



CONSULTATION ON THE

**CODE OF PROFESSIONAL CONDUCT
AND ETHICS**

November 2013

The Accounting and Corporate Regulatory Authority (ACRA) is the national regulator of business entities and public accountants in Singapore. ACRA also plays the role of a facilitator for the development of business entities and the public accountancy profession. The mission of ACRA is to provide a responsive and trusted regulatory environment for businesses and public accountants.

Published November 2013

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Glossary of the Codes of Ethics referred to in this paper (In reverse order of issuance)

Revised IESBA Code	<p>The revised Code of Ethics issued in 2009 by the International Ethics Standards Board for Accountants (IESBA), of the International Federation of Accountants (IFAC).</p> <p>In 2013, the IESBA made further revisions in four areas as follows:</p> <ol style="list-style-type: none">i. Conflicts of interest;ii. Breach of a requirement of the IESBA Code;iii. Definition of “engagement team” (with regard to internal auditors directly assisting the external auditors); andiv. Definition of “those charged with governance” and related changes to the Code. <p>The first three areas have been included in the 2013 edition of the IESBA Code under changes to the Code, whereas the fourth area was finalised after issuance of the 2013 edition of the IESBA Code¹. ACRA is considering adopting these revisions and has included them in this consultation.</p>
2009 Singapore Code	<p>The Code of Professional Conduct and Ethics currently prescribed in the Fourth Schedule to the Accountants (Public Accountants) Rules under the Accountants Act (Chapter 2). The 2009 Singapore Code is based on the 2006 IESBA Code.</p>
2006 IESBA Code	<p>The Code of Ethics issued in 2006 by the IESBA, which is the basis of the 2009 Singapore Code.</p>
2002 Singapore Code	<p>The Code of Professional Conduct and Ethics in force when ACRA was established in 2004, which applied until the 2009 Singapore Code came into force. The 2002 Singapore Code, issued by the Public Accountants Board, was partly based on an early version of the IFAC Code of Ethics (now known as the IESBA Code).</p>
Public Accountants Board (PAB) Code of Ethics	<p>The PAB Code of Professional Conduct and Ethics in force before the 2002 Singapore Code.</p>

¹ The effective dates of the revisions are:

- a. Breach of a requirement of the Code – 1 April 2014
- b. Conflicts of interest – 1 July 2014
- c. Definition of “engagement team” – audits of financial statements for periods ending on or after 15 December 2014
- d. Definition of “those charged with governance” and related changes to the Code – 1 July 2014

ONE INTRODUCTION

1. On 1 August 2009, a new Code of Professional Conduct and Ethics (the 2009 Singapore Code) came into force for Singapore's public accountants and accounting entities. The 2009 Singapore Code is based on the Code of Ethics issued in 2006 by the International Ethics Standards Board for Accountants (IESBA) of the International Federation of Accountants (the 2006 IESBA Code).
2. The 2009 Singapore Code was issued after a full public consultation. It includes Singapore provisions ('SG' provisions) which supplement the 2006 IESBA Code with additional guidance or requirements for public accountants in Singapore.
3. In 2009, the IESBA issued a revised version of the IESBA Code (the Revised IESBA Code). ACRA has noted that some audit firms in Singapore already ensure that their procedures comply with the Revised IESBA Code as part of their own internal controls.
4. ACRA is now considering adopting the amendments from the Revised IESBA Code into the statutory Singapore Code. This consideration has been assisted by the Ethics Sub-Committee of the Public Accountants Oversight Committee of Singapore (the EC), which comprises senior members of the profession and stakeholder representatives². The EC also assessed whether the SG provisions remain relevant in light of the IESBA revisions and developments within Singapore.
5. Having assessed the Revised IESBA Code and the SG provisions, the EC is recommending adoption of all the revisions in the Revised IESBA Code in order to maintain respected international benchmarks in Singapore. Additionally, the EC is proposing to retain some of the SG provisions and to remove others. In considering the SG provisions, the EC's approach has been to adopt the revised IESBA Code as far as possible and move away from local modifications except where there is an identified deficiency or where the SG provision is needed to provide certainty.
6. This consultation paper seeks comment on specific issues for which the EC would like to hear stakeholder views. Additionally, the EC would welcome any other comments on the other revisions to the Revised IESBA Code. The revisions fall into two categories:

² The members of the Ethics Sub-Committee are:
Mr Quek See Tiat (Chairman of the EC), Chairman, Building And Construction Authority
Mr Sajjad Akhtar, Managing Partner, PKF-CAP LLP
Mr Gerard Ee, Chairman, SIM Governing Council & Public Transport Council
Mr Lim Ah Doo, Independent Director
Mr Winston Ngan, Head of Financial Services, Ernst & Young LLP
Mr Thio Shen Yi SC, Joint Managing Director, TSMP Law Corporation - appointed from 17 May 2013.
Mr Vinodh Coomaraswamy, Senior Counsel, Shook, Lin & Bok LLP - Stepped down from the EC on 15 June 2012 due to appointment as a Judicial Commissioner commencing 1 August 2012.

- a. **New or modified requirements** – changes which will require public accountants to consider whether they need to change their controls and procedures accordingly.
 - b. **New drafting conventions to make existing requirements and guidance clearer** – these changes affect many areas of the Code. Nearly every paragraph in the Code has been subjected to some change (with some being minor) and thus they are too numerous to be mentioned individually in this consultation paper.
7. Additionally, the EC would like to take this opportunity to hear comments on areas of the Singapore Code that are difficult to apply. The EC will take this feedback into account when considering other initiatives needed to promote the practice of a high standard of ethics and independence within Singapore’s public accountancy profession.
 8. Apart from the areas under consultation, a summary of the other main changes under the Revised IESBA Code has been provided in the Appendix for information.

Further Revisions to the Code

9. The IESBA has completed its consultation on further revisions to the Revised Code of Ethics relating to “responding to a suspected illegal act”, for which the final pronouncement has not been issued. ACRA will consider adopting these revisions once they are finalised by the IESBA³ and after due consideration by the EC.

³ Information about the further proposed revisions can be found at <http://www.ifac.org/ethics/projects>.

TWO CONSULTATION QUESTIONS ON SPECIFIC AREAS

Consultation Issue 1: Definition of Public Interest Entity (PIE)

10. The 2009 Singapore Code has additional independence requirements for listed entities because of the need for a high degree of public confidence in the financial information of such entities. For example, auditors must not provide any internal audit services to their listed audit clients, but may provide certain internal audit services to non-listed clients if certain conditions are met and safeguards are in place. Auditors also need to consider whether to apply the listed entity requirements to other entities which are of significant public interest⁴.
11. The Revised IESBA Code extends the additional requirements beyond listed entities to all PIEs. However, the Revised IESBA Code does not provide a comprehensive definition of PIE. The EC has therefore considered whether to include a comprehensive definition of PIE in the Singapore Code and which entities should be included in the definition.
12. The Revised IESBA Code defines PIE as follows:
- 290.25 Section 290 contains additional provisions that reflect the extent of public interest in certain entities. For the purpose of this section, public interest entities are:*
- (a) All listed entities; and*
- (b) Any entity:*
- (i) Defined by regulation or legislation as a public interest entity; or*
- (ii) For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation may be promulgated by any relevant regulator, including an audit regulator.*
- 290.26 Firms and member bodies are encouraged to determine whether to treat additional entities, or certain categories of entities, as public interest entities because they have a large number and wide range of stakeholders. Factors to be considered include:*
- The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples may include financial institutions, such as banks and insurance companies, and pension funds;*
 - Size; and*
 - Number of employees.*
13. Singapore's current regulations do not specifically define an entity as a PIE or require certain audits to be 'conducted in compliance with the same independence requirements that apply to the audit of listed entities'. However, some non-listed entities are regarded to be of public interest and are expected to meet higher standards

⁴ See para. 290.41.

of corporate governance and financial reporting compared to other entities, for example financial institutions and charities.

14. As part of its Accountants Act Review, ACRA is looking at establishing a definition of PIE and the additional conditions of approval and requirements that would apply to the auditors of such entities. ACRA had invited comments on this in its *Public Consultation on the Accountants Act Review*, issued on 24 May 2012.
15. Under the Accountants Act Review, ACRA's view is that, for the purpose of audit regulation, the definition of PIE should include:
 - Any entity that is listed on the Singapore Exchange (SGX) or is in the process of issuing its debt or equity instruments for trading on the SGX; and
 - Financial Institutions⁵.
16. ACRA is also proposing that audit firms that audit large charities and large Institutions of Public Character (IPC) (as defined under the Charities Act, i.e. with gross annual receipts in each financial year of not less than \$10 million in the two financial years immediately preceding the current financial year of the charity) would be subject to the same requirements as those that audit PIEs.
17. ACRA noted overall support for the proposed definition of PIE and considers that PIE requirements should be applied consistently across all of ACRA's audit regulations. Similarly, the EC felt that a clear definition in the Code of Professional Conduct and Ethics would help ensure that an entity is defined in the same way (as a PIE or non-PIE) regardless of who its audit firm is. **It is therefore proposed that the same definition of PIE be applied to the Code of Professional Conduct and Ethics, such that:**
 - a. **PIE will have the same definition as has been proposed for the Accountants Act; and**
 - b. **Audits of large charities and large IPCs (as defined under the Charities Act, i.e. with gross annual receipts in each financial year of not less than \$10 million in the 2 financial years immediately preceding the current financial year of the charity) will need to be conducted in compliance with the same independence requirements that apply to PIEs.**
18. Beyond the definition of PIE, as stated under para 290.26, auditors would still be encouraged to use their judgement and consider whether to apply the PIE

⁵ a. Entities that are part of the banking and payment systems (i.e. banks, financial institutions approved under s28 of the MAS Act, Cap. 186, operators of designated payments systems, holders of widely-accepted multi-purpose stored value facilities (including all holders of multi-purpose stored value facilities in excess of \$30 million, whether approved or exempted), remittance agents and finance companies);

b. Insurers and insurance brokers;

c. Capital market infrastructure providers (i.e. approved holding companies under the Securities and Futures Act, approved exchanges, local market operators and designated clearing houses); and

d. Capital markets intermediaries (i.e. holders of capital market services licence, licensed financial advisers, notified fund management companies, licensed trust companies and approved trustee for collective investment scheme).

requirements to other clients that, while not prescribed as PIEs under the Accountants Act, would benefit from the tighter PIE independence requirements.

Consultation Question 1A: What are your views on the proposed definition of PIEs as it would apply to the independence requirements of the Code?

Consultation Question 1B: Do you agree that audits of large charities and large IPCs should be subject to the same requirements as audits of PIEs?

Consultation Issue 2: Provision of Internal Audit Services to Audit Clients

19. If an auditor provided internal audit services to an audit client, it would threaten the auditor's independence as it could lead the auditor to review his own work or assume a management responsibility (i.e. a 'self-review' threat).
20. The 2009 Singapore Code prohibits auditors from providing internal audit services to listed or public company audit clients, under an SG provision (SG290.180A). This SG provision retained an independence rule that was in force prior to ACRA's 2009 adoption of the 2006 IESBA Code. ACRA retained this rule because the 2006 IESBA Code was unclear about exactly when an auditor should not provide internal audit services to an audit client, and because of the importance of maintaining a high degree of independence of auditors of PIEs in the public eye as well as in fact. While in theory an auditor may be able to implement safeguards to maintain the required level of independence when providing internal audit services to an audit client, these measures might be insufficient to remove doubts in the minds of external parties who have no opportunity to assess the whole situation.
21. The Revised IESBA Code's provisions on internal audit services include the following improvements⁶:
 - a. A better description of the nature of internal audit services and how such services might threaten auditor independence;
 - b. Examples of internal audit services that involve management responsibilities (and so should not be done by the auditor); and
 - c. A better description of the safeguards required to preserve auditor independence when an audit firm does provide internal audit services to an audit client.
22. Unlike the 2006 IESBA Code, the Revised IESBA Code sets out what internal audit services an auditor should *never* provide to a *PIE audit client* because these are areas in which no safeguards could overcome the threats to auditor independence. The new prohibition that applies to PIE audits is:

290.200 - In the case of an audit client that is a public interest entity, a firm shall not provide internal audit services that relate to:

⁶ Paragraphs 290.195-200

- a. *A significant part of the internal controls over financial reporting;*
 - b. *Financial accounting systems that generate information that is, separately or in the aggregate, significant to the client's accounting records or financial statements on which the firm will express an opinion; or*
 - c. *Amounts or disclosures that are, separately or in the aggregate, material to the financial statements on which the firm will express an opinion.*
23. The EC deliberated on whether the revised provisions meet Singapore's needs, or whether the SG provision should be retained. In doing so, it weighed the improvements in the Revised IESBA Code against how the current 2009 Singapore Code works in practice.
24. Although the Revised IESBA Code is clearer about the risks to independence and the circumstances whereby an auditor must not provide internal audit services to PIE audit clients, the EC felt that practical implementation of the Revised IESBA Code's provision in internal audit services could be an issue as it might be difficult for auditors to clearly distinguish and confine internal audit services to areas which do not have an impact on the financial statements. The EC thus wishes to hear comments on the appropriate level of restriction to be set to prohibit an accounting entity from providing internal audit service to a PIE audit (or review) client, i.e. whether to adopt the approach of the Revised IESBA Code.

Consultation Question 2A: What are your views on whether ACRA should retain the SG provision (SG290.180A) to prohibit provision of any internal audit service to a PIE audit (or review) client?

Consultation Question 2B: If the SG provision was not retained and para 290.200 of the Revised IESBA Code is instead adopted to just prohibit certain internal audit services, what would be the benefits to clients and would these benefits outweigh the need to provide certainty and public confidence?

Consultation Issue 3: Provision of Information Technology Systems Services to Audit Clients

25. If an auditor provides information technology (IT) systems services to an audit client, it would threaten the auditor's independence as it could lead the auditor to review his own work (i.e. a 'self-review' threat).
26. The 2009 Singapore Code prohibits auditors from providing IT services to listed and public company audit clients if the services involve the design or implementation (or both) of financial IT systems that are used to generate information forming part of a client's financial statements under an SG provision (SG290.186A). The SG provision retained the rule of the independence requirement in force prior to ACRA's adoption of the IESBA based Code in 2009. The reason for the prohibition is that if an auditor provides such services to an audit client it can create significant self-review threats, and also because of the need to be seen to uphold a high standard of independence in the public eye.

27. The 2006 IESBA Code allowed auditors to provide such services provided that certain safeguards were in place, including that the audit client remained responsible for internal controls⁷. The Revised IESBA Code states that an auditor should not provide IT systems services to a PIE client if the services involve design or implementation of IT systems that:
- a) *Form a significant part of the internal control over financial reporting; or*
 - b) *Generate information that is significant to client's accounting records or financial statements*⁸.
28. The EC noted that the Revised IESBA Code now provides sufficient guidance, and further noted that in practice it would prevent an auditor from providing IT services to a PIE audit client if these services are significant to internal controls, the accounting records or financial statements. **Thus, the EC is proposing that the SG provision be removed.**

Consultation Question 3: What are your views on whether ACRA should adopt the approach of the Revised IESBA Code and thus remove the SG provision (SG290.186A) which prohibits IT services involving the design and/or implementation of financial IT systems that are used to generate information forming part of the financial statements of a PIE audit (or review) client?

Consultation Issue 4: Fees – Relative Size

29. If a large proportion of an auditor's fees comes from one client, or from non-audit services provided to the audit client, it can threaten the auditor's independence because of the financial ramifications of losing the client's business (i.e. it creates a self-interest threat).
30. The 2009 Singapore Code has three provisions that address the independence threats related to the level of audit fees an auditor receives for audit and non-audit services. This includes additional SG provisions with "bright-line" percentage thresholds that help auditors determine when they should consider applying safeguards to address such threats.
31. The 2006 IESBA Code did not have such 'bright-line' thresholds but the Revised IESBA Code does – it sets thresholds for when an auditor must deal with the independence threat and also sets actions that the auditor must undertake if they breach the thresholds. The EC thus considered whether to adopt the IESBA thresholds and required actions or retain the existing SG provisions.
32. The differences in the thresholds and safeguards between the 2009 Singapore Code and the Revised IESBA Code are set out in Tables 4A, 4B and 4C.

⁷ Paragraph 290.188

⁸ Paragraph 290.206

4A: Fees from one client significantly contribute to a firm's fees		
	2009 Singapore Code (290.206, SG290.206A)	Revised IESBA Code (290.220, 290.222)
Threshold (% of firm's fees)	PIE: 5%	PIE: 15% for 2 consecutive years
	Non-PIE: 15%	Non-PIE: "a large proportion"
Safeguards	<p>Safeguards that must be <u>considered and applied as necessary</u>:</p> <ol style="list-style-type: none"> 1. Discussing the extent and nature of fees charged with the audit committee, or others charged with governance; 2. Taking steps to reduce dependency on the client; 3. External quality control reviews; and 4. Consulting a third party, such as a professional regulatory body or another professional accountant. 	<p>Safeguards that <u>must</u> be applied:</p> <p><i>For PIE:</i></p> <p>The firm must disclose to those in charge of governance that the threshold has been surpassed. The firm <u>must also discuss which of the following safeguards should be applied and select one</u>:</p> <ol style="list-style-type: none"> 1. Pre-issuance review of the audit of the second year's financial statements; or 2. Post-issuance review of the audit of the second year's financial statements. <p>Both reviews must be either:</p> <ul style="list-style-type: none"> • An engagement quality control review (EQCR) of the engagement conducted by a professional accountant who is not a member of the firm which expressed the opinion on that financial statement; or • A review that is equivalent to an EQCR performed by a professional regulatory body <p>If fees <i>significantly</i> exceed 15%, and if the firm assesses that a post issuance review would not reduce the threat to an acceptable level, a pre issuance review is required.</p> <p><i>Safeguards that may be applied to <u>any</u> client</i></p> <ol style="list-style-type: none"> 1. Reducing the dependency on the client; 2. External quality control reviews; or 3. Consulting a third party, such as a professional regulatory body or a professional accountant, on key audit judgments.

4B: Fees for non-audit services are high relative to fees for audit (<u>Applies to Listed or Public Company Clients only</u>)		
	2009 Singapore Code (290.206 SG290.206B)	Revised IESBA (290.220 -290.222)
Threshold	50% or more, compared to annual audit fees from the client; (or if threat is other than clearly significant)	Nil.
Safeguards	Safeguards must be <u>considered and applied as necessary</u> : <ol style="list-style-type: none"> 1. Discussing the extent and nature of fees charged with the audit committee, or others charged with governance; 2. Taking steps to reduce dependency on the client; 3. External quality control reviews; and 4. Consulting a third party, such as a professional regulatory body or another professional accountant. 	Nil.

4C: Fees from one client are significant to a partner (or office)		
	2009 Singapore Code (290.207, SG290.207A)	Revised IESBA Code (290.221)
Threshold	A large proportion, and always if 50% or more, of the individual public accountant's annual total fees.	A "large proportion". The significance of the threat will depend upon factors such as: <ul style="list-style-type: none"> • The significance of the client qualitatively and/or quantitatively to the partner or office; and • The extent to which the remuneration of the partner, or the partners in the office, is dependent upon the fees generated from the client.
Safeguards	Safeguards must be <u>considered and applied as necessary</u> : <ol style="list-style-type: none"> 1. Policies and procedures to monitor and implement quality control of assurance engagements; and 2. Involving an additional professional accountant who was not a member of the assurance team to review the work done or otherwise advise as necessary 	Safeguards (<u>shall</u>) be applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include: <ol style="list-style-type: none"> 1. Reducing the dependency on the audit client; 2. Having a professional accountant review the work or otherwise advise as necessary; or 3. Regular independent internal or external quality reviews of the engagement.

33. On the relative fee from an audit client to the firm's fees (i.e. Table 4A), while the EC noted that the thresholds in the Revised IESBA Code differ from thresholds in the 2009 Singapore Code, the EC is proposing to adopt the Revised IESBA Code without any SG provisions, so as to keep as close as possible to the international standard, subject to views received during this consultation.
34. On the relative fee for non-audit services to audit fee (i.e. Table 4B), the EC noted that the Revised IESBA does not cover this area although there is an upcoming IESBA project which would consider the provision of non-assurance services to audit clients, including the area of relative fee sizes. The EC is proposing that SG290.206B be retained but with a proposed amendment, until the IESBA Code addresses the issue of non-audit fees. The proposed amendment is for SG290.206B to only make reference to a 50% threshold and to remove the SG290.206B(b) provision on "significant", so as to enhance clarity in application.
35. On the relative fee from an audit client to an individual public accountant's fee (i.e. Table 4C), the EC felt that the threshold is no longer necessary due to the other safeguards in place and that it might unnecessarily restrict situations where a public accountant serves a large global client; the EC felt it should be left to the firm to monitor the allocation of its partner's portfolio. The EC thus recommends that SG290.207A be removed.

Consultation Question 4A: What are your views on whether ACRA should remove the existing SG provision thresholds of the 2009 Singapore Code with the exception of SG290.206B(a) on fee for non-audit services?

Consultation Question 4B: For non-PIE audit clients, what are your views on not specifying a threshold on the relative fee from an audit client to the firm's fees?

Consultation Issue 5: Contingent Fees

36. The 2009 Singapore Code prohibits auditors from charging contingent fees for assurance engagements because this would create a self-interest threat to independence. The 2006 IESBA Code allowed auditors to provide some non-assurance services to assurance clients on a contingent basis if certain conditions and safeguards were in place to protect auditor independence. However, an SG provision (SG290.210A) in the 2009 Singapore Code prohibited auditors from charging a contingent fee for any service to listed or public company clients.
37. The Revised IESBA Code is clearer than the 2006 IESBA Code about the threats involved when providing non-assurance services to an audit client on a contingent fee basis. For example, paragraph 290.226(c) provides that the threat created would be so significant that no safeguards could reduce the threat to an acceptable level if *"The outcome of the non-assurance service, and therefore the amount of the fee, is dependent on a future or contemporary judgment related to the audit of a material amount in the financial statements."*
38. The EC considered whether to retain the current SG provision on contingent fees and assurance services (SG290.210A). The EC considered that the IESBA provisions are

based on the concept of materiality and given that there is now a more developed concept of materiality, the SG provision that imposes a complete ban might not be necessary and therefore recommends that SG290.210A be removed.

Consultation Question 5: What are your views on whether the SG provision (SG290.210A) that prohibits contingent fees for any service provided to a PIE audit (or review) client, should be removed and to instead adopt the provisions in the Revised IESBA Code?

Consultation Issue 6: Changes to Professional Appointments

39. The 2009 Singapore Code's provisions governing professional appointments and the transfer of clients from one auditor to another include SG provisions carried over from rules of ACRA's predecessor, the Public Accountants Board (paragraphs SG210.17A-17D). The SG provisions are prescriptive so as to provide more certainty in an area which in the past attracted more disputes. For example, one common misunderstanding was that the rules required incoming public accountants to first get permission from the out-going public accountant, whereas in fact all that was required was to get the necessary facts to support a decision to accept the engagement. Thus, the intent of the prescriptive rules was to set out the required steps that a public accountant can take in order to reach a decision about whether to take on a new client in line with his professional responsibilities.
40. The 2009 Singapore Code also contains the 2006 IESBA Code's more principle-based provisions on changes in professional appointments (paras 210.10 – 17).
41. As the 2009 Singapore Code is now principles-based (like the Singapore Standards on Auditing) and the profession is accustomed to applying principle-based standards, the EC considered whether there remains a need to prescribe specific steps that must be taken by out-going and incoming public accountants. In doing so, the EC considered the sufficiency of the requirements in the Revised IESBA Code as well as the following:
 - a. When an out-going public accountant receives a request for information from an incoming public accountant, although the out-going public accountant might legitimately take into account a number of issues when deciding what to disclose, it should be a basic professional requirement for the out-going public accountant to at least respond and state whether and how he can comply with a request.
 - b. While prescriptive requirements provide certainty, the EC preferred the principles-based approach and thought that in a professional environment, the Code should not need to be overly-prescriptive, notwithstanding that in the past disputes in this area had been common.
 - c. Prescriptive requirements do not always provide for a better process or better certainty and not everything can be prescribed for.

- d. Prescriptive steps might unintentionally encourage incoming public accountants to take a formulaic approach of going through the steps blindly rather than properly considering the facts.
42. Having regard to these general considerations, and the presence of equivalent requirements or principles in the Revised IESBA Code, the EC is recommending to remove the SG provisions (SG210.17A-D):

SG210.17A: *Before accepting a nomination as auditor in a financial statement audit engagement, the public accountant (PA) should, in every case, undertake the following safeguards:*

- a) *communicate with the existing PA, if any, who is to be superseded; or*
- b) *enquire from such existing PA as to whether there is any professional or other reason for the proposed change of which he should be aware before deciding whether to accept appointment.*

SG210.17B: *The existing PA, on receipt of communication referred to in SG210.17A, shall immediately:*

- a) *reply, in writing, advising whether there are any professional or other reasons why the proposed PA should not accept the appointment;*
- b) *if there are any such reasons or other matters which should be disclosed, ensure that he has the permission of the client to give details of this information to the proposed PA. If permission is not granted, the existing PA shall report that fact to the proposed PA; and*
- c) *on receipt of permission from the client, disclose all information needed by the proposed PA to enable him to decide whether to accept the appointment and discuss freely with the proposed PA all matters relevant to the appointment of which the latter should be aware.*

SG210.17C: *If the proposed PA does not receive, within a reasonable time, a reply to his communication to the existing PA and he has no reason to believe that there are any exceptional circumstances surrounding the proposed change, he shall endeavour to communicate with the existing PA by some other means.*

SG210.17D: *If the proposed PA is unable to obtain a satisfactory outcome pursuant to para SG210.17C, he shall send a final letter by registered post, stating that he assumes there is no professional or other reason why he should not accept the appointment and that he intends to do so. The proposed PA may accept the engagement if he is satisfied that there are no professional or other reasons for the proposed change after taking into account guidance set out in SG210.10 to SG210.18.*

Consultation Question 6: What are your views on the position that the steps set out in SG provisions (SG210.17A-D) are no longer needed to supplement the provisions in the Revised IESBA Code?

Consultation Issue 7: Accounting and Bookkeeping Services

43. Assisting an audit client with matters such as preparing accounting records or financial statements may threaten independence as they may create a self-review threat. Hence, this is generally not allowed except for very limited ‘routine’ or ‘mechanical’ services that an auditor may provide to an audit client if certain safeguards are in place.
44. The 2009 Singapore Code states that an audit firm and its network firm must not provide accounting and book-keeping services to a public or listed client but may provide such services to divisions or subsidiaries of their public or listed audit clients provided the situation meets certain criteria.
45. One of the criteria is that the fee to be received by the firm or network firm must be clearly insignificant. An SG provision (SG290.172A) defines “clearly insignificant” using a “bright-line” test. The EC considers that this SG provision is no longer necessary because the Revised IESBA Code no longer includes the criterion on the significance of the fee. Instead, the key criterion is whether the divisions or related entities for which the service is provided are material to the financial statements of the client. Further, the EC considers that testing the materiality of the divisions or related entities is sufficient without the need to assess the significance of the fee to the firm and network, as in this area it makes sense for the focus to be on impact of the services on the financial statements rather than on the fee received by the audit firm.

Consultation Question 7: What are your views on the proposal to not retain the test and guidance relating to the significance of the fee given to a firm and network firm for the provision of accounting and bookkeeping services in circumstances where this is permitted, as set out in SG290.172A?

Consultation Issue 8: Recruitment Services

46. If an audit firm helps an audit client to recruit a senior manager, especially someone who can affect the financial information to be audited, it may threaten the auditor’s independence because it may create current or future self-interest, familiarity or intimidation threats.
47. The 2009 Singapore Code specifies the positions for which an auditor must not provide recruitment services to an audit client, under an SG provision (SG290.203A) that was inserted to bring clarity to the principles in the 2006 IESBA Code. These specific prohibitions were carried over from the 2002 ACRA Code of Ethics. While the 2006 IESBA Code did not set out any specific prohibitions, the Revised IESBA Code is clearer about the types of positions in PIEs that auditors should not provide recruitment services for:

Audit clients that are public interest entities

290.215: *A firm shall not provide the following recruiting services to an audit client that is a public interest entity with respect to a director or officer of the entity or senior management in a position to exert significant influence over the preparation of*

the client's accounting records or the financial statements on which the firm will express an opinion:

- *Searching for or seeking out candidates for such positions; and*
- *Undertaking reference checks of prospective candidates for such positions.*

48. The EC considered that as the profession is now more familiar with principles-based standards and with the Revised IESBA Code being clearer, the SG provision is no longer necessary and should not be retained.

Consultation Question 8: What are your views on the proposal to not retain the SG provision (SG290.203A) that prohibits provision of certain recruitment services to PIE clients given that the Revised IESBA Code has clarified the types of positions in the PIE clients, which if recruited by the audit firm, would give rise to independence threats?

Consultation Issue 9: Custody of Client Assets

49. The 2006 IESBA Code states that a professional accountant should not assume custody of client monies or other assets unless permitted to do so by law and, if so, in compliance with any additional legal duties imposed on a public accountant holding such assets. It also states that holding client assets may threaten compliance with the Code's fundamental principles, and suggest safeguards that professional accountants should put in place when entrusted with client monies or other assets.
50. An SG provision (SG270.1A) was included in the 2009 Singapore Code because it was considered that the 2006 IESBA Code was ambiguous about whether a complete prohibition on accountants assuming custody of client assets and monies was intended, and because a complete ban would have prevented accounting entities from providing existing services, such as payroll services. The intent of SG270.1A was to make it clear that accounting entities may continue to provide such services in circumscribed areas (accounting-related, corporate secretarial and regulated financial services) provided they comply with the relevant laws that apply to all entities providing such services. The Revised IESBA Code contains no significant amendments to this provision and the EC proposes to retain SG270.1A

Consultation Question 9: What are your views on the proposal to retain the SG provision (SG270.1A) on Custody of Client Assets?

Consultation Issue 10: Related Entities

51. An audit firm (and its network) must be independent of an audit client's related entities in certain respects. The Revised IESBA Code contains a change to when an auditor must be independent of the related parties of a non-listed client.
52. Under the 2009 Singapore Code:
- a. In the case of a listed or public company client, the audit and network firm must consider the interests and relationships that involve all of the client's related

entities⁹ (when the client is a listed or public company the definition of client always includes its related entities).

- b. For all other clients, when the assurance team has reason to believe that a related entity is relevant to the evaluation of the firm's independence of the client, the assurance team should consider that related entity when evaluating independence and applying appropriate safeguards [Thus, the matter is open to assurance team to decide whether to apply safeguards or not].
53. Under the Revised IESBA Code, the situation for listed entities (i.e. not all public interest entities) is the same - references to an audit client include the client's related entities (unless otherwise stated)¹⁰.
54. The situation for all other clients will be different, in that there will now be situations when the auditor must consider certain of the client's related entities:
- a. **References to an audit client include related entities over which the client has direct or indirect control** and not all related entities (which are defined in the Revised IESBA Code¹¹), for example, it does not include parent or "sister" entities.
 - b. When the audit team knows or has reason to believe that a relationship or circumstance involving another related entity of the client is relevant to the evaluation of the firm's independence from the client, the audit team shall include that related entity when identifying and evaluating threats to independence and applying appropriate safeguards.
55. The EC considered that the principle in the Revised IESBA Code is sound in that the identification and evaluation of threats to independence is also important for audit clients that are non-listed entities. For very large non-PIE audit clients, the EC felt that the change might not affect them significantly as these companies could have foreign subsidiaries for example in the United States, which are already subjected to existing Securities and Exchange Commission requirements on the provision of non-audit services. [Thus the impact of the change in terms of limiting the choice of accounting firms that such large non-PIE audit clients could engage for non-audit services might not be that great.]

⁹ Paragraph 290.34

¹⁰ Paragraph 290.27

¹¹ Related Entity: An entity that has any of the following relationships with the client:

- (a) An entity that has direct or indirect control over the client if the client is material to such entity;
- (b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity;
- (c) An entity over which the client has direct or indirect control;
- (d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and
- (e) An entity which is under common control with the client (a "sister entity") if the sister entity and the client are both material to the entity that controls both the client and sister entity.

56. The EC is proposing to adopt the Revised IESBA Code in keeping as close as possible to the international standard but would like to hear comments on how this particular rule would affect the non-PIE and audit firms alike.

Consultation Question 10: What in your views are the impact of adopting the provision in the Revised IESBA (290.27) which defines an audit client, in the case of a non-listed client, as including certain related entities for the purpose of identifying and evaluating threats to independence in referring non-listed audit clients?

Consultation Issue 11: Cross-References

57. The EC proposes to remove the following paragraphs which merely make cross-references to other relevant paragraphs, as they are not strictly necessary, i.e. in line with the preference not to include Singapore additions unless necessary:
- a. **SG240.3A** - Contingent Fees
 - b. **SG260.3A** - Gifts and Hospitality
 - c. **SG290.125A** - Loans and Guarantees
 - d. **SG290.152A** - Auditor rotation

Consultation Question 11: What are your views on the proposal to remove the SG provisions that merely provide cross-references?

THREE HOW TO PROVIDE FEEDBACK

58. To help facilitate a productive and focused consultation process, you are encouraged to:
 - Indicate your name and organisation (if any);
 - Focus on the questions for feedback; and
 - Give your comments clearly and concisely.
59. If you have general comments on other aspects of the 2009 Singapore Code that you think should be changed in accordance with revisions of the Revised IESBA Code, please include these in a separate section and indicate the specific paragraphs of the Code that you are referring to.
60. Please note that the feedback received may be made public unless confidentiality is specifically requested for all or part of the submission.
61. The consultation exercise ends on 10 January 2014.
62. Please send your feedback by e-mail to: ACRA_Consultation@acra.gov.sg. Please indicate “Public Consultation on Code of Professional Conduct and Ethics” in the subject line.

APPENDIX SUMMARY OF OTHER KEY CHANGES IN REVISED IESBA CODE

1. The following description of changes to the Revised IESBA Code of Ethics is based on documents prepared by the IESBA staff, with some additional explanation.
2. The key changes (other than those mentioned above in the consultation paper) are highlighted here so as to give the public accounting profession advance notice especially given that some may result in a need to change processes and practices, for example there are new independence requirements which affect the kind of non-assurance services an auditor may provide a client.
3. The EC proposes that these amendments should be adopted without amendment or supplementary SG provisions because they are integral to the Revised IESBA Code. Respondents are nevertheless welcome to provide any comments on the revisions relating to implementation or the need for guidance.

Changes to the Structure of the Code: Review Engagements and Other Assurance Engagements

4. Under the Revised IESBA Code, reviews of financial statements will be subject to the same independence requirements that apply to audits. The requirements for audits and reviews will be set out in section 290. This differs from the 2006 IESBA Code which had separate sections for the independence requirements for audits and reviews of financial statements.
5. The independence requirements for assurance engagements that are not audit or review engagements are set out separately in section 291.
6. Under the proposed amendments to the Accountants Act, all reviews would come under ACRA's oversight and some other assurance services intended to be relied on by third parties may also come under ACRA's oversight. Hence, ACRA intends to adopt sections 290 and 291 of the Revised IESBA Code.

Changes to Drafting Conventions

7. The Revised IESBA Code includes many new drafting conventions. For example:
 - a. "Shall" replaces words like "should" to impose a requirement on the professional accountant or firm to comply with the specific provision in which "shall" has been used.
 - b. Consistent usage of "consider", "evaluate" and "determine", to make clear what an auditor must do:
 - i. "Consider" will be used where the accountant is required to think about several matters;
 - ii. "Evaluate" will be used when the accountant has to assess and weigh the significance of a matter; and

- iii. “Determine” will be used when the accountant has to conclude and make a decision.

Changes to the Conceptual Framework of the Code

8. The 2006 IESBA Code is based on a conceptual framework of key principles, identification of threats to the principles and the application of principles.
9. The Revised IESBA Code includes an enhanced explanation of the conceptual framework approach (100.1 – 100.11). For example, “clearly insignificant” has been replaced by “acceptable level” and this phrase has been defined¹². So, for example, an auditor must apply safeguards to reduce any threats to an “acceptable level”. Previously, an auditor had to consider whether to apply safeguards if a threat was other than “clearly insignificant”.

Threats to Compliance with the Fundamental Principles

10. The Revised IESBA Code’s descriptions of the “threats” to the fundamental principles (100.12) are clearer about the possible impact on the principles, and contain clearer examples of the circumstances that create such threats (200.3). The table below shows examples of these changes.

Self-Interest Threat	
2009 Singapore Code (100.10 & 200.4-8)	Revised IESBA Code (100.12 & 200.4-8)
<p>Description: May occur as a result of the financial or other interests of a public accountant or of an immediate or close family member.</p> <p>Examples:</p> <ul style="list-style-type: none"> a. A financial interest in a client or jointly holding a financial interest with a client b. Undue dependence on total fees from a client c. Having a close business relationship with a client d. Concern about the possibility of losing a client e. Potential employment with a client f. Contingent fees relating to an assurance engagement g. A loan to or from an assurance client or any of its directors or officers 	<p>Description: The threat that a financial or other interest will inappropriately influence the professional accountant’s judgment or behaviour</p> <p>Examples:</p> <ul style="list-style-type: none"> a. A member of the assurance team having a direct financial interest in the assurance client b. A firm having undue dependence on total fees from a client c. A member of the assurance team having a significant close business relationship with an assurance client d. A firm being concerned about the possibility of losing a significant client e. A member of the audit team entering into employment negotiations with the audit client f. A firm entering into a contingent fee arrangement relating to an assurance engagement

¹² Acceptable level: A level at which a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances available to the professional accountant at that time, that compliance with the fundamental principles is not compromised.

	g. A professional accountant discovering a significant error when evaluating the results of a previous professional service performed by a member of the professional accountant's firm
Self Review Threat	
2009 Singapore Code	Revised IESBA Code
<p>Description: May occur when a previous judgment needs to be re-evaluated by the public accountant responsible for that judgment.</p> <p>Example:</p> <ol style="list-style-type: none"> a. The discovery of a significant error during a re-evaluation of the work of the public accountant b. Reporting on the operation of financial systems after being involved in their design or implementation c. Having prepared the original data used to generate records that are the subject matter of the engagement d. A member of the assurance team being, or having recently been, a director or officer of that client e. A member of the assurance team being, or having recently been, employed by the client in a position to exert direct and significant influence over the subject matter of the engagement f. Performing a service for a client that directly affects the subject matter of the assurance engagement 	<p>Description: The threat that a professional accountant will not appropriately evaluate the results of a previous judgment made or service performed by the professional accountant, or by another individual within the professional accountant's firm or employing organization, on which the accountant will rely when forming a judgment as part of providing a current service.</p> <p>Example:</p> <ol style="list-style-type: none"> a. A firm issuing an assurance report on the effectiveness of the operation of financial systems after designing or implementing the systems b. A firm having prepared the original data used to generate records that are the subject matter of the assurance engagement c. A member of the assurance team being, or having recently been, a director or officer of the client d. A member of the assurance team being, or having recently been, employed by the client in a position to exert significant influence over the subject matter of the engagement e. The firm performing a service for an assurance client that directly affects the subject matter information of the assurance engagement
Advocacy Threat	
2009 Singapore Code	Revised IESBA Code
<p>Description: May occur when a public accountant promotes a position or opinion to the point that subsequent objectivity may be compromised.</p> <p>Example:</p> <ol style="list-style-type: none"> a. Promoting shares in a listed entity when that entity is a financial statement audit client 	<p>Description: The threat that a professional accountant will promote a client's or employer's position to the point that the professional accountant's objectivity is compromised.</p> <p>Example:</p> <ol style="list-style-type: none"> a. The firm promoting shares in an audit client b. A professional accountant acting as an advocate on behalf of an audit client in

b. Acting as an advocate on behalf of an assurance client in litigation or disputes with third parties	litigation or disputes with third parties
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Changes to General Requirements in the Code

Enhanced documentation requirement

11. As part of the new drafting conventions, the Revised IESBA Code’s provisions on what auditors need to document about their independence decisions are clearer and use the word “*shall*” instead of “*should*” which makes clear that documentation is required. They also require documentation of significant analysis of independence issues even if the auditor finally concluded that safeguards were unnecessary:
 - a. The 2009 Singapore Code states that auditors *should* document their decisions to accept or continue assurance engagements even though they have identified threats to independence which are “not clearly insignificant” (290.40). The documentation should describe the threats and the safeguards applied to reduce the threats to an acceptable level.
 - b. The Revised IESBA Code (290.29) states that an auditor *shall* document conclusions regarding compliance with independence requirements, and the substance of any relevant discussions that support those conclusions. Accordingly:
 - i. When safeguards are required to reduce a threat to an acceptable level, the auditor shall document the nature of the threat and the safeguards in place or applied that reduce the threat to an acceptable level; and
 - ii. When a threat required significant analysis to determine whether safeguards were necessary and the professional accountant concluded that they were not because the threat was already at an acceptable level, the auditor shall document the nature of the threat and the rationale for the conclusion.

Management Responsibilities

12. Auditors should not assume an audit client’s management responsibilities because it creates self-review, self-interest and familiarity threats. The need to avoid doing so is the reason behind some of the independence requirements in the 2009 Singapore Code, for example the restrictions on providing internal audit services to audit clients.
13. The Revised IESBA Code introduces new paragraphs specifically dealing with “Management Responsibilities”, which more clearly describe the existing principle that auditors shall not assume a management responsibility for an audit client (see 290.162 – 166). Auditors should consider whether there is a threat to this principle even if it is not mentioned in the Code’s provisions on specific areas.
14. The paragraphs on management responsibilities describe the activities that would be, and would not be, generally regarded as a management responsibility, and require the firm to be satisfied regarding certain responsibilities that management must accept in order to avoid the risk of the firm assuming a management responsibility when providing non-assurance services to an audit client.

Mergers and Acquisitions

15. When an auditor's client acquires, or merges with, another entity, the auditor needs to assess whether this will create any independence issues. The Revised IESBA Code introduces a new section on what the auditor must do when, as a result of a merger or acquisition, an entity becomes a related entity of an audit client (290.33 – 38), thus requiring the auditor to assess and react to independence issues accordingly.
16. In such situations, the auditor has two options: to continue to be the auditor but terminate any interests or relationships not permitted under the Revised IESBA Code by the date of the merger or acquisition, or, resign as auditor. The Revised IESBA Code sets out when each option is required and also the steps that must be undertaken if there is good reason why a transition can only be made after the effective date of the merger or acquisition.

Changes Relating to Application of the Revised IESBA Code in Specific Areas

Taxation Services

17. The 2009 Singapore Code (based on the 2006 IESBA Code) notes that a broad variety of tax assignments are available and are generally not seen to create threats to independence.
18. The Revised IESBA Code identifies ways in which certain tax services can threaten auditor independence and states the types of taxation services that are permitted, permitted if safeguards are in place, or not permitted (290.181 – 194). Thus these changes may have an impact on current practice in Singapore and public accountants should review these carefully.
19. The provisions address tax services under four broad headings:
 - a. **Tax return preparation:** does not generally create a threat to independence if management takes responsibility for the returns including any significant judgments made.
 - b. **Tax calculations for the purposes of preparing the accounting entries:**
 - i. Creates a self-review threat if it will be subsequently audited by the firm, the significance of which depends on several factors, and which several safeguards may address.
 - ii. For PIE audit and review clients, a firm shall not prepare tax calculations of current and deferred tax liabilities (or assets) for the purpose of preparing accounting entries that are material to the financial statements on which the firm will express an opinion, except in emergency situations.
 - c. **Tax planning and other advisory services:**
 - i. A self-review threat may be created where the advice will affect matters to be reflected in the financial statements. The existence and significance of any

threat will depend on several factors and may be addressed by several safeguards.

- ii. A firm shall not provide such tax advice to an audit client where the effectiveness of the tax advice depends on a particular accounting treatment or presentation in the financial statements and:
 - The audit team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and
 - The outcome or consequences of the tax advice will have a material effect on the financial statements on which the firm will express an opinion;

because the self-review threat would be so significant that no safeguards could reduce the threat to an acceptable level.

d. Assistance in the resolution of tax disputes:

- i. An advocacy or self-review threat may be created when the firm represents an audit client in the resolution of a tax dispute once the tax authorities have notified the client that they have rejected the client's arguments on a particular issue and either the tax authority or the client is referring the matter for determination in a formal proceeding. The existence and significance of any threat will depend on several factors and may be addressed by several safeguards.
- ii. Auditors must not act as an advocate for an audit client before a public tribunal or court if the amounts involved are material to the financial statements because the advocacy threat would be so significant that no safeguards could eliminate or reduce the threat to an acceptable level. The firm is not, however, precluded from continuing in an advisory role (for example, responding to specific requests for information, providing factual accounts or testimony about the work performed or assisting the client in analyzing the tax issues) in relation to the hearing of the matter.

Valuation Services

20. A self review threat may be created if an audit firm performs a valuation that will be incorporated into the financial statements that it is auditing.
21. Under the 2009 Singapore Code, auditors must not provide clients with valuation services that are material to the financial statements *and* involve a significant degree of subjectivity. Other valuation services may be provided if sufficient safeguards are in place (290.174-179).
22. The Revised IESBA Code includes a key change with respect to PIE audit clients. A firm shall not provide valuation services to a *PIE* audit client if the valuations would have a material effect, separately or in the aggregate, on the financial statements – i.e. regardless of the *subjectivity* involved.

Key Audit Partners (KAP) and the provisions that apply to KAP

23. The independence requirements apply variously to the audit firm and its network firms, individuals (such as the public accountant responsible for the audit, i.e. the engagement partner) and the audit team. For example, some requirements apply to the engagement partner but not the other members of the audit team.
24. The Revised IESBA Code introduces a new term “Key Audit Partner” (KAP) whom, generally, will be subject to the same independence requirements that currently apply to the engagement partner and engagement quality review partner. For example, the provisions on long association with particular audit clients and employment with former audit clients will apply to any KAP.
25. KAPs are defined as: the engagement partner, the individual responsible for the engagement quality control review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, “other audit partners” may include, for example, audit partners responsible for significant subsidiaries or divisions.
26. Firms will need to analyse which partners should be regarded as a KAP with respect to an individual audit client.

Long Association with Audit Clients

27. If a senior audit personnel works with the same audit client over a long period of time it may create a familiarity threat.
28. Under the 2009 Singapore Code, for listed clients, the engagement partner and the partner responsible for the engagement quality control review should spend no longer than seven years on the same engagement (SG290.152A-157)¹³. There is some flexibility in this requirement to cater for situations when continuity is particularly important or where due to the audit firm’s size it is difficult to meet the rotation requirement.
29. The key changes to the long association requirements in the Revised IESBA Code are:
 - a. The requirements for listed entities apply to all PIEs;
 - b. The PIE requirements extend rotation to all KAPs; and
 - c. In a firm with few people with the necessary knowledge and skill to serve as the KAP, and thus where rotation is not an available safeguard, rotation is not required only when:
 - i. an independent regulator has provided an exemption from partner rotation in such circumstances; and
 - ii. that regulator has provided alternative safeguards, which are applied.

¹³ The current limit imposed on engagement partners of companies listed on the Singapore Exchange is five years.

30. With respect to whether there should be regulatory exemptions in Singapore from the rotation requirements for smaller firms, the EC considers that it is important for audit firms that service PIE clients to be committed to having the required resources and so does not recommend that such an exemption be provided.

Compensation based on selling of non-audit services to the audit client

31. A self-interest threat is created when a member of an audit team is evaluated on or compensated for selling non-assurance services to the audit client. The Revised IESBA Code introduces new requirements governing this situation:
- a. A KAP shall not be evaluated on or compensated based on that partner's success in selling non-assurance services to the partner's audit client. This is not intended to prohibit normal profit-sharing arrangements between partners of a firm.
 - b. For other members of the audit team, it is not prohibited but the Revised IESBA Code sets out factors that affect the significance of the threat to independence and if the threat is not at an acceptable level, the compensation plan must be revised or certain safeguards must be applied.

Further Revisions to the Revised IESBA Code

32. In 2013, the IESBA made further revisions to the Revised IESBA Code in the following four areas:
- i. Conflicts of interest;
 - ii. Breach of a requirement of the IESBA Code;
 - iii. Definition of "engagement team"; and
 - iv. Definition of "those charged with governance" and related changes to the Code.

(i) Conflicts of interest

33. A professional accountant may be faced with a conflict of interest when undertaking a professional activity. This creates a threat to objectivity and may create threats to the other fundamental principles. The Revised IESBA Code provides more comprehensive guidance in identifying, evaluating and managing conflicts of interest. The enhanced guidance provides two situations when conflicts may arise:
- a. The professional accountant undertakes a professional activity related to a particular matter for two or more parties whose interests with respect to that matter are in conflict; or
 - b. The interests of the professional accountant with respect to a particular matter and the interests of a party for whom the professional accountant undertakes a professional activity related to that matter are in conflict.
34. The Revised IESBA Code sets out the requirement for the professional accountant to:
- a. Identify conflicts of interest across network firms when the professional accountant has reason to believe it may exist or might arise due to interests and relationships of a network firm;

- b. Evaluate the significance of the conflict and threats created by performing the professional service; and
- c. Disclose the nature of the conflict of interest and the related safeguards, if any, to clients affected by the conflict and, when safeguards are required to reduce the threat to an acceptable level, to obtain their consent to the professional accountant performing the professional services.

(ii) Breach of a requirement of the IESBA Code

35. This new IESBA guidance provides for a framework that can be applied across jurisdictions to assist those charged with governance, auditors, and regulators in:
- a. evaluating the significance of the breach and its impact on the professional accountant's ability to comply with the fundamental principles; and
 - b. determining appropriate responses by the professional accountant on whether to report the breach or whether other actions can be taken.
36. The key provisions in the Revised IESBA Code call for:
- a. The audit firm to exercise professional judgment in weighing the significance of the breach and the action to be taken.
 - b. The reporting of breaches to those charged with governance as soon as possible, unless those charged with governance have specified an alternative timing for reporting less significant breaches.
 - c. The audit firm to communicate in writing with those charged with governance all matters discussed to enable their concurrence to be obtained that action can be, or has been, taken to satisfactorily address the consequences of the breach. Where concurrence is not obtained that the action satisfactorily addresses the consequences of the breach, the audit firm shall take steps to terminate the audit engagement.
 - d. The audit firm to document the breach, action taken, key decisions made and all the matters discussed with those charged with governance and any discussions with a member body, relevant regulator or oversight authority. The matters to be documented shall also include the conclusion that, in the firm's professional judgment, objectivity has not been compromised and the rationale for why the action taken satisfactorily addressed the consequences of the breach such that the firm could issue an audit report.

(iii) Definition of "engagement team"

37. Under the International Auditing and Assurance Standards Board (IAASB)'s International Standard on Auditing (ISA) 610 (Revised 2013), *Using the Work of Internal Auditors*, the external auditors are permitted to use internal auditors to provide direct assistance on the external audit.

38. To clarify the relationship between internal auditors providing direct assistance on an external audit and the meaning of an engagement team under the IESBA Code, the revised definition of “engagement team” now excludes individuals within the client’s internal audit function who provide direct assistance on an audit engagement.

(iv) Definition of “those charged with governance” and related changes to the Code

39. The IAASB’s ISA 260, *Communication with those Charged with Governance*, contains a definition of “those charged with governance” and considers communication with a subgroup of those charged with governance to be appropriate in some instances. An example of a subgroup is the audit committee.

40. To align with the relevant guidance provided in ISA 260, the IESBA Code’s definition of “those charged with governance” has been revised, mainly to indicate that those charged with governance may include management personnel.

41. On communication with a subgroup of those charged with governance, related changes have been made to two relevant paragraphs of the IESBA Code. These provide guidance that the auditors shall consider the nature and importance of the particular circumstances and matter to be communicated, when determining the appropriate person(s) within the entity’s governance structure with whom to communicate.



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