the panel members to be appointed that they are independent of any members under investigation and complainants before a formal appointment is made to the relevant committee. Members appointed to the investigation committee, disciplinary committee or appeals committee must sign a letter of undertaking not to disclose any information obtained in the course of their appointment to the respective committee to any third party except where required to by law.

In line with the principle of independence, investigation committee members shall not be members of either of the other two committees in respect of the same case or complaint.

The respective committee may appoint a legal adviser to guide them on all matters of law at each stage of the process.

[69] See Accra, 2017, Lodging a complaint against public accountants or public accounting entities, available at https://www.acra.gov.sg/components/wireframes/howToGuides-Chapters.aspx?pageid=1303 (accessed 13 June 2017).

Overview of complaint process

The complaint process is as follows:

Upon receipt of a written complaint with supporting documentary evidence, the ISCA chief executive officer appoints an investigation committee to investigate the complaint in order to determine whether there is a prima facie case for it to be referred to the disciplinary committee. The investigation committee decides whether the complaint should be supported by a statutory declaration. The investigation committee may require the member concerned or the complainant to answer any question in writing or furnish any documents or information that it considers relevant to the investigation within 14 days of the date of request. If the investigation committee makes a finding that there is a prima facie case against the member concerned, it frames the relevant allegations and brings the complaint, facts or matter before the disciplinary committee. Otherwise, the investigation committee dismisses the complaint.

The member concerned is given at least 14 days' notice of the date, time and place of the formal hearing by the disciplinary committee and is entitled to be represented by an advocate and solicitor or an accountant as he or she may wish, and to call witnesses.

If a member fails to furnish a sufficient and satisfactory reply in writing or fails if requested to attend and/or provide such explanation and/or produce material as required, then such failure shall be deemed to be professional misconduct, and the member shall be liable to be dealt with by the disciplinary committee. Upon conclusion of its enquiry, the committee may make any of the following orders:

- Removal or suspension from membership.
- A fine not exceeding $5,000.
- Censure.
- Member to complete any professional development course at his or her own expense.
- Member to obtain advice or professional assistance from such source as the disciplinary committee thinks appropriate.
- No further action, or where the member is a public accountant, the finding be referred to ACRA with the recommendation that the member's registration be suspended or cancelled.
- Any other order that the disciplinary committee considers appropriate.

Appeals against a decision of the disciplinary committee must be made to ISCA within 28 days of the decision, and only on the following grounds:

- Where the disciplinary committee has erred in law, interpretation of rules or applicable regulations.
- Where significant fresh evidence is available.
- Where there is failure of the disciplinary committee to follow procedures.
- If the order is excessive, for example, exclusion or suspension.

The appeals committee may affirm, vary or rescind the order of the disciplinary committee and may substitute for any order of the disciplinary committee or orders (on such terms and conditions, if any, as it deems appropriate) that the disciplinary committee might have made on the formal complaint; or may, if the appeals committee considers it appropriate, order that the complaint be heard anew by a differently constituted disciplinary committee.

The decision of the disciplinary committee or appeals committee may be published on the ISCA website and official journal, as the Council may direct. Some 20 such decisions have been handed down since 2012.

Continuing professional education

In line with International Education Standard 7 (continuing professional development (redrafted)), issued by IFAC, ISCA members are required to undergo continuing professional education to maintain an adequate level of professional knowledge and skill to enable them to carry out their work competently and professionally.

All chartered accountants of Singapore, including fellows, must complete at least 120 continuing professional education hours per triennium, of which there should be at least 20 verifiable continuing professional education hours per year, including two verifiable hours of ethics.[70] Chartered accountants (Singapore) who are public accountants are also required to comply with the continuing professional

[70] A learning activity can be considered as verifiable if it is relevant to a member's work, has a clear set of learning objectives that translates into professional and/or capability development and can be supported by an evidence of

education requirements prescribed by ACRA in respect of the application or renewal of the certificate for registration as public accountants.[71]

The monitoring of compliance with continuing professional education requirements covers all members who are chartered accountants of Singapore, including fellows. All such members are required to declare their compliance annually upon renewing their ISCA membership. The annual monitoring process, conducted by ISCA staff, includes reviewing members' annual declarations and auditing a sample of members for compliance with continuing professional education requirements. The audit findings are presented to the Membership Committee and ISCA Council. This exercise aims to create greater awareness of such requirements and identify ways to support members in their continuous learning and development.

There are three possible audit outcomes for each member: compliance, insufficient hours and non-compliance. For cases of insufficient hours or non-compliance, an extension of up to six months may be granted for a member to comply with the prescribed continuing professional education requirements. After the extension period, the portfolio is audited again. If a portfolio is deemed to be non-compliant after the second audit, it may result in non-renewal of membership. For cases where there are concerns about false declaration, a report may be submitted to the Council or investigation committee on grounds of professional misconduct. This may result in non-renewal of membership.

E. CONCLUSION: LESSONS LEARNED AND FUTURE PROSPECTS

The establishment of a solid framework to monitor compliance and enforcement has helped Singapore achieve a transparent and stable business environment, thereby laying a foundation for economic growth and development. The country's experience underlines two essential elements in implementing a high-quality system for the monitoring of compliance and enforcement: coordination between the accounting and audit profession, relevant government authorities and companies in devising a regulatory framework; and coherence between commitments to international standards and codes and the resources allocated for the monitoring of compliance and enforcement at the national level.

Furthermore, the experience of Singapore in articulating stakeholders, standards and resources may provide relevant policymaking options for countries seeking to achieve a high-quality corporate reporting environment. In particular, the following lessons learned can be useful to other countries:

- Strong regulatory frameworks and high standards of corporate governance can provide countries with a competitive economic advantage.
- Relevant government authorities, agencies and national accountancy bodies working in coordination can achieve synergies and identify opportunities for resources sharing, which reduces duplication of efforts.
- A collaborative approach between regulators, professionals and other relevant stakeholders is key to enhancing market confidence and addressing the concerns of the private sector in volatile economic contexts.

participation. Examples of verifiable continuing professional education include attendance at training courses, seminars, conferences, or services rendered while serving on technical committees, where technical material is prepared or reviewed by a member.

71 An applicant for registration as a public accountant must acquire at least 40 hours of continuing professional education in the 12 months immediately preceding the date of application, of which at least 30 hours must be structured learning. For more information on ACRA continuing education requirements, see https://www.acra.gov.sg/components/wireframes/howToGuidesChapters.aspx?pageid=1676 (accessed 13 June 2017).

CHAPTER III

INTERNATIONAL AUDIT AND ASSURANCE REQUIREMENTS AND GOOD PRACTICES ON THEIR IMPLEMENTATION: A REGIONAL CASE STUDY OF THE EUROPEAN UNION FOCUSING ON IRELAND, PORTUGAL AND SWEDEN

This chapter provides an overview of institutional aspects and good practices regarding the implementation of International Standards on Auditing within the European Union.[72] Section A presents the legislative framework regulating statutory auditing in the European Union, and sections B, C and D provide case studies of the regulatory and institutional setting of three selected Member States of the European Union: Ireland, Portugal and Sweden.[73] These countries have been selected to provide examples from countries with different legal and cultural backgrounds.[74] Each country has taken a different approach to the implementation of International Standards on Auditing. Section E discusses the institutional aspects of implementing International Standards on Auditing in the European Union, and section F provides the conclusion.

A. BACKGROUND

In recent decades, audit practitioners, standard-setters and regulators have taken noteworthy steps to enhance confidence in the quality of financial statement audits. Audit harmonization initiatives have sought to promote consistency across countries in terms of what auditors should do and what users of financial statements should expect from audits.[75] Nevertheless, efforts to harmonize audit practices across the globe and facilitate their convergence face challenges posed by cultural, social, political, legal and economic factors.[76]

Importance of auditing and assurance standards (International Standards on Auditing) in the corporate financial and non-financial reporting supply chain

Regulators and policymakers consider auditing to be a key contributor to financial stability. Its robustness and fit-for-purpose characteristics are deemed important to establish trust and market confidence.[77] The term "audit quality" is often used in stakeholder discussions; communications of regulators, standard-setters, audit firms and others; and research and policy settings. Audit quality is, however, a complex subject, and no audit quality framework has achieved

72 This case study was prepared for UNCTAD by Amanda Sonnerfeldt, Lund University, Sweden; and Caroline Aggestam, Copenhagen Business School, Denmark. UNCTAD also acknowledges with appreciation the work of reviewers Oscar Figueiredo, Ordem dos Revisores Oficiais de Contas, Portugal; Susana Jorge, University of Coimbra, Portugal; Karin Jonnergård, Lund University, Sweden; and Pierce Kent, University College Dublin, Ireland.

73 Ireland joined the European Community, now the European Union, in 1973. Portugal joined the European Community in 1986. Sweden gained accession into the European Union in 1994; the Act concerning Sweden's accession to the European Union (1994:1500) binds Sweden to the treaties and other sources of law enacted prior to the accession. The relevant secondary legislation of the European Union had been transposed into Swedish law in an effort to harmonize reporting and auditing in the European Union.

74 J Gibson and G Caldeira, 1996, The legal cultures of Europe, *Law and Society Review*, 30(1):55–85, available at http://www.jstor.org/stable/pdf/3054034.pdf?refreqid=excelsior%3A408f2e5749f3ea77c21d428974db0605 (accessed 10 August 2017). Common law is predominant in Anglo-Saxon countries such as Ireland, and codified law is applied in many European continental countries such as Portugal. These two systems differ in the legal thinking and manner of making court decisions.

75 See Institute of Chartered Accountants in England and Wales, 2010, (draft) Audit quality: Challenges for international consistency, available at http://www.icaew.com/en/technical/audit-and-assurance/audit-quality-forumaqf/~/media/44d1447de9ec4bc48142ee59144fdd1e.ashx (accessed 15 August 2017).

76 Differences in the effectiveness of countries' legal structure and national regulation have an impact on auditor liability, and accounting rules also adversely impair the harmonization process. See, for example, S Bode, The problems of international auditing harmonization, 2007, seminar paper, University of Glamorgan.

77 The objective of an audit is to enhance the confidence of intended users in the reliability of information provided in a financial statement. This is done by auditors collecting sufficient appropriate audit evidence to enable an auditor to express an opinion as to whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework, for example International Financial Reporting Standards.

universal acceptance.[78] The International Auditing and Assurance Standards Board of IFAC has developed International Standards on Auditing and International Standards on Assurance Engagements (ISAEs) to guide members performing audit and assurance services on financial and information other than historical financial information, respectively. It has also published the International Standards on Quality Control (ISQCs) to provide guidance on a firm's responsibilities for its system of quality control in the performance of the aforementioned services.

Legal and regulatory aspects of implementation of International Standards on Auditing within the European Union

The European Union is an economic and political partnership founded on treaties, agreed upon by 28 Member States.[79] Auditing falls under the ambit of internal market policy, where the European Union shares legislative competence with Member States. This gives the European Union a legal mandate to regulate in this area in accordance to the principles of subsidiarity and proportionality.[80]

The first set of acts governing financial reporting and auditing were the Fourth Council Directive (78/660/EEC) and Seventh Council Directive (83/349/EEC) requiring companies within the scope of the Directive to have their annual and consolidated accounts audited by one or more persons authorized by national law to audit accounts.[81] The Eighth Council Directive (84/253/EEC) provided for the approval of persons responsible for carrying out the statutory audits of financial statements.[82]

In 1996, the Commission published a Green Paper entitled "The role, the position and the liability of the statutory auditor within the European Union". The reform was driven by a need for greater harmonization in light of the developments in the international capital markets and to facilitate the functioning of the internal market. The urgency to restore confidence in capital market due to the various accounting scandals at the start of the millennium and the audit legislative developments in the United States further catalysed legislative efforts. Directive 2006/43/EC, commonly known as the Statutory Audit Directive, was issued to provide a comprehensive piece of European legislation comprising sufficiently clear principles with the objective of enhancing and restoring credibility, reliability and comparability of firms' financial statements. It also strengthened key requirements in independence and quality assurance. Article 26 of the Directive provides that the Commission may decide on the applicability of international auditing standards at the European Union level, given the following conditions: that the standards were developed with proper due process, public oversight and transparency; that the standard is generally accepted, contributing to a high level of credibility and quality to annual and consolidated accounts; and that it is conducive to the European public good. Until that delegated authority is exercised, Member States may apply national auditing standards.

The European Commission embarked on a second audit reform in the aftermath of the 2007 global financial crisis. The reform resulted in the publication of two legislative acts that entered into force on 17 June 2014: Regulation (EU) 537/2014, providing specific rules to the statutory audits of public interest entities and Directive 2014/56/EU amending Directive 2006/43/EC. The new legislative package has been applicable since 17 June 2016. In addition, the general requirement of audit has been provided for in Directive 2013/34/EU in order to enhance investors' understanding of an audit.

Auditors are required to express an opinion on the consistency between the management report of consolidated accounts with the financial statements for the same financial year, on the compliance of the management report with legislation and issue a statement on any identified misstatements. The statement should include the nature of such misstatements in the management report in the light of the knowledge and understanding of the undertaking and its environment obtained in the course of the audit.

[78] See WR Knechel, GV Krishnan, M Pevzner, LB Shefchik and UK Velury, 2013, Audit quality: Insights from the academic literature, *Auditing: A Journal of Practice and Theory*, *32* (No. Supplement 1):385–421.

[79] The treaties specify the goals and competence of the European Union, rules governing the European Union institutions and the relationship between the European Union and its Member States. Based on the rule of law, European Union institutions act according to the powers conferred to it by Member States in law making.

[80] See Treaty on European Union, articles 3 and 5, and Treaty on the Functioning of the European Union, articles 4, 288, 289, 293 and 294.

[81] References to the importance of the harmonization of company law had appeared previously in the Rome Treaty (1958), although there were no provisions specific to audit harmonization.

[82] Directives 78/660/EEC, 83/349/EEC and 84/253/EEC have been repealed.

The new legislative acts empower the European Commission to adopt, by delegated acts, international auditing standards on audit practice, independence and internal quality controls, provided the above conditions are met and that it does not conflict with any of the requirements of Directive 2014/56/EU. The Commission has not exercised its delegated powers to adopt the International Standards on Auditing. However, the legislative process suggests a stronger commitment on the part of the European Union to work towards the adoption of international standards. Directive 2014/56/EU, article 26(2), specifies that international auditing standards refer to International Standards on Auditing, ISQC 1 and other related standards issued by the International Auditing and Assurance Standards Board, insofar that they are relevant to the statutory audit. Two additional options were provided to Member States relating to international auditing standards. First, Member States may impose additional requirements due to national legal requirements but only to the extent necessary to increase the credibility and quality of financial statements. Second, Member States are given discretion on the proportionate application of the auditing standards to the statutory audit of small undertakings.

Public sector audit: The role of the European Court of Auditors

The European Court of Auditors is the independent external auditor of the European Union. The Court sees to the interests of taxpayers in the European Union. It does not have legal powers, but works to improve the European Commission's management of the overall budget of the European Union and reports on its finances. Each Member State of the European Union has one representative at the Court, which is independent of the institutions and bodies it audits. It is thus free to decide on what it will audit, how to carry it out and how and when to present its findings.

The Court carries out audits of European Union budgets and policies, primarily in areas relating to growth and jobs, added value, public finances, the environment and climate action.[83] In that capacity, it produces an annual report for the European Parliament and the Council of the European Union that is examined by the Parliament before deciding whether to approve the Commission's handling of the European Union budget. The annual activity report of the Court provides an overview of its key results and achievements during the year, as well as the main developments in its audit environment and internal organization.[84] It also carries out the following tasks:

- Conducts audits of European Union revenue and expenditure to verify whether European Union funds are correctly raised and spent, if they achieve value for money and are accounted for.
- Carries out checks on any person or organization handling European Union funds, including spot checks in European Union institutions (especially the European Commission) as well as European Union countries and countries receiving European Union aid, by writing up findings and recommendations in audit reports, for the European Commission and national Governments.
- Provides expert opinion to European Union policymakers on how European Union finances could be better managed and made more accountable to citizens.[85]

Publications of the European Court of Auditors include annual reports, specific annual reports, special reports, opinions and position papers. Like other supreme audit institutions, the Court carries out three different types of audit: financial, compliance and performance audits. Its audits are performed in accordance with the International Auditing Standards and Codes of Ethics of IFAC and the International Organization of Supreme Audit Institutions, insofar as these are applicable in the European Community context.[86]

Suspected fraud, corruption or other illegal activities are reported to the European Anti-Fraud Office.

Trends in the implementation of International Standards on Auditing in European Union countries

In 2015, 25 European Union Member States voluntarily adopted International Standards on Auditing in full or

[83] The work programme of the Court is available at http://www.eca.europa.eu/en/Pages/WorkProgramme.aspx (accessed 14 June 2017).

[84] See http://www.eca.europa.eu/en/Pages/AnnualActivityReports.aspx (accessed 14 June 2017).

[85] See, for example, http://europa.eu/about-eu/institutions-bodies/court-auditors/index_en.htm#goto_1 (accessed 14 June 2017).

[86] See http://www.eca.europa.eu/en/Pages/AuditMethodology.aspx (accessed 14 June 2017).

with some modifications and additions.[87] However, without an adoption mechanism of the European Union, new and revised International Standards on Auditing may be adopted at different times, and certain standards may not be adopted in some jurisdictions. Furthermore, there is a lack of effective mechanisms to guarantee the quality and acceptability of translations of such standards. According to a survey conducted by the Federation of European Accountants[88] in 2015 on the status of adoption of International Standards on Auditing and ISQCs, 9 of 28 Member States of the European Union have adopted International Standards on Auditing with modifications: Austria, Czechia, Denmark, Finland, Ireland, Italy, Spain, Sweden and the United Kingdom. A majority of Member States (25 out of 28), except for France, Germany and the Netherlands, have adopted ISQCs voluntarily.

International Standards on Auditing and their adoption in the European Union

European Union Member States are taking various approaches to provide legal support to International Standards on Auditing for financial and non-financial reporting. For example, Commission communication 52008DC0394, adopted in June 2008 and revised in February 2011, aims to anchor the “think small first” principle in policymaking. To reduce the burden of small enterprises, Directive 2013/34/EU does not require micro and small enterprises that are not public interest entities to have an audit. The current thresholds for such enterprises are described in the following table. Audit is exempted where at least two of the three criteria for small undertakings are met.

Table 3 Audit exemption thresholds for micro and small enterprises

	Micro enterprises	Small enterprises
Balance sheet total	≤ €500,000	≤ €4,400,000
Net turnover	≤ €1,000,000	≤ €8,800,000
Average number of employees during financial year	≤ 10	≤ 50

[87] Federation of European Accountants, 2015, Overview of ISA adoption in the European Union, April 2015 (see https://www.accountancyeurope.eu/wp-content/uploads/MA_ISA_in_Europe_overview_150908_update.pdf, accessed 22 August 2017).

[88] In December 2016, the Federation of European Accountants changed its name to Accountancy Europe.

Audit exemption thresholds in the European Union

Member States may define thresholds exceeding the thresholds up to €6 million for the balance sheet total and €12 million for the net turnover. Member States are also allowed discretion to require audits of small enterprises and take measures to ensure the proportionate application of the auditing standards to the statutory audits of small enterprises. As illustrated in the following table, there are large variations in the thresholds in the three Member States studied.

Table 4 Variations in audit exemption thresholds for small enterprises in selected Member States of the European Union

	Ireland	Portugal	Sweden
Balance sheet total	€4.4 million or less	€1.5 million or less	SKr1.5 million or less (approximately €0.15 million)
Net turnover	€8.8 million or less	€3 million or less	SKr3 million or less (approximately €0.3 million)
Average number of employees during financial year	50 or less	50 or less	3 or less

Note: In Sweden, €1 = SKr9.5279 (21 August 2017).

Comparison of thresholds applicable for exemption of audit requirement: Auditing of non-financial information

Since 2003, Directive 2003/51/EC, known as the Accounts Modernization Directive, in article 1(14b) had required companies to disclose “to the extent necessary for an understanding of the company’s development, performance or position” an analysis of both financial and, where appropriate, non-financial key performance indicators relevant to a particular business, including information relating to environmental and employee matters. This requirement was drafted in Directive 2013/34/EU and amended in Directive 2014/95/EU on disclosure of non-financial and diversity information by certain large undertakings and groups. The Directive entered into force on 6 December 2014 with a two-year transposition period. The European Commission is working towards the preparation of non-binding guidelines on methodology for non-financial reporting.

The Directive in force requires large enterprises that are public-interest entities[89] and employ more than an average of 500 people during the financial year, as reported on their balance sheet, to include a non-financial statement in the management report. The statement should contain information to the extent necessary for an understanding of the enterprise's development, performance, position and impact of its activity, relating to environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters.[90] Statutory auditors are required to check that the non-financial statement is provided. Member States are granted discretion of requiring the information in the non-financial statement to be assured by an external party.

The average corporate responsibility or sustainability reporting rate across the globe stands at 73 per cent. The increase in reporting by corporations since the mid-1990s has been driven by a growing demand for non-financial information by stakeholders, as well as State and securities regulators.[91] Reporting by the 100 largest firms in Portugal and Sweden exceeded 73 per cent in 2015, whereas reporting by Irish firms was slightly below average.[92]

Reporting practices vary widely between companies as to the type of report information is presented. Entities can, for example, report non-financial information in statements contained in annual reports, such as enhanced business reviews, corporate governance statements, and in corporate responsibility reports or reports to regulators on matters such as risk exposures, pricing policies or compliance with regulatory requirements. This has implications on audit and assurance, as shown in table 5.

Table 5 External assurance reports, including audit, for non-financial information

Types of reports	External assurance reports
Information in annual reports and accounts	External auditors are required to perform a consistency check with other information provided in annual reports and to review corporate governance statement disclosures.
Separate corporate responsibility reports	The requirements for external audit or assurance vary across European Union Member States.

Source: Institute of Chartered Accountants in England and Wales, 2008, Assurance on Non-financial Information: Existing Practices and Issues (Audit and Assurance Faculty, London); KPMG, 2015.

Although there are many different standards to guide corporate responsibility or sustainability reporting, the Global Reporting Initiative is the most popular voluntary reporting guideline in use.[93]

Though external assurance is largely voluntary, demand for it has been increasing. In 2015, 62 per cent of the 250 largest companies according to *Fortune* engage external assurance on their corporate responsibility reports. Large accountancy firms have a dominant share of the market.[94] In Sweden, corporate responsibility reporting is voluntary for the private sector. However, State-owned companies have since 2007 been mandated by State ownership to publish sustainability reports in accordance with Global Reporting Initiative guidelines and obtain assurance of a third party.

There are different standards for performing assurance engagements on corporate responsibility reports. Among the important standards are ISAE 3000 of the International Auditing and Assurance Standards Board and AA1000AS of the consulting and standards firm, Accountability.[95] National professional associations representing the accountancy profession in several

89 Directive 2013/34/EU defines large enterprises as enterprises that meet two of the following criteria: balance sheet total of €20 million, a net turnover of €40 million or average number of employees, 250. Public interest entities are entities listed on the European stock exchange, banks or insurance companies, designated as public interest entities by national definition of Member States of the European Union.

90 Approximately 6,000 enterprises in the European Union fall into this category.

91 KPMG, Global Reporting Initiative, United Nations Environment Programme and Unit for Corporate Governance in Africa, 2010, *Carrots and Sticks: Promoting Transparency and Sustainability – An Update on Trends in Voluntary and Mandatory Approaches to Sustainability Reporting*, available at https://www.globalreporting.org/resourcelibrary/Carrots-And-Sticks-Promoting-Transparency-And-Sustainbability.pdf (accessed 14 June 2017).

92 KPMG, 2015, *Currents of Change: The KPMG Survey of Corporate Responsibility Reporting 2015* (Haymarket Network Ltd, the Netherlands), available at http://www.kpmg.co m/CN/en/IssuesAndInsights/ArticlesPublications/Documents/kpmg-survey-of-corporate-responsibility-reporting-2015-O-201511.pdf (accessed 14 June 2017).

93 See https://home.kpmg.com/content/dam/kpmg/pdf/2015/12/KPMG-survey-of-CR-reporting-2015.pdf (accessed 22 August 2017).

94 Ibid.

95 Supported by the International Framework for Assurance Engagements of the International Auditing and Assurance Standards Board. In addition, ISAE 3410, based on ISAE 3000, provides guidance on assurance engagements on greenhouse gas statements.

countries have developed assurance standards specific to sustainability reporting for example, Germany, the Netherlands and Sweden, based on ISAE 3000.

B. COUNTRY CASE: IRELAND

Regulation and compatibility with International Standards on Auditing

Private sector auditing requirements in Ireland, which joined the European Community in 1973, are largely governed by the Companies Act, 1990; the Companies (Auditing and Accounting) Act 2003 and Statutory Instrument 220/2010, which transposed and implemented Directive 2006/43/EC. The most recent and applicable Companies Act 2014 (Commencement) Order 2015 (Statutory Instrument 169/2015) came into effect on 1 June 2015.[96] The Act consolidates and reforms existing Irish company law incorporating many of the provisions of the previous Companies Acts 1963–2013. The Act sets out the provisions relating to the keeping of accounting records, preparation of financial statements and audit of financial statements.

The main financial reporting standards in use in Ireland are IFRS (as endorsed by the European Union), issued by the International Accounting Standards Board, and generally accepted accounting principles of Ireland and the United Kingdom, issued by the Financial Reporting Council of the United Kingdom. The International Standards on Auditing (United Kingdom and Ireland) issued by the Auditing Practices Board, which is part of the Council, is adopted by the recognized accountancy bodies[97] and applicable to the audit of all financial statements. In 2009, the Board issued new international standards on auditing (United Kingdom and Ireland), based on the clarified International Standards on Auditing issued by the International Auditing and Assurance Standards Board, with modifications made specific to local law and other regulatory matters.[98] The recognized accountancy bodies conduct quality assurance reviews and inspections; they also perform disciplinary measures and impose sanctions on members.

Interaction with standard-setters in other areas

The Irish Auditing and Accounting Supervisory Authority (IAASA) contributes to efforts by the European Union and other international bodies aimed at supporting and enhancing audit quality through cooperation activities with international organizations. These organizations include the European Group of Auditor Oversight Bodies, European Audit Inspection Group,[99] Financial Reporting Council, International Forum of Independent Audit Regulators[100] and Public Company Accounting Oversight Board. The Authority participates in forums, committees and groups of the European Union and beyond, and meets with representatives from the Council and Board to discuss matters of mutual interest. The professional associations act in their own capacity to interact with other standard-setters, regulators and/or professional associations. In addition, its members are alerted to proposals by the International Auditing and Assurance Standards Board through their website, weekly electronic bulletins and the Journal. It is also a member of IFAC and Accountancy Europe, formerly the Federation of European Accountants.

3. Auditing in the public sector

A distinctive feature of public sector audit is that the scope of an auditor's work covers not only the audit of financial statements, but also aspects of corporate governance and arrangements to secure the economic, efficient and effective use of resources. Public sector audits in Ireland, at both central and local government levels, observe International Standards on Auditing and applicable national legal requirements.[101]

The main statutes relevant to public sector audits are the Exchequer and Audit Departments Act, 1866 and the Comptroller and Auditor General (Amendment)

96 See http://www.irishstatutebook.ie/pdf/2015/en.si.2015.0169.pdf. (accessed 14 June 2017).

97 According to the Companies Act 2014, "recognized accountancy body" means a body of accountants recognized under section 930 for the purposes of the 2010 Audits Regulations or section 1441.

98 For more information, see https://www.accountancyeurope.eu/wp-content/uploads/MA_ISA_in_Europe_overview_150908_update.pdf (accessed 22 August 2017). Carve-outs and other limitations: paragraphs 11–13 of International Standards on Auditing 720 are not applicable; International Standards on Auditing 800, 805 and 810 have not yet been adopted.

99 See www.eaigweb.org (accessed 14 June 2017).

100 See https://www.ifiar.org (accessed 14 June 2017).

101 I Ball, 2012, Auditing in the public sector, slide presentation, European Study Day, Brussels, available at http://www.slideshare.net/IFAC_Multimedia/auditing-in-the-public-sector (accessed 16 June 2017).

Act, 1993. The Constitution requires the Comptroller and Auditor General to report to the Dáil (Parliament) at stated periods as determined by law. As a constitutional officer, the Comptroller and Auditor General is appointed by the President of Ireland on the nomination of the Dáil. The independence of the office is secured by the constitutional requirement that the Comptroller and Auditor General cannot be removed from office except for stated misbehaviour or incapacity, and then only upon resolutions passed by the National Parliament (Houses of the Oireachtas). The constitution requires the Comptroller and Auditor General to control on behalf of the State, all disbursements and to audit all accounts of cash administered by or under the authority of the Oireachtas. It must also report to the Dáil at stated periods, as determined by law. The accounts of local authorities are audited by local government auditors (Local Government Audit Service) who are independent in the performance of their functions and are under the general control of a director of audit.

For local government audits, the Local Government Audit Service provides independent scrutiny of the financial stewardship of local authorities and other local bodies.[102] Its role is twofold: to carry out the audit of local government bodies in accordance with its statutory Code of Audit Practice, thereby fostering the highest standards of financial stewardship and public accountability, and to undertake value for money audits, publish reports thereon and thereby assist local authorities in achieving better value for money.

C. COUNTRY CASE: PORTUGAL

The formal implementation of all International Standards on Auditing came into effect in 2015 with the publication of Law 140/2015 of the Ordem dos Revisores Oficiais de Contas (OROC), the Portuguese professional accountancy organization for statutory auditors. This new statute requires the direct adoption of International Standards on Auditing and makes the application of such standards compulsory for all audits as from 1 January 2016. Prior to the formal implementation of such standards, the Government of Portugal issued its own national auditing standards that were to a large extent based on the former. In addition, it adopted ISQC 1.

[102] The Local Government Act 2001 sets out the framework arrangement for the audit of local authorities.

Regulation and compatibility of International Standards on Auditing

OROC is a public entity and is responsible for representing and grouping its members, as well as overseeing all aspects pertaining to the statutory auditing profession.[103] In accordance with Law 148/2015 of 7 September 2015, the Capital Markets Regulator took on a supervisory role of the statutory auditors, effective 1 January 2016, and became responsible for the quality control review of the audits of financial statements of public interest entities.

OROC carries out the following tasks:

- Serves as a registry of statutory auditors and statutory auditing firms.
- Holds entrance exams for aspiring professional accountants and ensures the continuous education of its members.
- Lays down the principles and standards of the code of professional ethics and conduct and explains the standards and technical procedures of the profession, taking into consideration international standards.
- Exercises disciplinary jurisdiction over all its members.

OROC members are kept abreast of all IFAC pronouncements, generally through the OROC website, its internal newsletter and the web-based Auditor's Manual, which is distributed to all members.

Interaction with standard-setters in other areas

OROC interacts with IFAC and is an IFAC member body. OROC is also a member of Accountancy Europe.[104] OROC translates the pronouncements of the International Auditing and Assurance Standards Board. The translations are generally carried out by experienced auditors with a fluent knowledge of English and experience in translating IFRS.[105]

[103] OROC was established by government ministerial order (Ministerial Order 83/74, 6 February 1974), under the aegis of the Ministry of Justice. The current legal regime governing statutory auditors was approved by Decree-Law 487/99 of 16 November 1999 and amended by Decree-Law 224/2008, of 20 November 2008.

[104] See https://www.accountancyeurope.eu/(accessed 16 June 2017).

[105] In accordance with European Union regulations, the application of IFRS is mandatory for the preparation of consolidated financial statements of listed entities. The IFRS-based accounting framework entered into force on 1 January 2010; since then, OROC has offered several training courses on the subject.

Auditing in the public sector

According to the Portuguese Constitution, the Court of Auditors is the key entity responsible for maintaining the country's national system of external financial control. The Court of Auditors is an independent body with jurisdictional powers over all audits of public entities.

Law 98/97 of 26 August 1997 governs the organization and procedures of the Court of Auditors. It states that the Court of Auditors has the ability to exert financial control over the Portuguese juridical order, both on national territory, as well as foreign. The powers of jurisdiction and financial control of the Court of Auditors encompass the State, autonomous regions, local governments, public institutes and social security institutes.

Entities of a public or private nature mainly financed by the State budget or in which there are public capitals, are also subject to the financial control of the Court of Auditors.

The General State Accounts, including social security accounts, are audited by the Court of Auditors. The Court of Auditors issues a report entitled "Opinion on the General State Accounts". The Court of Auditor's opinion currently focuses on the legality of budget execution, but also comments on the reliability of the accounts. The Court of Auditors does not express an opinion on whether the financial statements present a true and fair view.[106] However, although not expressed fully in the International Standards on Auditing or the corresponding International Standards of Supreme Audit Institutions, the Court of Auditors uses language that could suggest that the Court of Auditors is issuing a disclaimer of opinion on the accounts of the central Government. The financial statements of local governments are audited by certified auditors and audit opinions are provided. The Court of Auditors also reviews these financial statements on a sample basis.

The Portuguese Court of Accounts and Auditors uses standards issued by the International Organization of Supreme Audit Institutions,[107] and external auditors certifying public sector entities' accounts use auditing standards derived from the International Standards on Auditing. Hospitals, universities, most municipalities and some central government agencies are subject to audits; some entities are not.

D. COUNTRY CASE: SWEDEN

The Swedish Companies Act (2005:551) contains provisions relevant to the audit of companies limited by shares. The Act provides that a company shall have at least one qualified auditor elected by the general meeting of shareholders. Chapter 9, section 3 states that "an auditor shall examine the company's annual report and accounts, as well as the administration of the company by the board of directors and the managing director. The audit shall be as detailed and extensive as required by generally accepted auditing principles". The subject matter that falls under the definition of the statutory audit includes the financial accounts, annual report and administration of the company.

Regulation and compatibility of International Standards on Auditing

The Auditing Act (1999:1079), Swedish Companies Act (2005:551) and legislation for other legal entities subject to mandatory statutory audits require auditors to perform an audit in accordance with generally accepted auditing standards. The material content of this standard is not provided by statutes but specified, and evolve through standards and practice outside the legal system. This legislative technique awards flexibility for generally accepted auditing standards to continually adapt to the dynamic conditions in practice. According to section 3 of the Auditors Act, the Supervisory Board of Public Accountants, is responsible for the appropriate development of this standard. For fiscal years beginning after 1 January 2011, the Supervisory Board of Public Accountants and the Swedish Professional Accountancy Organization, also known by its Swedish acronym, FAR, have defined generally accepted auditing standards to include the requirements to apply International Standards on Auditing (with add-ons) and ISQC 1.

In addition to a financial audit, the Swedish Companies Act requires auditors to carry out an audit on the administration of the company by the board of directors and the managing director. Auditors are required to include in the audit report a statement on the following points: whether the general meeting will adopt the board's suggestion for appropriation of profit; whether the board and managing director will

[106] International Monetary Fund, 2014, *Portugal: Fiscal Transparency Evaluation*, Country Report No. 14/306 (Washington, D.C.), available at https://www.imf.org/external/pubs/ft/scr/2014/cr14306.pdf (accessed 16 June 2017).

[107] See http://www.intosai.org/en/issai-executive-summaries/4-auditing-guidelines/general-auditing-guidelines.html (accessed 16 June 2017).

be discharged from liability by the general meeting; and comments on any significant violations of the Companies Act, the Annual Accounts Act, by-laws and non-compliance with tax legislation.

Interpretation, translation and interaction with standard-setters in other areas

The Swedish Professional Accountancy Organization, founded in 1923, is a professional institute representing some 6,500 authorized public accountants, approved public accountants and other highly qualified professionals in the Swedish accountancy sector. It is an active member of IFAC, Accountancy Europe and the Nordic Federation of Public Accountants. In 2004, the Swedish Professional Accountancy Organization adopted earlier versions of the International Standards on Auditing with modifications to suit the Swedish context. In 2011, the Organization translated and published clarified standards to facilitate the adoption and implementation of audits of financial years beginning on or after 1 January 2011. It also publishes standards in areas specific to the Swedish context that are not covered by the International Standards on Auditing or other pronouncements by the International Auditing and Assurance Standards Board. In June 2015, the Nordic Federation of Public Accountants published an exposure draft on standards for audit of smaller entities, which is presented as compatible, but not compliant with the International Standards on Auditing. As there is no guidance in Sweden for the proportionate application of clarified International Standards on Auditing, this is dealt with in training courses and seminars. FAR Akademi AB, an educational and publishing subsidiary of the Swedish Professional Accountancy Organization, published a Swedish translation of the IFAC *Guide to Using International Standards of Auditing in the Audits of Small and Medium-sized Entities* in 2011and a practitioner's guide in Swedish to International Standards on Auditing in 2013. The Swedish Professional Accountancy Organization publishes books, journals and newsletters and arranges conferences and seminars on professional issues through FAR Akademi AB.[108]

The Supervisory Board of Public Accountants plays an important role in ensuring the development of good auditing practice. When there is a conflict in interpretation, the preferential right of interpretation with regard to content lies with the Board. The final interpretation of the generally accepted auditing practices however lies with the courts and not the standard-setting organizations of the audit profession.

Auditing in the public sector

The Swedish National Audit Office is an independent organization under the jurisdiction of the Swedish legislature, the Riksdag. The Office carries out two main audit functions: performance audits and financial audits. Public sector financial audits are conducted in accordance with generally accepted auditing standards. Since 2011, the revised and redrafted International Standards on Auditing standards have been adopted. The objective is to assess whether the accounts and the underlying documentation are reliable and the accounting records true and fair, and whether the administration of the company by the management complies with relevant provisions and special decisions.[109]

Sweden has a unique system of auditing in the local governments. The tasks and the appointment of auditors are specified in the Local Government Act (1991). The audit is performed by politically elected auditors. The auditors conduct inspections on an annual basis, based on generally accepted auditing standards, with all activities being carried out by the executive board. The scope of the audit includes the activities are carried out in an appropriate and financially satisfactory way, whether the accounts are true and fair, and whether the internal checks carried out are sufficient. The appointed auditors are assisted by professional auditors in the audit.

E. INSTITUTIONAL ASPECTS OF THE IMPLEMENTATION OF INTERNATIONAL STANDARDS ON AUDITING: STATUTORY INSTITUTIONS THAT FACILITATE THEIR IMPLEMENTATION, COMPLIANCE MONITORING AND ENFORCEMENT

The European Union adopts a harmonized and decentralized approach to enforcement and effective coordination of public oversight systems of statutory

[108] See https://www.far.se/in-english/this-is-far/ (accessed 16 June 2017).

[109] Exemptions apply to the audit of accounts of the State, Government Offices, Palace Administration and Royal Djurgården Administration. For more details, see http://www.riksrevisionen.se/en/Start/ (accessed 16 June 2017).

auditors and audit firms within the European Union. Directive 2006/43/EC called for the establishment of the European Group of Auditor Oversight Bodies, which provided a mechanism for national enforcers to cooperate and share information, but still allowed national practices to persist in their legal, political and cultural contexts. The regulatory locus of enforcement was thus located at the national level.[110] In June 2016, a new body was established: the Committee of European Audit Oversight Bodies, which took over the role of the European Group in the oversight of cooperation between national competent authorities. The Committee comprises the national authorities responsible for auditor oversight and carries out the following tasks:

- Facilitates the exchange of information, expertise and best practices for the implementation of this legislation.
- Provides expert advice to the Commission and the competent authorities, at their request, on issues related to the implementation of this legislation.
- Contributes to the technical assessment of public oversight systems of third countries and to the international cooperation between Member States and third countries.
- Contributes to the technical examination of international auditing standards, including processes for their elaboration, with a view to their adoption at European Union level.
- Contributes to the improvement of cooperation mechanisms for the oversight of statutory auditors of public-interest entities, audit firms or their networks.
- Carries out other coordinating tasks in the cases provided for in Directive 2006/43/EC.

At a meeting hosted by the European Commission in March 2016, various participants called for the Committee of European Audit Oversight Bodies to play a role in facilitating a coherent understanding of the new rules and to maintain a dialogue with the audit profession.[111]

The International Forum of Independent Audit Regulators is a medium for sharing knowledge of the audit market environment and practical experience of independent audit regulatory activity focusing on inspections of auditors and audit firms; promoting collaboration and consistency in regulatory activity and providing a platform for dialogue with supervisory bodies of 23 European Union States that are members of the Forum (Cyprus, Estonia, Latvia, Malta and Romania are not members).[112]

Professional accountancy organizations

IFAC members are required to support their organization's mission and programmes demonstrating compliance with the Statements of Membership Obligations; be financially and operationally viable; have an appropriate governance structure; make financial contributions; and meet other criteria described in the membership application process, IFAC Constitution and IFAC By-laws.[113]

At the European Union level, Accountancy Europe strives to achieve the following objectives:[114]

- Advance the interests of the European accountancy profession, recognizing the public interest in the work of the profession.
- Promote cooperation among members and work towards an enhanced and consistent practice and regulation of accountancy, statutory audit and financial reporting in Europe in the public and private sectors.
- Identify, analyse and contribute to relevant public policy developments and make representations to the institutions of the European Union and international organizations.

Accountancy Europe considers the interests of the European accountancy profession in the broadest sense, including all aspects and sectors of the profession, from sole practitioners to small, medium-sized and large accountancy firms, as well as accountants in business and government, and in the public sector, taking into account the public interest.

110 See https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/auditing-companies-financial-statements_en (accessed 22 August 2017); see also Directive 2006/43/EC.

111 See https://web.archive.org/web/20160507095401/http://ec.europa.eu/finance/auditing/docs/reform/stakeholder-workshop-2016/summary_en.pdf (accessed 22 August 2017).

112 https://www.ifiar.org/About-Us.aspx (accessed 16 June 2017).

113 https://www.ifac.org/publications-resources/statements-membership-obligations-smos-1-7-revised (accessed 22 August 2017).

114 Accountancy Europe has 50 member bodies from 37 European countries, representing about 800,000 professional accountants (https://www.accountancyeurope.eu/members/, accessed 21 August 2017).

Global network of professional accountancy firms and their contributions to implementation of International Standards on Auditing for financial and non-financial reporting

The Forum of Firms seeks to promote consistent and high-quality standards in financial reporting and auditing. The Transnational Auditors Committee, an executive arm of the Forum, plays an important part in the work of IFAC. The Committee contributes to standard-setting by identifying audit practice issues and identifying qualified candidates to serve on IFAC standard-setting boards. It contributes to the implementation of International Standards on Auditing by providing a forum to discuss good practices in areas such as quality control, auditing, independence and the development of audit competence. Furthermore, the Committee acts as a formal conduit to facilitate the interactions and coordination among transnational audit firms, international regulators and financial institutions with regard to audit quality, systems of quality control and transparency of international networks.[115]

Accountancy Europe, IFAC and the large audit firms have played significant roles in the development of non-financial reporting and assurance standards.

Oversight boards and professional associations: Contribution to implementation of International Standards on Auditing

Example from Ireland

Chartered Accountants Ireland, established in 1888, has some 25,000 members. Its activities and those of its members are regulated by by-laws and rules relating to professional and ethical conduct.[116] It supports the implementation of the auditing standards by for example, training its members and organizing conference for practitioners. In 2007, Chartered Accountants Ireland established the Chartered Accountants Regulatory Board to regulate Irish Chartered Accountants, in accordance with the provisions of its by-laws in an independent, opened manner and in the public interest.[117] The Board has a role in developing and approving standards of professional conduct for adoption by the Council of Chartered Accountants Ireland, as well as ensuring professional authorization and quality assurance, and undertaking investigative and disciplinary action to regulate the professional conduct of its members, member firms, affiliates and students. The quality assurance regime includes a monitoring visit and the assessment of a firm's annual return. The purpose of monitoring visits is to determine the extent of a firm's compliance with standards of professional conduct, identify weaknesses and reach an agreement with the firm on remedial action that may need to be taken to improve compliance within the firm. The monitoring cycle is based on the activities and assessment of annual returns submitted by the firm. The Board is subject to independent oversight by IAASA, the Financial Reporting Council, the Central Bank of Ireland, Her Majesty's Treasury and the Insolvency Service. Other recognized accountancy bodies include the Institute of Chartered Accountants in England and Wales, the Association of Chartered Certified Accountants, the Institute of Chartered Accountants of Scotland, the Institute of Certified Public Accountants and the Institute of Incorporated Public Accountants.

IAASA is the independent body in Ireland responsible for the examination and enforcement of certain listed entities' periodic financial reporting and the supervision of the regulatory functions of the prescribed accountancy bodies.[118] The principal objectives of IAASA, set out in the Companies Act 2014 provide the framework for its activities. These statutory objectives have been translated into the following goals:

- To deliver independent and effective supervision of financial reporting, which promotes high-quality financial reporting and responds to non-compliance robustly, promptly and proportionately.
- To provide independent and effective supervision of the regulatory activities of the prescribed accountancy bodies, which promotes high-quality regulation and responds to inadequate regulatory practice robustly, promptly and proportionately.

[115] https://www.ifac.org/about-ifac/forum-firms-and-transnational-auditors-committee (accessed 27 September 2015).

[116] For more information, see https://www.charteredaccountants.ie (accessed 16 June 2017).

[117] By-law 41 sets out the functions to be carried out by the Chartered Accountants Regulatory Board.

[118] Prescribed accountancy bodies are accountancy bodies that come within the supervisory remit of IAASA under the Act. There are nine such bodies in Ireland; they include the recognized accountancy bodies and three other bodies: the Association of International Accountants, Chartered Institute of Management Accountants and Chartered Institute of Public Finance and Accountancy.

- To promote adherence to high professional standards by accountants, auditors and preparers of financial reports.
- To offer specialist advice and support to the Minister for Jobs, Enterprise and Innovation and high-quality information to stakeholders on key auditing and accounting matters.

IAASA is financed by the dues of professional bodies (60 per cent) and by the Government (40 per cent). Members are nominated by State agencies, including the Director of Corporate Enforcement, Central Bank, Irish Stock Exchange, Revenue Commissioners, Irish Tax and Customs. The professional accountancy bodies nominate two board members, and a maximum of three board members (not including the chief executive officer) can also be members of accounting professional bodies at any time. IAASA publishes its annual observations document highlighting key topics to be considered by those preparing, approving and auditing 2015 financial statements.[119] Quality assurance reviews and disciplinary cases are published by recognized accountancy bodies individually.

Example from Portugal

In Portugal, there are two professional institutes, one for certified accountants (Order of Certified Accountants) and another for certified auditors (OROC). OROC regulates the statutory audit profession in that country. According to the legal regime for statutory auditors, their functions are divided into public interest functions (statutory audits, audits and related services) and non-public interest functions (consultancy and teaching).

The Portuguese Institute of Statutory Auditors exercises jurisdiction over all that relates to the activity of statutory auditing, the audit of accounts and the provision of related services to companies or other entities, in accordance with the technical standards approved or recognized by it.

The Order of Certified Accountants is the Portuguese professional accountancy body, established by law for representing and overseeing all aspects related to the accountancy profession and chartered accountants, known as *contabilistas certificados*. Only members of the Order of Certified Accountants are entitled to chartered accountant status; within Portuguese jurisdiction, only chartered accountants can present financial statements complying with the generally accepted accounting principles of Portugal.

The disciplinary body of OROC has the following responsibilities, in accordance with Decree-Law 487/99, article 33, of 16 November 1999, amended by Decree-Law 224/2008 of 20 November 2008:

- Judge, in the first instance, the disciplinary infractions committed by statutory auditors and trainee members.
- Express opinions on complaints lodged by companies and other entities to whom the statutory auditors render services, on matters relating to the performance of their work.
- Carry out the investigations either expressly stipulated in Decree-Law 487/1999 or those requested by other OROC bodies.
- Propose to the management council legislative or administrative measures necessary to close loopholes or make pronouncements on matters within its term of reference.

The Capital Markets Regulator has the responsibility to establish the periodicity and guidelines for inspections, designate the persons to perform the quality inspections and start any disciplinary processes as a result of quality inspections.

The periodicity of quality-control inspections is at least every three years for statutory auditors that carry out work for public interest entities and at least every six years for the remaining statutory auditors (non- public interest entities). Quality-control inspections for public interest entities are carried out by the Capital Markets Regulator, those for non-public interest entities, by OROC.

Example from Sweden

The Supervisory Board of Public Accountants is a government authority under the Ministry of Justice. It was established by the Swedish Parliament under the Auditors Act (1995) to qualify, supervise and regulate auditors and audit firms. The scope of the Board includes ensuring the appropriate development of professional ethics for auditors and generally accepted auditing standards. The Board is also responsible for the system of inspection of auditors and audit firms. It ensures quality control on a continuous basis by conducting recurring quality-control inspections, risk-based inspections and disciplinary investigations.

[119] See https://www.iaasa.ie/News/2015/IAASA-highlights-key-topics-for-2015-financial-sta (accessed 16 June 2017).

The Board has regulatory power enabling it to issue binding advance rulings in ethical matters, disciplinary rulings and regulation in areas delegated by the Government.[120] This is has a significant effect on audit practice.

In practice, the Board carries out inspections of the seven largest audit firms, by which all listed companies are audited, every third year. The Big Four audit firms are subject to constant inspection in order to cover a significant number of individual auditors in a three-year cycle. Enforced self-regulation is applied to the inspection of auditors and audit firms that audit non-listed companies. The Board relies on the Swedish Professional Accountancy Organization to carry out inspections of these audits. This process is monitored by the Board, and the Organization is bound by an agreement to report to material breaches of auditing standards or professional ethics. The Board may initiate investigations if an inspection shows material breaches of auditing standards or professional ethics. Investigations could also stem from its own initiative or from information from the Organization, complaints by clients of audit firms, the general public, or notifications from authorities. It also has the authority to impose disciplinary sanctions. The investigation team is generally composed of both lawyers and auditors.[121]

The Board is funded entirely by fees, the amount of which is decided by the Government. Fees include professional exam fees and annual fees levied on auditors and registered audit firms. The Board sets an annual budget based on the expected influx of fees and must keep costs and income in balance over time. It spends 65 per cent of its financial resources on supervision activities that amount to 80 per cent of total working hours. The Board is a member of the European Group of Auditor Oversight Bodies and the International Forum of Independent Audit Regulators.

Human capacity development and implementation of International Standards on Auditing

Directive 2006/43/EC states that statutory auditors or audit firms that are approved by a Member State shall carry out the statutory audit. Each Member State shall designate a competent authority for that purpose. Statutory auditors are to have attained university entrance or equivalent level, completed a course of theoretical instruction, undergone practical training and passed an examination of professional competence of university final or equivalent examination level, organized or recognized by the Member State concerned. Only firms and natural persons who have met the above-mentioned educational qualifications and are of good repute can be approved. Each Member State must ensure that statutory auditors take part in continuing education to update their theoretical knowledge and skills to conduct the audit.[122]

Fully qualified members of Chartered Accountants Ireland[123] earn the title of Associate Chartered Accountant. Under the provisions of the Companies Act (Ireland and the United Kingdom), members are not entitled to work in an audit practice unless they have met the educational and training requirements set out in the Act. In Sweden, the Supervisory Board of Public Accountants is responsible for the examination of applicants entering the profession.[124] The public accountant title is valid for five years, with renewal, provided that the auditor is professionally active, lives in Sweden (or another country belonging to the European Economic Area or Switzerland), is solvent and satisfies professional requirements of the Supervisory Board of Public Accountants those of continuing education.[125]

[120] http://www.revisorsnamnden.se/rn/english/laws_rules_and_standards.html (accessed 16 June 2017).

[121] http://www.revisorsnamnden.se/rn/english/supervision.html (accessed 16 June 2017).

[122] The Directive also requires Member States to establish procedures for the approval of auditors who have been approved in other Member States. Those procedures should not go beyond a requirement to an pass aptitude test on the knowledge of the laws and regulations of that Member State insofar as relevant to statutory audits in a language applicable in the host State. Candidates can also qualify on the basis of practice.

[123] Chartered Accountants Ireland represents more than 23,000 members worldwide. Chartered Accountants Ireland works with Governments and businesses to raise awareness of the importance of sound financial advice. It was established by Royal Charter in 1888, After 10 years of membership, members are invited to apply for fellowship of their Institute and earn the designation of Fellow Chartered Accountant.

[124] Since June 2013, the two-tiered qualification system in Sweden has been revised, and candidates entering the profession now qualify to be authorized public accountants (*auktoriserade revisorer*).

[125] The mutual recognition of credentials varies widely throughout the European Union. In Ireland, for example, there are mutual recognition agreements in place with its peer institutes in Australia, Canada, Hong Kong (China), New Zealand, Scotland, South Africa, the United Kingdom and the United States. By comparison, auditors qualified in other jurisdictions in the European Union and Switzerland seeking authorization in Sweden must pass an aptitude test. The test is an oral test conducted in Swedish adapted to the foreign accountant's education and professional experience.

F. CONCLUSION AND LESSONS LEARNED

This paper described how the European Union embarked on an audit market reform that was initiated in 2010 with a European Commission consultation Green Paper entitled "Audit Policy: Lessons from the Crisis." Following nearly three years of discussion, the final pieces of legislation were published in 2014.

Directive 2014/56/EU and Regulation (EU) No. 537/2014 have been incorporated into national law in European Union Member States since 17 June 2016. The new European Union audit legislative package marks a shift in the regulatory paradigm from one that had relied on minimum harmonization and to a large extent, self-regulation of the profession, to one that has more precise requirements, particularly in the area of audit communication and auditor independence in the audit of public interest entities. Until 2017, the European Commission had not exercised its delegated authority for Member States to adopt international auditing standards. Rather, the reforms had centred on strengthening the institutions to support the implementation and enforcement of auditing standards. Audit reform does not impose any new requirements on audits of small and medium-sized enterprises that do not qualify as public interest entities.

A key observation and lesson that can be drawn from the case studies in this paper is that, even though a certain level of harmonization has been achieved in terms of audit practices and governance, the three case countries have adopted distinct approaches to the implementation of International Standards on Auditing, with different regulatory and institutional settings. The most important differences across Member States are the role of auditors, the scope and thresholds of an audit, the way in which International Standards on Auditing[126] are incorporated into the regulatory system, education rules and the organization of oversight and enforcement. The three case studies show that each country has differing frameworks or set-ups for the governance of the audit and accounting profession. The following considerations may be helpful to other countries:

- Incentives and regulatory challenges in their adoption, implementation and enforcement.
- Language and cultural challenges in the adoption and implementation of International Standards on Auditing.
- Scale and complexity associated with the relative costs of compliance for small- and medium-sized entities and accounting firms.
- Entry qualifications and ongoing professional education challenges that need to be addressed.
- Design and strength of oversight and enforcement mechanism to ensure effective implementation of International Standards on Auditing.

A closer examination reveals the difficulties in regulating the input and the process of an audit by parties outside the profession, since values, professional scepticism and judgment paramount to audit quality are disseminated not only through formal training, but also through knowledge sharing within the profession. A sound corporate reporting and auditing system must be supported by a strong institutional foundation, a statutory framework, good quality-reporting standards, education, ethics, monitoring and enforcement.

[126] When considering the role of International Standards on Auditing within the European Union, it should be highlighted that such standards have been identified by the Financial Stability Board as standards that enhance financial stability and that are recognized by the International Organizations of Securities Commissions and the European Union. However, the ongoing initiatives by international organizations, the European Union and the profession indicate that the clarified International Standards on Auditing alone is not enough to ensure audit quality needed to enhance financial stability.

Annex I Survey of sustainability reporting practices of the largest companies worldwide

Category	Four most-reported indicators per category	Frequency
Economic	Revenue	81 (4)
	Net profit	81 (2)
	Earnings per share	69 (4)

Category	Four most-reported indicators per category	Frequency
	Operating income	59 (5)
Environmental	Carbon dioxide emissions	82 (4)[a]
	Water consumption	74 (2)
	Waste production	63 (2)
	Energy	57 (4)
Social and labour	Number of employees	93 (5)
	Donations	89 (3)[b]
	Number of employees divided by gender	66 (4)
	Management divided by gender	62 (3)
Corporate governance	Number of board members divided by gender	99 (5)
	Existence of audit committee	97 (5)
	Compensation	95 (4)
	Attendance rate at board meetings	87 (4)
Human rights	Number of employees trained in human rights	6 (0)[c]
	Number of human rights cases (including discrimination)	4 (2)
	Number of child labour cases	4 (0)
	Number of forced labour cases	2 (0)
Anti-corruption	Number of employees trained in anti-corruption or money laundering	23 (0)c
	Number of cases in whistle-blower system	17 (2)
	Number of transactions screened or number of anti-corruption audits	16 (0)
	Number of anti-corruption cases	11 (0)

Note: UNCTAD analysed the sustainability reporting practices of large companies worldwide to track disclosures that were common or uncommon for this category of companies, using the 2015 Forbes list of the 2,000 largest listed companies in the world, known as the Forbes Global 2000. The selection of 100 companies was based on a combined ranking of revenue, net profit, total assets and market value. To adjust the list for geographical diversity, UNCTAD added five companies from the African region. The frequency column shows the prevalence of relevant disclosures among the selected Forbes Global 2000 companies; the figure in parentheses shows the prevalence among the five additional African companies. For all 105 companies, UNCTAD analysed sustainability reporting information available in electronic format in English, whether through formal reports or other reporting online, regulatory filings or corporate governance reporting. The information was extracted, mapped against indicators and constituted the dataset on which the figures in this chapter are based. Figures for the economic category refer to information disclosed in sustainability reports only (rather than traditional financial reports).

[a] Of the 82 (4) companies reporting on carbon dioxide emissions, 65 (4) provide information on greenhouse gas scope 1, and 17 (0) on greenhouse gas (without specifying the scope). Of the former, 61 (4) also report on scope 2.

[b] Of the 89 (3) companies reporting on donations, 65 (3) also report specifically on community projects, and 1 (0) reports only on community projects.

[c] In addition to the training of employees in human rights and anti-corruption specifically, 20 (3) companies also provide training in ethics and/or codes of conduct, which may also include elements of human rights and/or anti-corruption.

Annex II Proposed core indicators for the Sustainable Development Goals in company reporting

Annex table 1

Economic indicators

Suggested indicator	Sustainable Development Goal	Target	Sustainable Development Goal Indicators (Inter-Agency and Expert Group on Sustainable Development Goal Indicators)
A.1. Revenue and/or value added	8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	8.2. Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors	8.2.1. Annual growth rate of real GDP per employed person
A.2. Taxes and other payments to the Government	17. Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development	17.1. Strengthen domestic resource mobilization, including through international support to developing countries, to improve domestic capacity for tax and other revenue collection	17.1.2[a]. Proportion of domestic budget funded by domestic taxes
A.3. Total new investment (impact investment)	1. End poverty in all its forms everywhere	1.b. Create sound policy frameworks at the national, regional and international levels, based on pro-poor and gender-sensitive development strategies, to support accelerated investment in poverty eradication actions	1.b.1.[a] Number of national action plans related to multilateral environmental agreements that support accelerated investment in actions that eradicate poverty and sustainably use natural resources
A.4. Local purchasing and supplier development	9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation	9.3. Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets	9.3.1. Percentage share of small-scale industries in total industry value added

[a] Under review by the Inter-Agency and Expert Group on Sustainable Development Goal Indicators.

Annex table 2

Environmental indicators

Suggested indicator	Sustainable Development Goal	Target	Inter-Agency and Expert Group on Sustainable Development Goal Indicators indicator
B.1. Water consumption per net value added	6. Ensure availability and sustainable management of water and sanitation for all	6.4. By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity	6.4.1[a]. Percentage change in water use efficiency over time
B.2. Waste generated per net value added	12. Ensure sustainable consumption and production patterns	12.5. By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse	12.5.1. National recycling rate (tons of material recycled)
B.3. Greenhouse gas emissions (scopes 1–2) per net value added	9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation	9.4. By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities	9.4.1. Carbon dioxide emissions per net value added
B.4. Chemicals, including pesticides and ozone-depleting substances (pending further research)	12. Ensure sustainable consumption and production patterns	12.4. By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment	12.4.2[a]. Treatment of waste, generation of hazardous waste and hazardous waste management, by type of treatment
B.5. Energy consumption per net value added	7. Ensure access to affordable, reliable, sustainable and modern energy for all	7.3. By 2030, double the global rate of improvement in energy efficiency	7.3.1. Energy intensity measured in terms of primary energy and GDP

[a] Under review by the Inter-Agency and Expert Group on Sustainable Development Goal Indicators.

Annex table 3

Social indicators

Suggested indicator	Sustainable Development Goal	Target	Sustainable Development Goal Indicators (Inter-Agency and Expert Group on Sustainable Development Goal Indicators)
C.1. Total workforce, with breakdown by employment type, contract and gender	5. Achieve gender equality and empower all women and girls	5.5. Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life	5.5.2. Proportion of women in managerial positions
	8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	8.5. By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value	8.5.1. Average hourly earnings of women and men employees, by occupation, age group and persons with disabilities
C.2. Expenditure on research and development as a proportion of turnover	9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation	9.5. Enhance scientific research, upgrade the technological capabilities of industrial sectors in all countries, in particular developing countries, including, by 2030, encouraging innovation and substantially increasing the number of research and development workers per one million people and public and private research and development spending	9.5.1. Research and development expenditure as a percentage of GDP
C.3. Average hours of training per year per employee, with breakdown by employment category	4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	4.3. By 2030, ensure equal access for all women and men to affordable quality technical, vocational and tertiary education, including university	4.3.1. Participation rate of youth and adults in formal and non-formal education and training in the last 12 months
C.4. Percentage of employees covered by collective agreements	8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	8.8. Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment	Not available
C.5. Cost of employee health and safety	3. Ensure healthy lives and promote well-being for all at all ages	3.8. Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all	Not available
C.6. Work days lost due to occupational accidents, injuries and illness	8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	8.8. Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment	8.8.1. Frequency rates of fatal and non-fatal occupational injuries, by gender and migrant status
C.7. Human rights	8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	8.7. Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms	8.7.1. Percentage of number of children aged 5 to 17 engaged in child labour, by gender and age group

Annex table 4

Institutional indicators

Suggested indicators	Sustainable Development Goals	Targets	Sustainable Development Goal Indicators(Inter-Agency and Expert Group on Sustainable Development Goal Indicators)
D.1.1: Number of board meetings and attendance rate	16: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels	16.7: Ensure responsive, inclusive, participatory and representative decision-making at all levels	Not available
D.1.2. Women board members	5. Achieve gender equality and empower all women and girls	5.5. Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life	5.5.2. Proportion of women in managerial positions
D.1.3.Board members divided by age range	16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels	16.7. Ensure responsive, inclusive, participatory and representative decision-making at all levels	16.7.1. Proportions of positions (by age group, gender, persons with disabilities and population groups) in public institutions (national and local legislatures, public service and judiciary) compared to national distributions
D.1.4. Existence of audit committee, number of meetings and attendance rate	16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels	16.6. Develop effective, accountable and transparent institutions at all levels	Not available
D.1.5. Compensation total and compensation per board member and executive	16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels	16.6. Develop effective, accountable and transparent institutions at all levels	Not available
D.2. Donations (unspecified) and donations to community projects	Applicable to most of the Sustainable Development Goals, depending on purpose and target audience needs	Not applicable	Not applicable
D.3. Anti-corruption (number of convictions for violations of corruption-related legislation or regulation and amount of fines paid or payable)	16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels	16.5. Substantially reduce corruption and bribery in all their forms	16.5.1a. Percentage of persons who had at least one contact with a public official, who paid a bribe to a public official or were asked for a bribe by these public officials, in the previous 12 months, disaggregated by age group, gender, region and population group

a Under review by the Inter-Agency and Expert Group on Sustainable Development Goal Indicators.

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