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## **ACRA STRENGTHENS CODE OF PROFESSIONAL CONDUCT AND ETHICS FOR PUBLIC ACCOUNTANTS AND ACCOUNTING ENTITIES**

**Singapore, 10 November 2014** – From 1 February 2015, the Code of Professional Conduct and Ethics (the Code) for public accountants and accounting entities will be strengthened further. As a profession that serves the public interest, it is crucial that public accountants remain a profession with integrity and independence, and serve as a valued and trusted source of information and advice. In this era of economic volatility and a rapidly evolving corporate landscape, the Code is a vital set of guiding principles for public accountants to rely on and enable them to make the right decisions when faced with conflicting choices between economic interests and ethical considerations.

2 The current Code is largely based on the International Ethics Standards Board for Accountants (IESBA)'s 2006 Code of Ethics with some modifications and additional provisions for Singapore public accountants (SG provisions). It also specifies the setting up of safeguards to help public accountants avoid situations that could result in ethical dilemmas.

3 The review of the Code was carried out by the Accounting and Corporate Regulatory Authority (ACRA)'s Public Accountants Oversight Committee with the support of the Ethics Sub-Committee (EC). The proposed amendments to the current Code take into account revisions made to the IESBA Code up to September 2013. In November 2013, ACRA invited members of the public to give feedback on the proposed amendments and the feedback received was generally positive. A summary of the feedback received and ACRA's responses can be found in Annex A. The proposed amendments have been accepted by the Ministry of Finance.

### **Key Amendments to the Code**

4. The revised Code is built on the same principles as the previous Code and continues to require public accountants to ensure professional independence in key areas. The key amendments include:

- (a) Extending higher independence standards to all audits and reviews of public interest entities (PIEs), large charities and large institutions of a public character as opposed to only audits of listed and public companies currently. This is in recognition of the need for a high degree of public confidence in the financial information of such entities.
- (b) Under the revised Code, review engagements will be subject to the same independence requirements as audit engagements. Although the level of

assurance obtained under both types of engagement differs, both audit and review engagements<sup>1</sup> involve the public accountant expressing a conclusion on historical financial information. It is also recognised that in many review engagements, the public accountant expresses a conclusion on a complete set of financial statements.

- (c) Removal of certain SG provisions to align with international benchmarks or where the new provisions from the latest version of IESBA's Code have provided clearer or sufficient guidance compared to the IESBA's 2006 Code of Ethics. SG provisions to be removed include prohibiting the provision of internal audit and certain information technology systems services to listed and public company audit clients and contingent fee arrangements for services to such entities. In place of the present SG Provisions, ACRA will adopt the IESBA Code's thresholds that address the independence risk related to the level of audit fees an auditor receives from an audit client<sup>2</sup>. However, as an additional safeguard, the SG provision which addresses the issue of relative fee size between audit and non-audit services has been retained for the time being<sup>3</sup>. ACRA will review IESBA's requirements when its project in this area is completed.
- (d) New requirements to further safeguard the independence of auditors. These include the identification of a Key Audit Partner (KAP), who would make key decisions or judgments on significant matters with respect to the audit. Additional requirements will be placed on KAPs such as partner rotation, cooling off period before joining a PIE audit client in certain positions and prohibiting a KAP from being evaluated on or compensated based on that partner's success in selling non-assurance services to the partner's audit or review clients.

5. The revised Code also introduces several new requirements and contains enhanced application guidance in certain areas. More details can be found in [Annex B](#).

6. ACRA would like to thank members of the public and the industry partners who have taken the time to provide their feedback.

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Attachments:

Annex A: Summary of key feedback received and ACRA's responses to the feedback

Annex B: Details of key amendments to the Code

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<sup>1</sup> A review engagement is an assurance engagement conducted in accordance with Singapore Standards on Review Engagements whereby the public accountant expresses a conclusion which provides a limited assurance on the financial information as opposed to a reasonable assurance provided in an audit engagement which is conducted in accordance with Singapore Standards on Auditing.

<sup>2</sup> This is in view that should a large proportion of an auditor's fees comes from one client, it can threaten the auditor's independence as a result of the financial ramifications should the auditor lose the client's business.

<sup>3</sup> As a mandatory safeguard, an amendment is introduced to require auditors to disclose to those charged with governance of the fact that the threshold has been crossed.

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**About ACRA**

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. As at 31 October 2014, 457,751 business entities and 1,021 public accountants practising in public accounting firms, accounting limited liability partnerships and accounting corporations are registered with ACRA.

***About the Public Accountants Oversight Committee (PAOC)***

The PAOC was established under the Accountants Act and promotes audit quality and protects the public interest through functions such as the registering of public accountants, the determining of standards and other professional requirements, as well as the administering of the Practice Monitoring Programme (PMP), complaints and disciplinary procedures.

***About the Ethics Sub-Committee***

The Ethics Sub-Committee is established by the PAOC with a mandate to, amongst others, review the existing Code of Professional Conduct and Ethics to ensure that it remains relevant in promoting the standards of the profession of public accountancy in Singapore.

The current committee comprises the following members:

- Mr Quek See Tiat (Chairman of the EC), Chairman, Building and Construction Authority
- Mr Gerard Ee, President, Institute of Singapore Chartered Accountants; Immediate Past Chairman, SIM Governing Council & Public Transport Council
- Mr Winston Ngan, Head of Financial Services, Ernst & Young LLP
- Mr Sajjad Akhtar, Managing Partner, PKF-CAP LLP, Chairman of PKF International Limited and member of PAOC
- Mr Lim Ah Doo, Independent Director, Sembcorp Marine Ltd
- Mr Thio Shen Yi SC, Joint Managing Director, TSMP Law Corporation

For more information, please visit [www.acra.gov.sg](http://www.acra.gov.sg)

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*Note: The terms “audit” and “audit client” include “review” and “review client”.*

## Summary of Key Feedback Received and ACRA's Responses

### I. Public Interest Entity (PIE)

#### (a) Consultation Question 1A: Whether the proposed PIE definition under the Accountants Act (AA) review should be adopted for purposes of independence requirements under the ACRA Code.

##### Summary of Feedback Received:

1. There was strong support for the adoption of a consistent PIE definition across all of ACRA's audit regulations as this provides clarity and certainty to the accountancy profession. Majority of respondents agreed with the proposed PIE definition that is being reviewed under the AA. Some respondents preferred IESBA's principles-based approach rather than a prescriptive PIE definition. It was highlighted that the proposed PIE definition should also include entities listed in other jurisdictions and exclude certain financial institutions (for example, insurance brokers and offshore banks) as these entities were of limited public interest or did not take deposits from retail customers. Guidance was also requested on when entities in the process of issuing securities would be regarded as PIEs given that the process could take several years.

##### ACRA's Response:

2. A prescriptive PIE definition is not inconsistent with the IESBA's approach which allows jurisdictions to decide on the types of entities for which independence requirements applicable to a PIE would apply. ACRA agrees that the PIE definition should include Singapore incorporated entities which are listed outside Singapore as these entities are required to be audited by Singapore public accountants who are within scope of ACRA's supervision. On the scope of financial institutions to be included as PIE, the identified financial institutions generally have access to public funds or handle assets for a broad range of customers, including members of the public.

3. ACRA proposes, that for the purposes of applying paragraph 290.25(b)(i) of the IESBA Code, to adopt the proposed PIE definition that is being reviewed under the AA with an additional category of Singapore incorporated entities listed outside Singapore. ACRA also proposes that the date the auditor is engaged to provide assurance on documents intended to meet listing requirements would be used to determine when entities in the process of issuing securities would be regarded as PIEs. This is being proposed as it is conceptually in line with the spirit of the Code and in practice when auditors would start treating such entities as PIEs when evaluating risk during client acceptance.

**(b) Consultation Question 1B: Whether auditors of large charities and institutions of a public character (IPCs) should be subject to the same independence requirements as those that audit PIEs.**

Summary of Feedback Received:

4. All respondents agreed that in principle, auditors of large charities and large IPCs, although not defined as PIEs, should be subject to the same independence requirements as those that audit PIEs. Some respondents suggested restricting the definition to entities conducting public fund raising to avoid scoping in charities funded by sponsoring organisations and that other factors besides “receipts” (for example, usage of receipts and nature of fund-raising activities) should be considered.

ACRA’s Response:

5. ACRA proposes to subject auditors of large charities and large IPCs to the same requirements as those that audit PIEs. For consistency reasons, the guidelines for determining a “large charity” and a “large IPC” as established respectively in the Charities (Large Charities) Regulations and Charities (Institutions of a Public Character) Regulations will be used.

## **II. Internal Audit (IA) Services**

**Consultation Questions 2A and 2B: Whether the SG provision which prohibits IA services for a PIE audit client should be retained and if the benefits to clients would outweigh the need to provide certainty and public confidence if provisions under the IESBA Code were adopted in place of the SG provision.**

Summary of Feedback Received:

6. Approximately half of the respondents supported retaining the SG provision to prohibit IA services to a PIE audit client. These respondents felt that the existing restrictions were widely understood and easy to implement in practice as opposed to applying subjective concepts of “significant” and “material” under the IESBA Code. One respondent felt that public confidence could be affected if external auditors had dual responsibility of reporting to the board of directors (in an IA role) and the shareholders (in an external auditor’s role). Respondents who supported removing the SG provision were of the view that the IESBA Code is now sufficiently clear and that clients would benefit (in terms of costs and knowledge of the business) if auditors could assist in providing certain IA services.

ACRA’s Response:

7. ACRA notes that the IESBA Code has provided guidance on the nature and types of IA services which are prohibited. The prohibitions would limit the scope of IA work that an auditor could provide such that it would be unlikely that an auditor could undertake fully outsourced IA services for a PIE audit client and report to the board of directors in an IA role. ACRA also considers that removing the complete ban would allow greater flexibility for auditors to be engaged for certain IA services which would be in the interest of the client, as auditors already have knowledge of the client’s business. As such, ACRA proposes adopting

the IESBA provisions on IA services and removing the SG provision. Where necessary, guidance on determining “significant” and “material” will be provided.

### **III. Information Technology (IT) Systems Services**

**Consultation Question 3: Whether the SG provision which prohibits IT systems 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 client should be removed and the approach of the IESBA Code adopted instead.**

#### Summary of Feedback Received:

8. Most respondents agreed with removing the SG provision and adopting the IESBA Code provisions instead. Respondents who disagreed felt that it would be difficult to confine IT systems to areas which do not impact the financial statements since IT systems are pervasive and that the term “significant” used in the IESBA Code is difficult to implement.

#### ACRA’s Response:

9. ACRA believes that it is possible to identify IT systems that do not have an impact on financial reporting for which auditors could provide assistance on. Removing the SG provision would not mean that all IT systems services would be permitted as there are still prohibitions under the IESBA Code which need to be observed<sup>4</sup>. In line with adopting a principles-based Code, ACRA proposes adopting the IESBA provisions on IT systems services and removing the SG provision. Where necessary, guidance on determining “significant” will be provided.

### **IV. Relative Fees**

**Consultation Questions 4A and 4B: Whether the SG thresholds on relative fees should be removed with the exception of the threshold on fees from non-audit services to audit fees.**

#### **(a) Fees from an audit client relative to the firm’s fees**

#### Summary of Feedback Received:

10. There was majority support for the adoption of the IESBA thresholds in place of the SG thresholds. However, in respect of non-PIE audit clients, some respondents felt that the term “large proportion” used in the IESBA Code was subjective and difficult to implement.

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<sup>4</sup> Such as in the case of a PIE audit client, a firm shall not provide services involving the 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 the client’s accounting records or financial statements on which the firm will express an opinion.

ACRA's Response:

11. In respect of PIE audit clients, ACRA notes that the IESBA Code's threshold of 15% is comparable with other jurisdictions that have established "bright-line" thresholds in this area<sup>5</sup> and does not propose deviating from international benchmarks.

12. As for non-PIE audit clients, ACRA believes that there should be some leeway for judgement by auditors on what constitutes "large proportion" and although a percentage threshold is not specified in the IESBA Code, guidance is provided on factors to be considered when determining if an independence threat is significant. Hence, ACRA proposes removing the SG provisions and adopting IESBA's threshold of 15% for PIE audit clients and not specifying a threshold for non-PIE audit clients.

**(b) Non-audit fees from an audit client relative to audit fees**

Summary of Feedback Received:

13. There were slightly more respondents who were in favour of retaining the SG provision as the threshold was useful and it would be less disruptive to the market in view of IESBA's ongoing project on provision of non-assurance services and relative fee sizes which may result in similar requirements being introduced. One respondent suggested that the discussion with those charged with governance be made a mandatory safeguard when the threshold is crossed. Several respondents also highlighted an inconsistency between the threshold used in the ACRA Code and that prescribed under section 12 of the Companies Act (CA) Regulations<sup>6</sup> for purposes of CA section 206(1A)<sup>7</sup> and sought consideration to be given to align the two thresholds.

ACRA's Response:

14. ACRA agrees that until the IESBA's project in this area is finalised, the SG provision should be retained so as not to introduce new requirements later. ACRA proposes that the SG provision be retained with a proposed amendment for SG290.206B to only make reference to the 50% threshold and to remove the reference to "significant" in SG290.206B(b) so as to enhance clarity in application.

15. ACRA also agrees that disclosure to those charged with governance of the fact that the threshold has been crossed, should be made a mandatory safeguard. With regard to the inconsistency in thresholds, a review will be undertaken to determine if the two requirements could be reconciled.

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<sup>5</sup> Thresholds in other jurisdictions - US Securities and Exchange Commission: 15%, UK Auditing Practices Board: 10%, German Commercial Code: 15%.

<sup>6</sup> Companies Regulations section 12 states "*For the purposes of section 206(1A) of the Act, a review of the fees, expenses and emoluments of an auditor of a public company shall be undertaken if the total amount of fees paid to the auditor for non-audit services in any financial year of the company exceeds 50% of the total amount of the fees paid to the auditor in that financial year.*"

<sup>7</sup> Companies Act section 206(1A) states "*...a public company shall, under prescribed circumstances, undertake a review of the fees, expenses, emoluments of its auditor to determine whether the independence of the auditor has been compromised.....*"

### **(c) Fees from an audit client relative to a public accountant's fees**

#### Summary of Feedback Received:

16. There was support for removing the SG provision to conform to international benchmarks.

#### ACRA's Response:

17. ACRA notes that the IESBA Code has outlined factors to be considered when evaluating threats where fees from an audit client are a large proportion of the public accountant's portfolio. Specifying a threshold may not be relevant in some cases, for example, public accountants with only a few clients such as those with management responsibilities or those who serve large clients. As such, ACRA proposes to remove the SG provision.

## **V. Contingent Fees**

**Consultation Question 5: Whether the SG provision that prohibits contingent fees for services to a PIE audit client should be removed and the IESBA Code provisions adopted instead.**

#### Summary of Feedback Received:

18. Most respondents agreed with removing the SG provision to conform to international benchmarks although some felt that contingent fee arrangements for non-assurance services could also create self-interest threats.

#### ACRA's Response:

19. ACRA notes that the IESBA Code provides sufficient guidance on factors to be considered when assessing the significance of independence threats arising from contingent fee arrangements for non-assurance services and such threats are capable of being adequately safeguarded. Hence, a complete ban may be unnecessary and ACRA proposes that the SG provision be removed.

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## **VI. Changes to Professional Appointments**

**Consultation Question 6: Whether the prescriptive steps set out in the SG provisions are no longer needed to supplement the IESBA Code provisions.**

#### Summary of Feedback Received:

20. There was more support for removing the SG provision as respondents felt that the IESBA Code provides sufficient guidelines in this area. Those who preferred retaining the SG provisions were of the view that the prescriptive steps were still useful and it might be premature to remove the provisions as the IESBA may introduce new requirements for incoming auditors to communicate with outgoing auditors.



ACRA's Response:

21. ACRA notes that the IESBA is exploring improvements in information sharing between audit firms when one firm decides to resign from, or is not reappointed to an audit engagement. In view of potential developments in the IESBA Code in this area, ACRA will retain the SG provisions for the time being.

## **VII. Accounting and Bookkeeping Services**

**Consultation Question 7: Whether the test and guidance relating to the significance of fees given to a firm and network firm for the provision of accounting and bookkeeping services where permitted, should be retained.**

Summary of Feedback Received:

22. Most respondents agreed with removing the SG provision as they were of the view that the materiality concept under the IESBA Code was well-understood and it made sense to focus on the impact of the services on the financial statements rather than the fee. Others felt that the fee test was still relevant for the purposes of assessing self-interest threat.

ACRA's Response:

23. The "bright-line" test in the SG provision focuses on the significance of fees to the firm which may not correlate to the impact that the services may have on the financial statements. The consideration of self-interest threat would be dealt with under the assessment of non-audit fees relative to audit fees. As there is no similar test specified for other non-assurance services, ACRA does not propose retaining the SG provision for accounting and bookkeeping services.

## **VIII. Recruitment Services**

**Consultation Question 8: Whether the SG provision which prohibits certain recruitment services for PIE audit clients should be removed given that the IESBA Code has clarified the types of positions which if recruited by the audit firm, would give rise to independence threats.**

Summary of Feedback Received:

24. There was strong support for removing the SG provision to conform to international benchmarks.

ACRA's Response:

25. As the positions specified under the SG provision are encompassed within the roles covered by the IESBA Code, ACRA does not see any incremental benefit in retaining the SG provision and proposes that it be removed.

## **IX. Custody of Client Assets**

**Consultation Question 9: Whether the SG provision which clarifies that such services may be provided in circumscribed areas, should be retained.**

### Summary of Feedback Received:

26. There was overall support for retaining the SG provision as it removes ambiguity.

### ACRA's Response:

27. ACRA proposes to retain the SG provision as it is a mere clarification and is not inconsistent with a principles-based Code.

## **X. Related Entities**

**Consultation Question 10: Views were sought on the impact of adopting the IESBA provision which defines an audit client, in the case of a non-listed client as including certain related entities for the purposes of evaluating independence.**

### Summary of Feedback Received:

28. Most respondents agreed with the IESBA approach and did not believe it would cause undue hardship to the profession.

### ACRA's Response:

29. ACRA believes that the IESBA requirement to always consider "controlled entities" of a non-PIE audit client as "related entities" is relevant for the consideration of independence as these entities are likely to be consolidated into the financial statements of the audit client and would thus be subject to audit. Hence, ACRA proposes to adopt the IESBA provision.

## **XI. Cross-references**

**Consultation Question 11: Whether the SG provisions which merely provide cross-references should be removed.**

### Summary of Feedback Received:

30. Most respondents agreed with removing the SG provisions except that there was a suggestion to retain SG290.125A (Loans and Guarantees) which provide a cross-reference to the Companies Act (CA).

### ACRA's Response:

31. ACRA proposes that the SG provisions be removed as they do not appear particularly useful. The Companies (Amendment) Bill 2013 proposes that the existing provisions relating to independence requirements under section 10 of the CA be repealed. In view of the proposed legislative amendments, it would be unnecessary to retain SG290.125A.

The revised Code introduces several new requirements and contains enhanced application guidance in certain areas. These include the following:

- *Breach of a requirement of the Code* – introduces a framework for addressing a breach of a requirement of the Code which includes requirements to report breaches to those charged with governance (TCWG) and obtain TCWG's concurrence on actions that have been or will be taken to address the breach.
- *Client mergers and acquisitions* – introduces new requirements and application guidance addressing situations where, as a result of a merger or acquisition, an entity becomes a related entity of an audit or review client and the requirement for the firm to evaluate independence based on its interests and relationships with the related entity.
- *Documentation* – introduces additional guidance on what firms are required to document with respect to their conclusions regarding compliance with independence requirements.
- *Evaluation and compensation* – a new requirement that prohibits a key audit partner from being evaluated on or compensated based on that partner's success in selling non-assurance services to the partner's audit or review clients.
- *Key Audit Partner (KAP)* – a newly defined term which includes the engagement partner, individual responsible for engagement quality control and review and other audit partners who make key decisions or judgements on significant matters in the audit. A KAP will be subject to more restrictive requirements such as partner rotation and cooling off requirements before joining a PIE audit client in certain positions. Firms will need to analyse which partners should be regarded as a KAP with respect to each audit or review client.
- *Management responsibilities* – introduces clear prohibitions on firms assuming management responsibilities for an audit or review client.
- *Related entities* – introduces a change whereby references to a non-listed audit or review client will always include related entities over which the client has direct or indirect control. Firms must consider these entities in the evaluation of independence.
- *Taxation services* – contains new provisions on tax services<sup>8</sup> and highlights how certain tax services could threaten auditor independence and expands the guidance on permitted and prohibited tax services. Under the previous Code, tax services are generally not seen to create independence threats.

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<sup>8</sup> The provisions address tax services under four broad headings:

- Tax return preparation
- Tax calculations for the purposes of preparing the accounting entries
- Tax planning and other advisory services
- Assistance in the resolution of tax disputes