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Provision Of Non-Audit Services To Listed Entities

Revised EP 100 Effective
15 December 2022



- EP 100 was revised to adopt four IESBA's final pronouncements.
- EP 100 has replaced extant paragraph SG410.4A with revised paragraph SG410.27A.
- A new term, "audit-related services" or ARS, was also introduced.



ETHICS PRONOUNCEMENT 100 CODE OF PROFESSIONAL CONDUCT AND ETHICS (EP 100) establishes ethical requirements for professional accountants who are ISCA members. It 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).

On 7 September 2022, ISCA, through its Ethics Committee (EC), revised EP 100 to adopt four IESBA's final pronouncements relating to (a) non-assurance services (NAS), (b) fees, (c) objectivity of an engagement quality

reviewer and other appropriate reviewers, and (d) quality management-related conforming amendments. In the process, EP 100 has replaced extant paragraph SG410.4A with revised paragraph SG410.27A, which is applicable to audit firms with audit clients that are listed entities. It also introduces a new term, "audit-related services" (ARS), in the Glossary. The revised EP 100 is expected to be effective 15 December 2022.

The article "Shedding Light On Audit Vs Non-Audit Fees", published in the June 2022 issue of this journal, explains the relevance of the 50% threshold (that is, extant paragraph SG410.4A).

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¹"Controlled entities" refers to related entities of the client over which the client has direct or indirect control.

This article is a followup piece to the June 2022 article to explain the application of the revised paragraph SG410.27A, and the new concept of ARS to audit clients that are listed entities.

Formula of Revised Paragraph SG410.27A

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

REVISED PARAGRAPH SG410.27A

The revised paragraph SG410.27A requires audit firms to communicate with those charged with governance (TCWG) of audit clients that are listed entities about the proportion of fees for non-audit services to the audit fees for the audit client and the related safeguards when this proportion exceeds 50%. This principle has remained generally the same as that of the extant paragraph SG410.4A.

The EC had received feedback that it is practically difficult to obtain fee information on NAS (which includes non-audit services) provided to the audit client's parent and sister entities for compliance with the extant paragraph SG410.4A. Arising therefrom, the EC recommended that the computation of the 50% threshold should cover only controlled entities and exclude ARS fees.

A survey of audit committee members was carried out in 2020 to obtain views on matters concerning auditor independence when providing NAS to audit clients. The majority of respondents to that survey were supportive of EC's recommendations (which included the above) to address NAS independence concerns. The article, "ISCA's Inaugural Survey On Non-Assurance Services", published in the November 2020 issue of this journal, outlined findings from that survey.

Taking into consideration the findings from that survey, revised paragraph SG410.27A was developed to replace extant paragraph SG410.4A. The formula of revised paragraph SG410.27A excludes both (i) non-audit services fees earned by the firm or its network firms from the audit client's parent and sister entities and (ii) ARS fees, from the fee proportion computation.



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engagement in connection with the initial public offering (IPO) of the audit client. Scoping out such ARS would better reflect the essence of non-audit services. This would then better assist the public in their judgements and assessments about the firm's independence.

In response to findings from the abovementioned ISCA survey of audit committee members, the new term, ARS, 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.

The definition of ARS in the Glossary of revised EP 100 is as follows:

Audit-related services are non-audit services where the work involved is

- (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.

Audit-related services include reporting required by law or regulation to be provided by an engagement team for the audit engagement.

For the purpose of revised paragraph SG410.27A, audit services refer to the audit of the financial statements and non-audit services would include the following:

WHAT ARE "AUDIT-RELATED SERVICES" ?

For purposes of the fee proportion computation, the scope of non-audit services under extant paragraph SG410.4A is very wide as it covers all services other than audit engagements. There are certain services whereby the auditors are best placed to perform as they leverage the audit work performed by the auditors, such as an

While the fee proportion computation under revised paragraph SG410.27A excludes non-audit services fees earned from the audit client's parent and sister entities, 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. Applying the principle in paragraph R400.20 of revised EP 100, if the audit team of the listed entity "knows or has reason to believe" that fees from non-audit services paid by the parent or sister entity are relevant to their

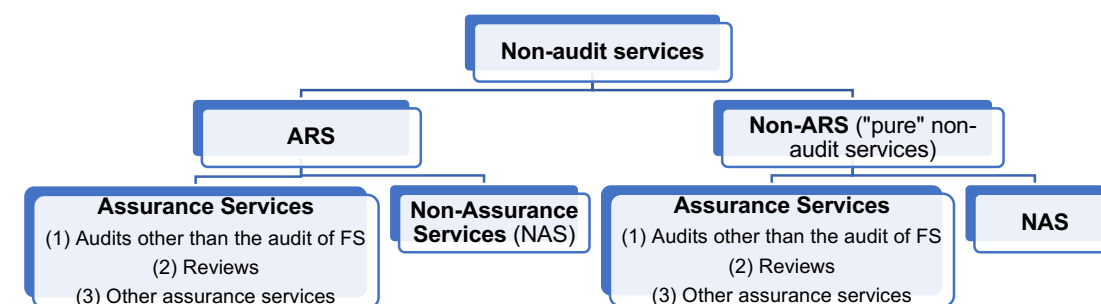
evaluation of the firm's independence, then they should identify, evaluate, and address threats to independence and discuss this with TCWG.

Like extant paragraph SG410.4A, the revised paragraph SG410.27A **does not prohibit** fees for non-audit services from exceeding 50% of the audit fees. However, in such cases, the firm is required to disclose to TCWG whether the threats caused by a ratio beyond 50% are at an acceptable level and, if not, any safeguards that the audit firm has taken (or proposes to take) to reduce such threats to an acceptable level.



Revised paragraph SG410.27A does not prohibit fees for non-audit services from exceeding 50% of the audit fees

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EP 100 IG 5 *Frequently Asked Questions On Provision Of Non-Audit Services To Listed Entities* provides guidance to assist professional accountants in public practice in applying the revised paragraph SG410.27A and new concept of “audit-related services”.



EP 100 IMPLEMENTATION GUIDANCE 5 (IG 5)

ISCA EC has developed EP 100 IG 5 *Frequently Asked Questions On Provision Of Non-Audit Services To Listed Entities* to provide guidance to assist professional accountants in public practice in applying the revised paragraph SG410.27A and new concept of ARS.

EP 100 IG 5 sets out a non-exhaustive list of examples of ARS:

Examples of ARS

- An engagement in connection with the 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 financial statements, financial forecasts, calculations of ratios, and comfort letter.
- Review procedures or agreed-upon procedures (AUP) of half-year and full-year results announcements of an audit client.
- 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 EDB.
- Auditors' report on statement of gross monthly revenue for reporting to landlord issued under Singapore Standard on Auditing (SSA) 805 *Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*.
- 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".

EP 100 IG 5 contains common and specific examples of ARS (as tabled above) where there was consensus in ISCA EC that such examples would meet both conditions in the definition of ARS. Ultimately, whether a service is ARS depends on the nature and the scope of work to be performed. Firms must be able and prepared to explain the basis for regarding a service as ARS. ISCA

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ARS could be NAS or assurance services. While ARS fees are excluded from the fee proportion computation under revised paragraph SG410.27A, firms auditing public interest entities would still be required to inform, provide and obtain preapproval from TCWG on the provision of individual ARS which are NAS.

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