INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

ACCOMPANYING DOCUMENT

IESBA LIMITED RE-EXPOSURE OF PROPOSED CHANGES TO THE CODE ADDRESSING THE LONG ASSOCIATION OF PERSONNEL WITH AN AUDIT CLIENT

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CONTENTS

IESBA Limited Re-Exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client

Accompanying Document for Public Consultation in Singapore

Background and Objective:

In August 2014, the International Ethics Standards Board for Accountants (IESBA) issued an exposure draft proposing changes to certain provisions of the Code of Ethics for Professional Accountants (IESBA Code) addressing the long association of personnel with an audit or assurance client. A limited re-exposure draft was issued in February 2016 and is currently undergoing consultation (collectively referred to as the Long Association EDs).

As the ACRA and ISCA Codes of Professional Conduct and Ethics are closely aligned to the IESBA Code, the proposed changes in the Long Association EDs may significantly impact rotation requirements for key audit partners[1] (KAPs) of public interest entities (PIEs)[2] in Singapore, if adopted. In view of the above, ISCA would like to obtain feedback on specific issues which may .

Guidelines on Providing Feedback to the Accompanying Document:

ISCA invites views on the specific questions posed in the accompanying document. In order to facilitate a meaningful feedback process, respondents are encouraged to:

- Indicate your name, designation as well as the organisation you represent;
- Focus on the specific consultation questions set out in the accompanying document;
- Include a clear rationale for your comments; and
- Include an alternative (where applicable) that ISCA could consider.

[1] A key audit partner is 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.

[2] In the ACRA and ISCA Codes of Professional Conduct and Ethics, a public interest entity means —
(a) Any entity that is listed or is in the process of issuing its debt or equity instruments for trading on a securities exchange in Singapore;
(b) Any entity that is incorporated in Singapore and the securities of which are listed on a securities exchange outside Singapore; or
(c) Any financial institution.
The audit of large charities and large institutions of a public character shall be conducted in compliance with the same independence requirements that apply to the audit of listed entities.

Consultation Issue 1: Alignment of Time-on and Cooling-off[3] Periods for Auditors of Listed Entities

Based on the IESBA Long Association EDs, the time-on and cooling-off periods for engagement partners (EPs) of **listed entities** would be seven years and five years respectively (7/5). On the other hand, the time-on and cooling-off periods imposed on EPs by the SGX Listing (Mainboard) Rule 713 and SGX Listing (Catalist) Rule 713 are five years and two years respectively (5/2).

Question 1: What are your views on whether there should be an alignment of the time-on and cooling-off periods for auditors of listed entities in Singapore (i.e. align the SGX Listing Rules with international requirements as proposed by IESBA in the re-ED)?

Consultation Issue 2: Cooling-off Periods for Engagement Partners and Engagement Quality Control Review Partners

Based on the IESBA Long Association EDs, the time-on and cooling-off periods for the different categories of KAPs such as EPs and engagement quality control review (EQCR) partners are illustrated in the table below.

Table 1: Summary (Time-on period/ Cooling-off period)

KAP Roles	**Listed Public Interest Entity (PIE)**	**Non-Listed PIE**
EP	7/5[4]	7/5
EQCR partner	7/5[4]	7/3
Other KAPs	7/2	7/2

Question 2: What are your views on the ability of and practical challenges that may be faced by audit firms in Singapore, particularly small and medium audit practices (SMPs), in meeting the requirements of the cooling-off periods for EPs?

[3] Time-on period is the maximum length of time (in number of years) an individual is allowed to be a KAP on the engagement. Cooling-off period is the minimum length of time (in number of years) an individual is prohibited from being a KAP on the engagement.
[4] The cooling-off period may be reduced to three years if certain jurisdictional safeguards are in place.

Question 3: Taking into account the role of EQCR partners in audits prescribed in SSA 220 *Quality Control for an Audit of Financial Statements*[5],

(a) What are your views on whether there should be a segregation of cooling-off periods for EQCR partners of listed and non-listed PIEs in Singapore? Please explain your rationale.

(b) What are your views on whether the proposed cooling-off periods for EQCR partners of 5 years (for listed entities) and 3 years (for non-listed PIEs) are appropriate in the Singapore context? If no, what is a more appropriate EQCR cooling-off period? Please explain your rationale.

<u>Consultation Issue 3: Enhanced Restrictions on Activities of KAPs during Cooling-off Period</u>

Based on the IESBA Long Association EDs, in addition to the current restrictions whereby the former KAP is prohibited from being engagement team member or EQCR partner during the cooling off period, there would be enhanced restrictions on activities that can be carried out by former KAPs during the cooling-off period.

During the cooling-off period, the former KAP is prohibited from consulting with the engagement team or the client on technical or industry-specific issues, transactions or events affecting the audit engagement (other than discussions with the engagement team limited to work undertaken or conclusions reached in the last year of the KAP's time-on period).

However, if the former KAP acted as the EP or EQCR partner and is also, or becomes, an individual whose primary responsibility is to be consulted within a firm on a technical or industry-specific issue, the former EP or EQCR partner may provide such technical consultation to the engagement team provided:

(a) Two years have lapsed since the individual was the EP or EQCR partner;
(b) There is no other partner within the firm expressing the audit opinion with the expertise to provide the advice; and
(c) The consultation is in respect of issues, transactions or events that were not previously considered by the partner in the course of acting as EP or EQCR partner.

Additionally, the former KAP is prohibited from leading or coordinating the firm's professional services to the audit client or overseeing the firm's relationship with the audit client (sometimes referred to as the "relationship partner") and from undertaking any other role, including provision of

[5] SSA220.20 - The engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor's report. This evaluation shall involve:
(a) Discussion of significant matters with the engagement partner;
(b) Review of the financial statements and the proposed auditor's report;
(c) Review of selected audit documentation relating to the significant judgments the engagement team made and the conclusions it reached; and
(d) Evaluation of the conclusions reached in formulating the auditor's report and consideration of whether the proposed auditor's report is appropriate.

SSA220.21 - For audits of financial statements of listed entities, the engagement quality control reviewer, on performing an engagement quality control review, shall also consider the following:
(a) The engagement team's evaluation of the firm's independence in relation to the audit engagement;
(b) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and
(c) Whether audit documentation selected for review reflects the work performed in relation to the significant judgments made and supports the conclusions reached.

non-assurance services that would result in frequent interaction with senior management or those charged with governance or exerting direct influence on the outcome of the audit engagement.

Question 4: What are your views on the ability of and practical challenges that may be faced by audit firms in Singapore, particularly smaller audit practices, in meeting the enhanced restriction on activities of KAPs during the cooling-off period?

Consultation Issue 4: Definition of KAP

A key audit partner is defined by IESBA 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.

Question 5:
(a) What are your views on the clarity of the current definition of KAP and the practical challenges that audit firms in Singapore may face in identifying who are the KAPs in an engagement?

(b) Should more guidance be given to explain the definition? If so, what areas should the guidance cover?

Consultation Issue 5: EP Moving Directly into an EQCR Role

Currently, there are no specific provisions in the IESBA Code prohibiting an EP, who has not yet served the maximum time-on period of 7 years, from becoming the EQCR partner of the same entity, immediately upon ceasing to be the EP.

Question 6: Taking into account the role of EQCR partners in audits prescribed in SSA 220 *Quality Control for an Audit of Financial Statements*[5], what are your views on whether EPs (who have not yet served the maximum time-on period of 7 years) should be prohibited from becoming EQCR partners of the same entities immediately upon ceasing to be EPs? Please explain your rationale.