
Implementation Guidance

EP 100 IG 5

Code of Professional Conduct and Ethics

Frequently Asked Questions on Provision of Non-Audit Services to Listed Entities

This Implementation Guidance (IG) was issued by the Council of the Institute of Singapore Chartered Accountants (ISCA) on 21 October 2022.



CODE OF PROFESSIONAL CONDUCT AND ETHICS

FREQUENTLY ASKED QUESTIONS ON PROVISION OF NON-AUDIT SERVICES TO LISTED ENTITIES

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Introduction

Members of the Institute of Singapore Chartered Accountants (ISCA) must adhere to Ethics Pronouncement (EP) 100 *Code of Professional Conduct and Ethics* which is modelled after the *International Code of Ethics for Professional Accountants (including International Independence Standards)* published by the International Ethics Standards Board for Accountants (IESBA).

EP 100 also encompasses locally developed SG provisions included in the *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* issued by the Accounting and Corporate Regulatory Authority (ACRA). SG provisions (designated with the letters “SG” in EP 100 and ACRA Code) are local adaptations of the IESBA Code to serve the public interest in Singapore and to conform to Singapore’s regulatory environment and statutory requirements.

Auditor Independence When Providing Non-Assurance Services

Auditor independence is vital to public trust in audited financial statements and contributes to audit quality. In recent years, the provision of non-assurance services (NAS) by audit firms (“firms”) to their audit clients has emerged as an issue that is perceived to affect auditor independence.

To gain greater clarity on this, ISCA Ethics Committee set up a working group (WG) to delve into the concerns in applying NAS and fee-related provisions in EP 100 and recommend practices that will strengthen auditor independence in relation to the provision of NAS. The WG conducted a survey of audit committee (AC) members in March 2020 to obtain their views on matters concerning auditor independence when firms provide NAS to audit clients and on the WG’s recommendations to address NAS independence concerns.

ISCA’s publication on 22 October 2020, [Auditor Independence When Providing Non-Assurance Services](#), captured findings from the aforementioned survey of AC members.

Key Findings

Majority of respondents expressed support for several recommendations of the WG to address NAS independence concerns, including:

- (a) Having a threshold to trigger review and approval by those charged with governance (TCWG) of the provision of non-audit services by the firm or its network firms and for the computation of such threshold to cover only related entities over which the client has direct or indirect control. It was noted that information on NAS provided by network firms to parent and sister entities is also important, but it is practically challenging for firms to access such information.

Accordingly, the revised paragraph SG410.27A of EP 100 (Revised on 7 September 2022), which replaced the extant paragraph SG410.4A, excluded non-audit services fees earned by network firms from the audit client’s parent and sister entities in the fee proportion computation.

- (b) To develop a concept of “audit-related services” (ARS) and to exclude ARS fees from the computation of the threshold to trigger review and approval by TCWG.

For purposes of the fee proportion computation, the scope of non-audit services under the extant EP 100 might be too wide as it covers all services other than audit engagements. Scoping out ARS from the current definition of non-audit services would better reflect the essence of what non-audit services is. This would better assist the public in their judgements and assessments about the firm’s independence.

Accordingly, a new term, “audit-related services”, was included in the Glossary of EP 100 and ARS fees was excluded from the computation of the threshold in revised paragraph SG410.27A. The new term was developed with reference to the definition of ARS contained in paragraphs 5.35 and 5.36 of the UK Financial Reporting Council’s [Revised Ethical Standard 2019](#).

Revised Paragraph SG410.27A

Taking into consideration findings from the ISCA’s survey of AC members, revised paragraph SG410.27A was developed to replace extant paragraph SG410.4A:

Extant paragraph SG410.4A	Revised paragraph SG410.27A
<p>Where an audit client is a listed entity or a public company and the amount of annual fees received for non-audit services compared to the total annual audit fees from the audit client is 50% or more, the firm shall disclose to those charged with governance of the audit client the fact that the total of such fees represent 50% or more of total annual audit fees received by the firm and discuss the safeguards it will apply to reduce the threat to an acceptable level. Examples of safeguards that could be considered and applied include:</p> <ul style="list-style-type: none"> (a) Independent internal or external quality control reviews of the engagement; and (b) Consulting a third party, such as a professional regulatory body or other professional accountant, on key audit judgements. 	<p>Where an audit client is a listed entity and the amount of annual fees <u>received and to be received</u>¹ by the firm or its network firms for services other than audit (“such fees”) compared to the total annual audit fees for the audit client is 50% or more, the firm shall disclose to those charged with governance of the audit client to whom the firm is expressing the opinion on the financial statements the fact that the total of such fees represent 50% or more of total annual audit fees <u>received and to be received</u> by the firm or its network firms and discuss the safeguards it will apply to reduce the threat to an acceptable level.</p> <p>For this purpose:</p> <ul style="list-style-type: none"> (a) such fees shall only include fees charged to the client and its <u>related entities over which the client has direct or indirect control</u>; and (b) such fees shall not include the fees received and to be received for <u>audit-related services</u>² as defined in the Glossary. <p>Example of a safeguard that could be considered and applied is having an appropriate reviewer who was not involved in the audit or the service other than audit review the relevant audit work.</p>

Revised paragraph SG410.27A relates to the communication with TCWG about the proportion of fees for services other than audit to the audit fees for the audit client and the related safeguards, when this proportion exceeds 50%.

As tabled above, revised paragraph SG410.27A would scope out both (i) non-audit services fees earned by the firm or its network firms from the audit client’s parent and sister entities³ and (ii) ARS fees, from the fee proportion computation.

The formula of revised paragraph SG410.27A is:

$\% = \frac{\text{Non-audit services fees received from client and its controlled entities (excluding ARS fees)}^4}{\text{Fees from audit of the financial statements from client and its controlled entities}}$
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¹ Please refer to FAQ 1.

² Please refer to FAQ 2.

³ Please refer to FAQ 7.

⁴ “Controlled entities” in this IG refers to related entities of the client over which the client has direct or indirect control.

Application of Revised Paragraph SG410.27A to Audits of Listed Entities

ISCA has developed EP 100 Implementation Guidance (IG) 5 – *Frequently Asked Questions on Provision of Non-Audit Services to Listed Entities* to assist professional accountants in public practice to fulfil the requirements of revised paragraph SG410.27A which is applicable to audit clients that are listed entities.

It is important to note that the proportion of fees for services other than audit to the audit fee is one measure of audit independence. The ISCA Code recognises that a large proportion of fees for services other than audit to the audit fee requires that the conceptual framework to be applied and, where appropriate, other steps to be taken (e.g. implement safeguards) so that the independence of the auditor is preserved.

To clarify, revised paragraph SG410.27A does not prohibit fees for services other than audit from exceeding 50% of the audit fees but requires the auditor to disclose to TCWG whether the threats caused by a ratio beyond 50% are at an acceptable level, and if not, any actions that the audit firm has taken or proposes to take to reduce such threats to an acceptable level. Such disclosure would provide the background and context to enable TCWG to consider the independence of the audit firm.

Frequently Asked Questions (FAQs)

1. What do fees “received and to be received” comprise?

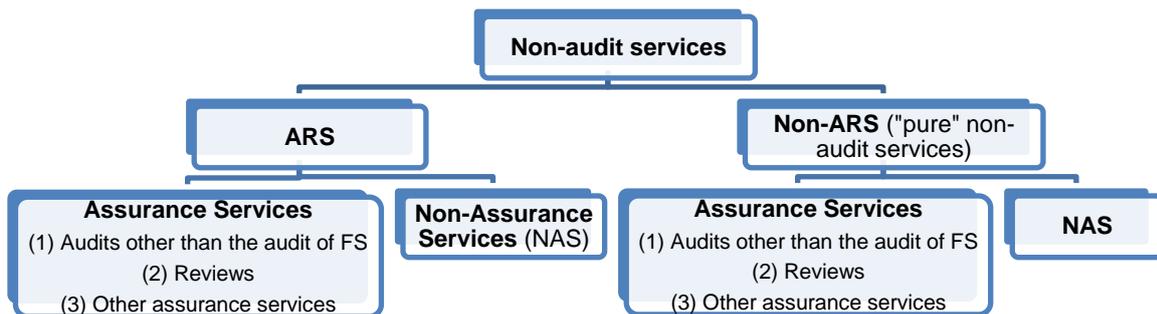
This means that the total fees related to the engagement should be taken into consideration in the fee proportion computation, regardless of whether the firm or its network firms have received the fees or not i.e., accrual basis and not cash basis.

2. What are audit-related services?

The definition of the term, “audit-related services” (ARS), in the Glossary of EP 100 is as follows:

Audit-related services	<p>Audit-related services are non-audit services where the work involved is</p> <ul style="list-style-type: none"> (i) closely related to the work performed in the audit engagement; and (ii) usually carried out by members of the engagement team for the audit engagement who are required to comply with the independence requirements. <p>Audit-related services include reporting required by law or regulation to be provided by an engagement team for the audit engagement.</p>
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For the purpose of SG410.27A, audit services refer to the audit of the financial statements (FS) and non-audit services would include the following:



Whether a service is ARS depends on the nature of the service and the scope of work to be performed. In assessing whether a service is ARS, firms should note that both conditions in the definition of ARS must be met. Firms must be able and prepared to explain the basis for regarding a service as ARS.

The table below is a non-exhaustive list of examples of ARS for reference:

Example of ARS	Rationale for inclusion as ARS
<p>(i) An engagement in connection with the initial public offering (IPO) or debt listing of an audit client on the Singapore Exchange (SGX), or the audit client's equity or debt fund-raising post listing, which includes auditors' reports on audited FS, financial forecasts, calculations of ratios, and comfort letter.</p>	<p>An IPO or debt listing, or equity or debt fund-raising post listing, would require the audited FS of the relevant financial periods to be presented in the prospectus or offering document. Thus, the provision of such service would be closely related to the work performed in the audit engagement.</p> <p>Related work such as review of interim financial information, report on profit forecast, report on internal controls, issuance of comfort letter, etc, are extensions of the work usually performed by the members of the engagement team and closely related to the work performed in the audit engagement.</p> <p>For example, in examining the financial forecasts as required under SSAE 3400 <i>The Examination of Prospective Financial Information</i>, the auditor is required to obtain a sufficient level of knowledge of the business to be able to evaluate whether all significant assumptions required for the preparation of the prospective financial information have been identified.</p> <p>AGS 11 <i>Comfort Letters and Due Diligence Meetings</i> also requires the reporting auditors to obtain knowledge of the internal controls, policies and procedures which are obtained as part of the audit engagement. Such knowledge of the business and of the internal controls, policies and procedures typically lies with the auditor.</p>
<p>(ii) Review/agreed-upon procedures (AUP) of half-year and full year results announcements of an audit client</p>	<p>The review/AUP is usually carried out by members of the engagement team and is closely related to the work performed in the audit engagement as such reviews would leverage on the work performed in the audit engagement.</p>
<p>(iii) An AUP report in connection with the submission of the Statement of Achievement under the Economic Development Board (EDB) Tax Incentive Scheme, in accordance with the terms and conditions specified by the EDB</p>	<p>This is an AUP engagement requested by a government agency to ensure that a return agrees to the underlying financial information of the entity. The AUP engagement is usually performed by members of the engagement team and is closely related to the work performed in the audit engagement as such AUP work would leverage on the work performed in the audit engagement.</p>

Example of ARS	Rationale for inclusion as ARS
<p>(iv) Auditors' report on statement of gross monthly revenue for reporting to landlord issued under Singapore Standard on Auditing (SSA) 805 <i>Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement</i></p>	<p>An engagement requested by the landlord to audit information derived from the underlying financial information of the entity. Such work requires an understanding of the entity and its environment, and such understanding typically lies with the auditor. The provision of such service by the auditor provides an efficient and consistent reporting and usually such work is performed by members of the engagement team.</p> <p>Paragraphs A5 and A6 of SSA 805 highlight that compliance with the requirements of relevant SSAs may not be practicable when the auditor is not also engaged to audit the entity's complete set of FS. This is because such engagement requires the auditor to have an understanding of the entity and its environment, including its internal control and the general quality of the accounting records or other accounting information that would be acquired in an audit of the entity's complete set of FS.</p>
<p>(v) Reviews of financial information required by the Monetary Authority of Singapore (MAS), such as in MAS Notice 609 "Auditors' Reports and Additional Information to be Submitted with Annual Accounts".</p>	<p>The financial information review is closely related to the financial statements audit and may be reasonably covered by the engagement team for the audit engagement through the extension of the work performed for the financial statements audit.</p>

3. Example of fee proportion computation under revised paragraph SG410.27A

For illustration purposes:

Annual fees received and to be received by the firm or its network firms from the client and its controlled entities on the following services:

Audit of the FS	\$100,000
Audit-related services (ARS)	\$40,000
Non-audit services (excluding ARS)	\$30,000

Based on the above, the fee proportion would be computed as follows:

$$\begin{aligned} \% &= \frac{\text{Non-audit services fees received from client and its controlled entities (excluding ARS fees)}}{\text{Fees from audit of the FS from client and its controlled entities}} \\ &= \$30,000/\$100,000 \\ &= \mathbf{30\%} \end{aligned}$$

4. Would audit firms need to obtain concurrence of those charged with governance (TCWG) prior to the provision of audit-related services?

ARS could be NAS or assurance services.

For ARS which are NAS, paragraph R600.21 of EP 100 (revised on 7 September 2022) would require firms of audit clients that are public interest entities (PIEs) (including listed entities) to inform, provide and obtain concurrence of TCWG⁵ prior to the provision of such ARS.

For ARS which are assurance services, there is no similar requirement to obtain concurrence of TCWG though the independence requirements in Part 4A and Part 4B of EP 100 will continue to apply.

5. When should the audit firm communicate with TCWG in the event the threshold under revised paragraph SG410.27A is exceeded?

Revised paragraph SG410.27A requires the firm to disclose to TCWG of an audit client which is a listed entity, the fact that the amount of annual fees received and to be received by the firm or its network firms for services other than audit compared to the total annual audit fees from the audit client is 50% or more.

This means that the firm should perform the fee proportion computation as soon as practicable before providing non-audit services to ensure prompt and timely disclosure to TCWG if the 50% threshold is crossed.

⁵ Paragraph 600.20 A2 provides that a firm might establish the procedure with TCWG on the provision of information about a proposed NAS which might be on an individual engagement basis, under a general policy, or on any other agreed basis.

6. Do audit firms have to disclose the fee proportion computation under revised paragraph SG410.27A to TCWG?

Revised paragraph SG410.27A requires the firm to disclose the fact that non-audit services fees exceed 50% of audit fees (refer to FAQ 5) but does not mandate the disclosure of the fee proportion computation to TCWG.

However, it is good practice to disclose a breakdown of the fee proportion computation, including the nature and quantum of the non-audit services, ARS and audit services provided to TCWG (refer to illustration in FAQ 3) to enable them to make informed judgement about the firm's independence.

7. Given that the fee proportion computation covers non-audit services fees received from the audit client and its controlled entities, do audit firms have to consider independence threats arising from non-audit services provided to the parent and sister entities of the audit client?

The fee proportion computation under revised paragraph SG410.27A does not include non-audit services fees earned from the audit client's parent and sister entities. However, it remains important for audit firms to have internal procedures to deal with any undue influence from the parent and sister entities and ensure that independence has not been compromised.

Firms should refer to the requirements in paragraphs R400.20 and R400.30 of EP 100 for independence to be maintained. Applying the principle in paragraph R400.20, if the audit team of the listed entity in Singapore "knows or has reason to believe" that fees from non-audit services paid by the parent or sister entity is relevant to their evaluation of the firm's independence, then they should identify, evaluate, and address threats to independence and discuss this with TCWG.

8. Would audit clients that are public interest entities (PIE) (including listed entities) be required to publicly disclose fee-related information? What about non-PIEs? If fee-related information is not publicly disclosed by the PIE audit client, what should the firm do?

Paragraphs 410.29 A1 to R410.32 of EP 100 (revised on 7 September 2022) would require public disclosure of fee-related information for audit clients that are PIEs (including listed entities). There is no such requirement for non-PIEs.

Where fee-related information is not publicly disclosed by the PIE audit client (including listed entities), paragraph R410.31 of EP 100 (revised on 7 September 2022) would require firms of PIE audit clients to publicly disclose fee-related information in a timely and accessible manner⁶, including:

- (a) Fees paid or payable to the firm and network firms for the **audit** of the FS on which the firm expresses an opinion;
- (b) Fees, other than those disclosed under (a), for the provision of services by the firm or a network firm charged to the client and its related entities over which the client has direct or indirect control that are consolidated in the FS on which the firm will express an opinion;
- (c) Any fees, other than those disclosed under (a) and (b), charged to any other related entities over which the audit client has direct or indirect control for the provision of services by the firm or a network firm **when the firm knows, or has reason to believe**, that such fees are relevant to the evaluation of the firm's independence; and
- (d) If applicable, the fact that the total fees received by the firm from the audit client represent, or are likely to represent, **more than 15%** of the total fees received by the firm for **two consecutive years**, and the year that this situation first arose.

⁶ When disclosing fee-related information in compliance with paragraph R410.31, the firm might disclose the information in a manner deemed appropriate taking into account the timing and accessibility of the information to stakeholders, for example:

- On the firm's website.
- In the firm's transparency report.
- In an audit quality report.
- Through targeted communication to specific stakeholders, for example a letter to the shareholders.
- In the auditor's report.

9. Example of public disclosure of fee-related information

For audit clients that are listed on SGX, Listing Manual Rule 1207(6)(a) requires disclosure of the aggregate amount of fees paid to auditors, broken down into audit and non-audit services. If there are no audit or non-audit fees paid, to make an appropriate negative statement.

For illustration purposes:

Notes to the Consolidated FS

Reference	Profit for the year	31 Dec 20X2	31 Dec 20X1
R410.31(a), Rule 1207(6)(a)	Audit fees		
	- Auditors of the Company	XX	XX
	- Other auditors – network firms	XX	XX
	- Other auditors – non-network firms	XX	XX
R410.31(b), Rule 1207(6)(a)	Non-audit fees		
	(i) Audit-related services (ARS)		
	- Auditors of the Company	XX	XX
	- Other auditors – network firms	XX	XX
	- Other auditors – non-network firms	XX	XX
	(ii) Non-ARS		
	- Auditors of the Company	XX	XX
	- Other auditors– network firms	XX	XX
	- Other auditors – non-network firms	XX	XX

[Where applicable, to consider additional disclosures as required under R410.31(c) and R410.31(d)]

Key Revisions to EP 100 (Revised on 7 September 2022)

Background

ISCA has issued revised EP 100 on 7 September 2022 to adopt four IESBA's final pronouncements (FPs):

- Revisions to the Non-Assurance Services Provisions of the Code (NAS FP);
- Revisions to the Fee-related Provisions of the Code (Fees FP);
- Revisions to the Code Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers; and
- Quality Management-related Conforming Amendments to the Code (QM FP).

In the process, EP 100 (revised on 7 September 2022) also replaces extant paragraph SG410.4A with revised paragraph SG410.27A, applicable to audit clients that are listed entities, and includes a new term, "audit-related services", in the Glossary to incorporate key recommendations arising from the ISCA's survey of AC members.

The revised EP 100 is expected to be effective **15 December 2022**.

Key revisions to EP 100 to adopt the IESBA's FPs and revised paragraph SG410.27A are as follows:

Section		Revision
325	Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers	<p>The new Section 325 explicitly refers to and supports the requirement in International Standard on Quality Management (ISQM) 2, <i>Engagement Quality Reviews</i> (ISQM 2) for a firm to establish, as a condition for eligibility, a cooling-off period of two years before an engagement partner can assume the engagement quality reviewer role on the same engagement.</p> <p>The enhanced provisions emphasizes that this cooling-off requirement in ISQM 2 serves the dual objective of supporting compliance with the fundamental principle of objectivity and the high quality of engagements.</p>
410	Fees	<p>Key revisions to Section 410 of EP 100 to adopt the Fees FP and revised paragraph SG410.27A are as follows:</p> <ul style="list-style-type: none"> • Recognition that threats to independence are created when fees are negotiated with and paid by the audit or assurance client. • New prohibition for firms not to allow fees for services other than audit to influence the audit fees. • New guidance to help firms determine what would constitute a large proportion of fees for services other than audit to audit fee. • Strengthened provisions to address undue fee dependency on audit clients that are public interest entities (PIEs). • New provisions relating to fee dependency on non-PIE audit clients. • New provisions to enhance transparency of fees paid by PIE audit clients to assist stakeholder judgments about auditor independence. • Revised paragraph SG410.27A, and to include a new term, "audit-related services", in the Glossary of EP 100, applicable to audit clients that are listed entities to better inform the views and decisions of those charged with governance (TCWG).

Section		Revision
600	Provision of Non-Assurance Services to an Audit Client	<p>Key revisions to Section 600 and topic-specific Subsections 601 to 610 of EP 100 to adopt the NAS FP are as follows:</p> <ul style="list-style-type: none"> • New prohibition on audit firms from providing NAS that might create a self-review threat to PIE audit clients. • Elimination of materiality as a factor in determining NAS permissibility for PIE audit clients. • New provisions to enable more robust engagement between firms and TCWG of PIE audit clients about independence matters relating to NAS.
	QM-related conforming amendments	<p>The IAASB issued its suite of quality management (QM) standards in December 2020. This suite of standards comprises:</p> <ul style="list-style-type: none"> • ISQM 1 <i>Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements</i>; • ISQM 2 <i>Engagement Quality Reviews</i>; and • International Standard on Auditing (ISA) 220 (Revised) <i>Quality Management for an Audit of Financial Statements</i>. <p>As a result of the finalisation of the above QM standards, the QM FP contains QM-related conforming amendments to the Code to make reference to concepts and terminologies used in ISQM 1, ISQM 2 and ISA 220 (Revised).</p> <p>In Singapore, ISCA, via the ISCA Auditing and Assurance Standards Committee, has also issued the local equivalent, SSQM 1, SSQM 2 and SSA 220 (Revised) with an effective date of 15 December 2022.</p>

Useful Resources

The Staff of IESBA has issued Basis for Conclusions which relate to but does not form part of the IESBA's FPs. These Basis for Conclusions explain how the IESBA has addressed the significant matters raised on exposure.

The Basis for Conclusions may be downloaded from the IESBA website using the links provided below:

- [Basis for Conclusions](#): Revisions to the Non-Assurance Services Provisions of the Code.
- [Basis for Conclusions](#): Revisions to the Fee-related Provisions of the Code.
- [Basis for Conclusions](#): Revisions to the Code Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers.
- [Basis for Conclusions](#): Quality Management-related Conforming Amendments to the Code.

The Staff of IESBA has also issued Questions and Answers (Q&A) publications to assist professional accountants in public practice (including firms) to adopt the non-assurance services and fee-related provisions. The Staff Q&A may be downloaded or using the links provided below:

- [IESBA Staff Q&A](#): Revised Non-Assurance Services Provisions of the Code.
- [IESBA Staff Q&A](#): Revised Fee-related Provisions of the Code.

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