Proposed Changes to the ACRA Code relating to Long Association of Personnel with an Audit or Assurance Client (LA provisions)

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Agenda

1. Background to the LA Provisions
2. Revised time-on/cooling-off period
3. Transitional provision
4. Illustration on the application of the transitional provision
5. Service in a combination of roles
6. Restriction on activities during cooling-off period

Background
to the LA Provisions

Background to the Revised LA Provisions

- Issue - using the same personnel over long period may create familiarity and self interest threats which may affect audit quality.

- Objective - to enhance the effectiveness of rotation of Key Audit Partners (KAP)[1] on Public Interest Entity (PIE) audits and the restriction of activities during the cooling-off period, to address the threats to the auditors' independence

- Subject to the transitional provision, effective for audits of financial statements for periods beginning on or after 15 December 2018

[1] KAP is defined as:

1. The engagement partner (EP)
2. The individual responsible for engagement quality control review (EQCR)
3. Other audit partners on the engagement team:
   a. Who make key decisions or judgements on significant matters with respect to the audit of the financial statements on which the firm will express an opinion; and
   b. Are responsible for significant subsidiaries or divisions (depends on circumstances and role of individuals in audit).

Key changes to the existing ACRA Code

Key changes to LA Provisions – Time-on/Cooling-off period

	Current ACRA Code	Revised LA provisions
Time-on period on public interest entity (PIE) audits	• 7 years for all KAPs • KAP may be permitted an additional year beyond the 7-year time-on period in unforeseen circumstances (e.g. serious illness of the intended EP	• 7 years, no change • KAP may be permitted an additional year beyond the 7-year time-on period in unforeseen circumstances, provided that those charged with governance (TCWG) concur
Cooling-off period	• 2 years for all KAPs	• 5 years/3 years/2years for EP/EQCR/other KAP respectively (Increase in cooling-off period for EP to ensure an effective fresh look by the incoming partner. For EQCR, the increase is because its role has more significance compared to other KAP)

Rotation Requirement for KAPs on PIE Audits

- SSQC1.A14 which applies to all audit firms states that national requirements may establish shorter rotation periods.

<u>Companies listed on the SGX</u>

- Listing Rules - audit partner must not be in charge of more than 5 consecutive audits for a full financial year and the audit partner may return after 2 years
- SGX has agreed to harmonise the time-on and time-off requirements in Singapore and have one single point of reference for the requirements
- SGX has started the process to amend the listing rules to refer to the relevant ACRA Code for the requirements

Rotation Requirement for KAPs on PIE Audits

<u>Large charities and institutions of a public character</u>

- Charities Regulations - auditor to be changed at least once every 5 years whether to another auditor from the same auditing firm or to another auditor from a different auditing firm
- A large charity refers to one with gross annual receipts of not less than $10 million in each of the last 2 financial years
- Public accountants are to comply with the stricter of the rotation requirements prescribed in the ACRA Code and the Charities Regulations

EPs will be subject to 5-year time-on and the eventual 5-year cooling-off requirements when the Revised LA provisions in the ACRA Code come into effect

Transitional provision

Transitional provision

- Cooling-off period for EPs in those jurisdictions that have established a cooling-off period of less than 5 years may be reduced to the higher of that period or 3 years

- Applicable for audits of financial statements for periods prior to 15 December 2023

- Singapore has an established cooling-off period of 2 years currently. Hence, the applicable cooling-off period for EPs on PIE audits will be 3 years during the transitional period

Illustration on the application of the transitional provision

Scenario 1

2016 (Yr 5)	2017	2018	2019 (Yr 1)	2020 (Yr 2)	2021 (Yr 3)	2022 (Yr 4)	2023 (Yr 5)	2024 (Yr 6)	2025 (Yr 7)
EP	X	X	KAP	KAP	KAP	KAP	KAP	KAP	KAP

Completed 2 years cooling-off

New 7-year term from 2019 to 2025

Effective Date

- PA served 5 years as an EP on a SGX listed company audit by 2016
- Not involved in the audit for the next 2 years in 2017 and 2018
- PA has completed cooling-off of 2 years before the new provisions take effect from 2019
- May return to the audit for a new 7-year term from 2019

Scenario 2(a)

2016 (Yr 5)	2017 (Yr 6)	2018 (Yr 7)	2019	2020	2021	2022 (Yr 1)	2023 (Yr 2)	2024 (Yr 3)	2025 (Yr 4)
EQCR	EQCR	EQCR	X	X	X	KAP	KAP	KAP	KAP

Completed 3 years cooling-off

New 7-year term from 2022 to 2028

Effective Date

- PA served 7 years as an EQCR on a PIE audit by 2018
- Required to cool-off for 3 years under the new provisions
- May return to the audit for a new 7-year term from 2022

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Scenario 2(b)

2016 (Yr 5)	2017 (Yr 6)	2018 (Yr 7)	2019	2020	2021 (Yr 1)	2022 (Yr 2)	2023 (Yr 3)	2024 (Yr 4)	2025 (Yr 5)
Other KAP	Other KAP	Other KAP	X	X	KAP	KAP	KAP	KAP	KAP

Completed 2 years cooling-off

New 7-year term from 2021 to 2027

Effective Date

- PA served 7 years as an Other KAP on a PIE audit by 2018
- Required to cool-off for 2 years
- May return to the audit for a new 7-year term from 2021

Scenario 3 – Option 1

2016 (Yr 4)	2017 (Yr 5)	2018	2019	2020	2021 (Yr 1)	2022 (Yr 2)	2023 (Yr 3)	2024 (Yr 4)	2025 (Yr 5)
EP	EP	X	X	X	KAP	KAP	KAP	KAP	KAP

1 year

2 years

New 7-year term from 2021 to 2027

Completed total 3 years cooling-off

Effective Date

End of Transitional Period

- PA served 5 years as an EP on a SGX listed company audit by 2017
- Started cooling off from 2018 as required by the existing provisions
- Has not completed a 2-year cooling-off period by the time the new provisions take effect
- Option 1 - Continue to cool-off for another 2 consecutive years
- May return to the audit for a new 7-year term from 2021

Scenario 3 – Option 2

2016 (Yr 4)	2017 (Yr 5)	2018	2019 (Yr 6)	2020 (Yr 7)	2021	2022	2023	2024 (Yr 1)	2025 (Yr 2)
EP	EP	X	EP	EP	X	X	X	KAP	KAP

5 years

2 years

Completed 3 years cooling-off

New 7-year term from 2024 to 2030

Cumulative 7 years

Effective Date

End of Transitional Period

- Option 2 - Serve for a further two years on the 2019 and 2020 audits, making for a total cumulative 7 years under the new provisions
- Cool-off for 3 consecutive years
- May return to the audit for a new 7-year term from 2024

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Scenario 4 – Option 1

2016 (Yr 3)	2017 (Yr 4)	2018 (Yr 5)	2019 (Yr 6)	2020 (Yr 7)	2021	2022	2023	2024 (Yr 1)	2025 (Yr 2)
EP	EP	EP	EP	EP	X	X	X	KAP	KAP

5 years

2 years

Completed 3 years cooling-off

New 7-year term from 2024 to 2030

Cumulative 7 years

Effective Date

End of Transitional Period

- PA served 5 years as an EP on a SGX listed company audit up to 2018, before the new provisions come into effect
- Option 1 - Continue to serve as an EP for an additional 2 years to reach the cumulative 7-year time-on period under the new provisions
- Cool-off for 3 consecutive years
- May return to the audit for a new 7-year term from 2024

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Scenario 4 – Option 2

2016 (Yr 3)	2017 (Yr 4)	2018 (Yr 5)	2019	2020	2021	2022 (Yr 1)	2023 (Yr 2)	2024 (Yr 3)	2025 (Yr 4)
EP	EP	EP	X	X	X	KAP	KAP	KAP	KAP

Completed 3 years cooling-off

New 7-year term from 2022 to 2028

Effective Date

End of Transitional Period

- Option 2 – Cool-off for 3 consecutive years under the new provisions from 2019 audit
- May return to the audit for a new 7-year term from 2022

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Scenario 5

2016 (Yr 2)	2017 (Yr 3)	2018 (Yr 4)	2019 (Yr 5)	2020 (Yr 6)	2021 (Yr 7)	2022	2023	2024	2025 (Yr 1)
EP	EP	EP	EP	EP	EP	X	X	X	KAP

2 years

1 year

Completed total 3 years cooling-off

Effective Date

End of Transitional Period

- PA served 7 years as an EP on a PIE audit by 2021
- Started cooling-off from 2022 as required by the new provisions
- Completed 2 years of cooling-off by 2023 audit (end of the transitional period)
- Required to cool-off for an additional 1 year to reach 3 consecutive years of cooling-off
- May return to the audit for a new 7-year term from 2025

Key changes to LA Provisions
– Service in a combination of roles

Current ACRA Code

- **No provision relating service in a combination of KAP roles as the cooling-off period are the same at 2 years for all KAPs**

Determination of the cooling-off period for a combination of KAP roles:

If, during the 7-years time-on period, the individual has acted as:	Cooling-off period (years)*
EP for 4 or more years	5
EQCR for 4 or more years	3
Combination of EP and EQCR for 4 or more years, of which:	
▪ EP for 3 or more years	5
▪ Any other combinations	3
All other combinations	2

* The transitional provision allows the EP's cooling-off period to be reduced to 3 years for audits of financial statements for period beginning prior to 15 December 2023.

Key changes to LA Provisions
– Restriction on activities during cooling-off period

Current ACRA Code [290.149]

- **Former KAP shall not be an engagement team member or EQCR**
- **Consultation with former KAP is prohibited**

Revised LA Provisions

a) Former KAP shall not be an engagement team member or EQCR

b) Consultation with former KAP is prohibited.

Exceptions: If it is about work undertaken or conclusions reached in the last year of the former KAP's time-on period. A balance is struck between facilitating the partner transition and bring a fresh look to the audit.

c) Prohibited from being the "relationship partner"

d) Shall not undertake any role, including provision of non-assurance services, that would result in:

i. frequent interaction with senior management or TCWG; or

ii. exerting direct influence on the outcome of the audit engagement

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12th PUBLIC REPORT 2018

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Section 7: Revisions to the ACRA Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (ACRA Code): Long Association of Personnel with an Audit or Assurance Client

7.1 ACRA is making changes to the ACRA Code addressing the Long Association of Personnel with an Audit or Assurance Client ("Revised LA provisions") based on the pronouncement issued by the International Ethics Standards Board for Accountants ("IESBA"). The Revised LA provisions aim to enhance the effectiveness of the current requirements on rotation of Key Audit Partners (KAPs) on public interest entities ("PIE") audits and the restriction of activities during the cooling-off period, to address the threats to the auditors' independence created by long association.

7.2 Subject to the transition provision set out at 7.9 below, the Revised LA provisions will be effective for audits of financial statements for periods beginning on or after 15 December 2018 and for other assurance engagements from 15 December 2018.

7.3 The purpose of this section[10] is to share what the key provisions are, so that public accountants can assess the impact on their current practices and make the necessary changes before the provisions become effective.

7.4 The key provisions and changes to the extant ACRA Code (where applicable) are as follows:

A. <u>Rotation Requirements for KAPs on PIE Audits</u>

7.5 Under the current ACRA code, the time-on and cooling-off periods for all KAPs on PIE audits are 7 years and 2 years respectively.

7.6 SSQC 1.A14[11] which applies to *all* audit firms states that national requirements may establish shorter rotation periods. For audits of companies listed on the Singapore Exchange Limited (SGX), Rule 713 of the extant Singapore Exchange Securities Trading Limited (SGX-ST)

[10] This section includes extracts from "Close-Off: Changes to the Code Addressing the Long Association of Personnel with an Audit or Assurance Client" and "Staff Questions and Answers – Long Association of Personnel with an Audit Client" of the IESBA, published by the International Federation of Accountants (IFAC) in January 2017 and May 2017 respectively and are used with permission of IFAC. All rights reserved.

[11] Para A14 of the Singapore Standard on Quality Control (SSQC) 1: *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* states that "*The ACRA Code recognizes that the familiarity threat is particularly relevant in the context of financial statement audits of listed entities. For these audits, the ACRA Code requires the rotation of the key audit partner after a pre-defined period, normally no more than seven years, and provides related standards and guidance.* ***National requirements may establish shorter rotation periods.***" (emphasis added)

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