

22 October 2020

Auditor Independence When Providing Non-Assurance Services

Findings from Survey of Audit Committee Members

About the Institute of Singapore Chartered Accountants

The Institute of Singapore Chartered Accountants (“ISCA”) is the national accountancy body of Singapore. ISCA’s vision is to be a globally recognised professional accountancy body, bringing value to our members, the profession and wider community. There are over 32,000 ISCA members making their stride in businesses across industries in Singapore and around the world.

Established in 1963, ISCA is an advocate of the interests of the profession. Possessing a Global Mindset, with Asian Insights, ISCA leverages its regional expertise, knowledge, and networks with diverse stakeholders to contribute towards Singapore’s transformation into a global accountancy hub.

ISCA is the Designated Entity to confer the Chartered Accountant of Singapore - CA (Singapore) - designation.

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As the national accountancy body, ISCA is committed in supporting our members in their careers as they progress and rise to challenges faced along the way. ISCA’s Technical Division provides technical support in areas of audit & assurance, financial reporting, sustainability reporting, ethics and specialised industries such as capital markets, banking and finance and insurance; and communicates insights and views to our members and the wider accountancy community. Through our technical committees that comprise representatives from various stakeholders in the corporate reporting eco-system, we hear issues from the ground and conceive initiatives to promote and enhance quality, consistency and best practices to uphold technical excellence.

About ISCA’s Ethics Committee

ISCA’s Ethics Committee (“EC”) is chaired by Mr Tan Seng Choon and comprises practitioners from accounting firms, members who are professional accountants in businesses, as well as a member from the academic community. ISCA EC also has representatives from the Accounting and Corporate Regulatory Authority (“ACRA”), Monetary Authority of Singapore (“MAS”), Singapore Accountancy Commission (“SAC”) and The Singapore Exchange (“SGX”).

ISCA EC takes a leading role in the development of ethics standards in Singapore to enhance public trust and confidence in the accounting profession in Singapore. ISCA EC adapts and adopts the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (“IESBA”) for the institute’s use as the ISCA Code of Professional Conduct and Ethics. It also aims to provide support to help address ethical issues faced by professional accountants in business and to raise awareness and promoted acceptance of the EC’s ethical standards and guidance among stakeholders.

AUDITOR INDEPENDENCE WHEN PROVIDING NON-ASSURANCE SERVICES (“NAS”): FINDINGS FROM SURVEY OF AUDIT COMMITTEE MEMBERS

CONTENTS

	Pages
Executive Summary	3
1 Introduction	6
2 Method and Respondent Profile	8
3 Analyses and Findings	9
4 Proposed Revisions to the NAS and Fee-related Provisions of the Code	19
5 Conclusion	22
Appendix 1 - Survey Questionnaire	23
Appendix 2 - ISCA Comment Letter to IESBA – NAS Exposure Draft	30
Appendix 3 - ISCA Comment Letter to IESBA – Fees Exposure Draft	41
Acknowledgements	52

Executive Summary

A. Background

The Institute of Singapore Chartered Accountants Ethics Committee (“ISCA EC”) received feedback indicating diversities in interpretations and practices in applying certain Non-Assurance Services (“NAS”) and fee-related provisions in ISCA’s EP 100 *Code of Professional Conduct and Ethics* (“EP 100”). There was also no empirical evidence to ascertain what information is relevant to those charged with governance (“TCWG”) in assessing the independence of audit firms.

To consider inputs across all stakeholders, ISCA EC formed a working group¹ (“ISCA NAS WG”) to deep-dive into the local concerns in applying NAS and fee-related provisions in ISCA’s EP 100 and to recommend practices that are relevant and practical to strengthen auditor independence.

B. ISCA Non-Assurance Services Working Group (“NAS WG”)

The ISCA NAS WG’s activities include:

- Performing research to understand and obtain an overview of the relevant NAS and fee-related provisions in United Kingdom and United States;
- Reaching out to stakeholders to obtain their perspectives about auditor independence relating to the provision of NAS;
- Deliberating feedback obtained from stakeholders; and
- Reporting feedback obtained and providing recommendations for ISCA EC’s consideration.

ISCA NAS WG surveyed Audit Committee members in March 2020 to obtain their views on matters concerning auditor independence when providing NAS to audit clients; and on certain ISCA NAS WG’s recommendations to address NAS independence concerns as follows:

- Confirmation by each network firm² on whether the NAS fees earned by the network firm from the parent, penultimate parent, ultimate parent and sister entities³ of the audit client is less or more than 1% of the network firm’s revenue;
- Definition of “audit-related services”;
- Setting a higher threshold to trigger TCWG’s elevated approval on provision of NAS;
- TCWG’s pre-approval on provision of NAS;
- Enhanced communication to TCWG and to public on NAS; and
- Additional safeguards to address threats to auditors’ independence arising from NAS.

¹ The ISCA NAS WG comprises Mr Tan Seng Choon (Chairman), Mr G. Arull, Associate Professor El’fred Boo, Ms Lorraine Chay Yeow Mei, Ms Caroline Lee, Mr Amos Ng, Ms Ong Bee Yen, Ms Sherry Quark, Ms Serene Teo, Ms Andrea Yap and Mr Gerald Yeo.

² Network firm refers to a firm that belongs to a network.

³ Sister entity refers to an entity which is under common control with the audit client.

C. Key Findings from NAS Survey

We highlight below key findings from our survey, which address NAS independence concerns:

1. **Information on NAS Provided by Network Firms to Upstream and Sister Entities is Important:** Majority of the respondents agreed that information on NAS provided by network firms (of the audit firm) to upstream and sister entities is important but it is practically difficult for an audit firm to obtain such information. More than 90% of the respondents also supported the recommendation for the audit firm to obtain confirmation from each network firm, that the NAS fees earned by the network firm from each of the upstream and sister entities of the audit client, do not exceed 1% of the network firm's revenue.

If the amount exceeds 1%, audit firm to apply safeguards by providing to TCWG either a confirmation from (i) the audit firm that there is no undue influence from network firms on the audit firm for the execution of audit; or (ii) the audit firm's ethics and independence partner (or equivalent) that there is no undue influence from network firms on the audit firm for its execution of audit.

2. **Threshold to Trigger TCWG's Review to Cover Only Controlled Entities:** Majority of the respondents supported the need to have a threshold to trigger TCWG's review of provision of NAS by the audit firm. More than 80% of the respondents view that the computation of such threshold should cover only controlled/downstream entities of the audited entity. Respondents did not show any strong preference on the formula to be used for such threshold.
3. **No Elevated Approval from TCWG on Provision of NAS:** Less than half of the respondents were inclined to have another higher threshold to trigger TCWG's elevated approval on provision of NAS.
4. **Definition of "Audit-Related Services":** All the respondents agreed with the recommendation to develop a concept of "audit-related services" and that such "audit-related services" should be excluded from the computation of the proportion of NAS to audit fee.
5. **TCWG's Pre-Approval on Provision of NAS:** Close to 70% of the respondents support the proposal to obtain pre-approval from TCWG for provision of NAS to the audit client by the audit firm and its network firms. Out of these 70%, majority agreed that such approval should be restricted to the audit client and its unlisted downstream entities. All respondents agreed that blanket approval should be applied for NAS that are recurring in nature, subject to certain threshold.

Please refer to Section 3 for the analyses and findings.

D. Proposed Revisions to the NAS and Fee-related Provisions of the Code

In January 2020, the International Ethics Standards Board for Accountants (“IESBA”) issued two exposure drafts (“Eds”) to strengthen the NAS and fee-related independence provisions of the International Code of Ethics for Professional Accountants (including International Independence Standards) (“the Code”).

- Proposed Revisions to the Non-Assurance Services Provisions of the Code (“NAS ED”); and
- Proposed Revisions to the Fee-Related Provisions of the Code (“Fees ED”).

Based on the results of the survey, ISCA EC Secretariat put forth certain recommendations which garnered strong support from the directors for IESBA’s consideration. For further details, please refer to Section 4.

Section 1: Introduction

A. Proportion of NAS an Audit Firm Can Provide

There are existing principles and guidance in both EP 100 (Revised on 14 August 2020) *Code of Professional Conduct and Ethics* [“EP 100 (Revised on 14 August 2020)”] and Companies Regulations relating to the proportion of NAS that an audit firm can provide as compared to the audit fees.

Paragraph SG410.4A of EP 100 (Revised on 14 August 2020) states:

*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: (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.*

$$\% = \frac{\text{NAS fees received from audit client and its related entities}}{\text{Audit fees from audit client}}$$

The following is extracted from the Glossary of EP 100 (Revised on 14 August 2020):

Audit client

An entity in respect of which a firm conducts an audit engagement. When the client is a listed entity, audit client will always include its related entities. When the audit client is not a listed entity, audit client includes those related entities over which the client has direct or indirect control.

Related entity

An entity that has any of the following relationships with the client:

- (a) An entity that has direct or indirect control over the client if the client is material to such entity;*
- (b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity;*
- (c) An entity over which the client has direct or indirect control;*
- (d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and*
- (e) An entity which is under common control with the client (a “sister entity”) if the sister entity and the client are both material to the entity that controls both the client and sister entity.*

The current wordings in paragraph SG410.4A of EP 100 (Revised on 14 August 2020) resulted in diversities in interpretations and practices in applying certain NAS and fee-related provisions in ISCA’s EP 100. There are also misalignments between SG410.4A and Regulation 12 of Companies Regulations.

Regulation 12 of Companies Regulations states:

*For the purposes of section 206(1A) of the Companies Act, a review of the fees, expenses and emoluments of an auditor of a public company shall be undertaken if the **total amount of the 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.*

$$\% = \frac{\text{NAS fees paid to the auditor (which opine on the financial statements)}}{\text{Total fees paid to the auditor}}$$

B. Prohibited NAS

Section 600 of EP 100 (Revised on 14 August 2020) sets out requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence when providing NAS to audit clients.

Some examples of NAS that are prohibited, regardless of materiality in relation to an audit client's financial statements are:

- Assuming a management responsibility
- Accounting and bookkeeping services, including preparing financial statements on which the firm will express an opinion or financial information which forms the basis of such financial statements⁴
- Acting as a negotiator on the audit client's behalf when providing recruiting services to the audit client
- Promoting, dealing in, or underwriting the audit client's shares
- Serving as General Counsel for legal affairs of an audit client

Examples of NAS that are prohibited, if material in relation to an audit client's financial statements are:

- Valuation services
- Preparation of current and deferred tax calculations (for an audit client that is a public interest entity)
- Tax planning and other tax advisory services when the effectiveness of the tax advice depends on a particular accounting treatment or presentation in the financial statements which the audit team has reasonable doubt as to its appropriateness
- Internal audit services relating to internal controls over financial reporting, financial accounting systems, or financial statement amounts/disclosures (for an audit client that is a public interest entity)
- IT system service which involves designing/implementing financial reporting IT systems (for an audit client that is a public interest entity)
- Litigation support service which involves estimating damages or other amounts as part of litigation support services
- Acting as an advocate to resolve a dispute or litigation

⁴ Can be provided subject to certain conditions (see paragraphs R601.5 and R601.7 of EP 100 (Revised on 14 August 2020)).

Section 2: Method and Respondent Profile

A. Method

In collaboration with the Singapore Institute of Directors (“SID”), the online survey was sent to approximately 400 directors, including SID Audit Committee Chapter members, in March 2020. The participants of the survey were mostly directors who are Audit Committee members of Singapore-incorporated companies or organisations.

Participants were surveyed on the following six areas (please refer to survey questionnaire in Appendix 1):

- Scope of entities to be considered for communication of NAS to TCWG
- Definition of “audit-related services”
- Approach to trigger TCWG’s review and approval on provision of NAS
- TCWG’s elevated approval on provision of NAS
- TCWG’s pre-approval on provision of NAS
- Communication to TCWG and public disclosure of audit fees

The survey comprises 19 questions relating to matters concerning auditor independence and recommendations made by the ISCA NAS WG. The questions are grouped into six different areas to facilitate ease of understanding. The survey has a “skip logic” feature. Hence, depending on the individual responses, each respondent answered only applicable questions in the survey.

Please refer to Section 3 for the analyses and findings.

B. Respondent Profile

83% of the respondents are independent audit committee members of the Mainboard listed companies in Singapore while the remaining 17% are independent audit committee members of Catalist-listed companies. The respondents have an average of 14 years of experience acting as a director.

Section 3: Analyses and Findings

A. Summary of Findings

This survey of directors was conducted from March to May 2020. From the survey results, it was observed that majority of the respondents supported the directional recommendations to address NAS related concerns in EP 100. For details of the survey results, please refer to Part B of this section.

Scope of Entities to be Considered for Communication of NAS to TCWG

92% of the directors surveyed view that information on NAS provided by network firms (of the audit firm) to upstream and sister entities is important but it is practically difficult for an audit firm to obtain such information.

Hence, to mitigate any perceived or real independence threats, ISCA NAS WG recommends that an audit firm obtains a confirmation from each network firm, that the NAS fees earned by the network firm from the parent and sister entities of the audit client, do not exceed 1% of the network firm's revenue. This was supported by 94% of the directors surveyed.

Should the NAS fees earned by the network firm from the parent and sister entities of the audit client exceed 1% of the network firm's revenue, ISCA NAS WG recommends either of the below safeguards:

- A confirmation from the audit firm that there is no undue influence from its network firms on the audit firm for the execution of audit; or
- A confirmation from the audit firm's ethics and independence partner (or equivalent) that there is no undue influence from its network firms on the audit firm for its execution of audit.

The above recommendation was supported by 94% of the respondents.

Definition of "Audit-Related Services"

The Revised Ethical Standard 2019 issued by the UK Financial Reporting Council defines "audit-related services" as non-audit services that are largely carried out by members of the audit engagement team, and where the work is closely related to the work performed in the audit and the threats to auditor independence are clearly insignificant and, as a consequence, safeguards need not be applied.

ISCA NAS WG's view is that services such as reporting required by laws and regulations, Economic Development Board grant certifications and agreed upon procedures on turnover rental would be considered as "audit-related services" as the work is (i) closely related to the work performed in the audit engagement and (ii) usually carried out by audit engagement team members who are required to comply with the independence requirements. Accordingly, ISCA NAS WG proposes to introduce the concept of "audit-related services" for application in Singapore.

100% of the directors surveyed supported developing the concept of "audit-related services" and 97% agreed to exclude "audit-related services" from the computation of the proportion of fees for services other than audit to audit fee.

Approach to Trigger TCWG's Review and Approval on Provision of NAS

91% of the directors surveyed supported having a threshold to trigger TCWG's review on provision of NAS by the audit firm and 87% of the respondents view that the computation of such threshold should cover only controlled i.e. downstream entities of the audited entity.

TCWG's Elevated Approval on Provision of NAS

Only 44% of the directors supported the recommendation to have a higher threshold to trigger TCWG's enhanced approval process. Those who were not supportive of this recommendation view that one threshold would be sufficient for monitoring and easier administration. They were also concerned that having another threshold could potentially lead to higher fees.

TCWG's Pre-Approval on Provision of NAS

It is important for the audit firm to have timely communication with TCWG regarding NAS. ISCA NAS WG noted that some NAS were only reviewed and approved by TCWG after the services were provided. To address such concerns, ISCA NAS WG recommends that audit firm should obtain pre-approval from TCWG on the provision of NAS, i.e. audit firm to obtain concurrence from TCWG prior to the provision of NAS to audit client. 69% of the directors surveyed agreed with this recommendation.

For directors who supported audit firm to obtain pre-approval from TCWG, 91% of them agreed that such approval should be restricted to the audit client and its unlisted downstream entities.

With reference to SEC Regulation S-X (17 Code of Federal Regulations Part 210), ISCA NAS WG recommends that blanket approval, i.e. consent given to an audit firm to carry out NAS without requiring approval from TCWG, should be applied for NAS that are recurring in nature, subject to certain threshold. If the NAS is not within the list of services for blanket approval, it is recommended for audit firm to initiate discussion with TCWG. All the directors surveyed supported this recommendation.

Communication to TCWG and Public Disclosure of Audit Fees

As mentioned in Part D of the Executive Summary, IESBA issued the Fees ED in January 2020.

The Fees ED proposed disclosure of the fee for the audit of the financial statements, comprising (i) fees paid or payable to the audit firm and network firms (of the audit firm), and (ii) actual or estimated fees paid or payable to other firms that have performed audit procedures on the engagement. This is to enable TCWG and the public to assess the independence of the audit firm.

87% of the directors agreed that audit fees paid or payable to firms other than the audit firm and network firms (of the audit firm) should be disclosed to enable TCWG and the public to assess the independence of the firm.

B. Survey Results

Scope of Entities to be Considered for Communication of NAS to TCWG

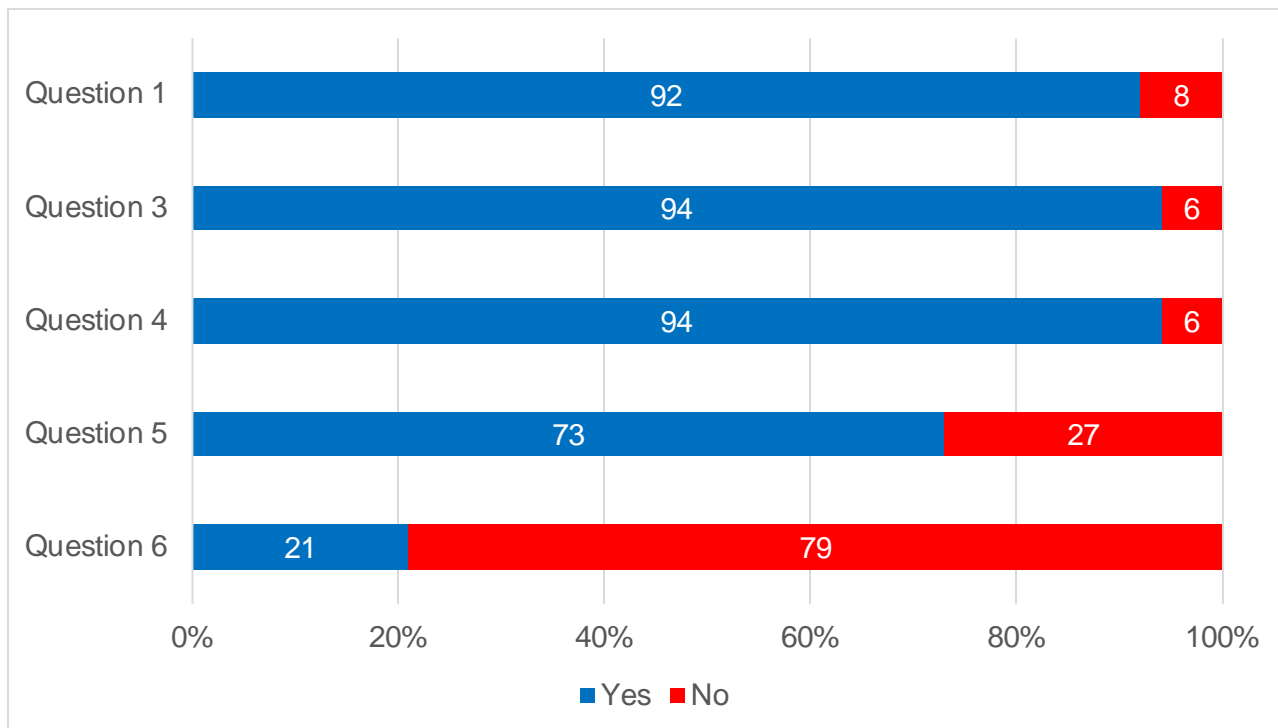
Questions

1. Do you think that information on NAS provided by network firms (of the audit firm) to parent, penultimate parent, ultimate parent and sister entities of the audit client is important for TCWG's assessment on auditors' independence?
2. If answer for Q1 is no, is your reason due to
 - (i) the audit client does not have direct or indirect control over its parent / penultimate parent / ultimate parent and sister entities; or
 - (ii) other reasons?
3. Do you think that the proposal by the ISCA NAS WG "to obtain confirmation by each network firm that the NAS fees earned by the network firm from the parent, penultimate parent, ultimate parent and sister entities of the audit client do not exceed 1% of the network firm's revenue" would mitigate any perceived or real independence threats (intimidation and undue influence threats)?
4. Do you agree that
 - (i) a confirmation from the audit firm that there is no undue influence from network firms on the audit firm for its execution of audit; or
 - (ii) a confirmation from the audit firm's ethics and independence partner (or equivalent) that there is no undue influence from network firms on the audit firm for its execution of audit

to TCWG is a safeguard if the NAS fees earned by any of the network firms from the parent, penultimate parent, ultimate parent and sister entities of the audit client exceeds 1% of that network firm's revenue?
5. Is 1% of network firm's revenue an appropriate threshold for the confirmation mentioned in the previous question?
6. Should an absolute figure (i.e. a monetary amount) be set as a threshold for the confirmation?

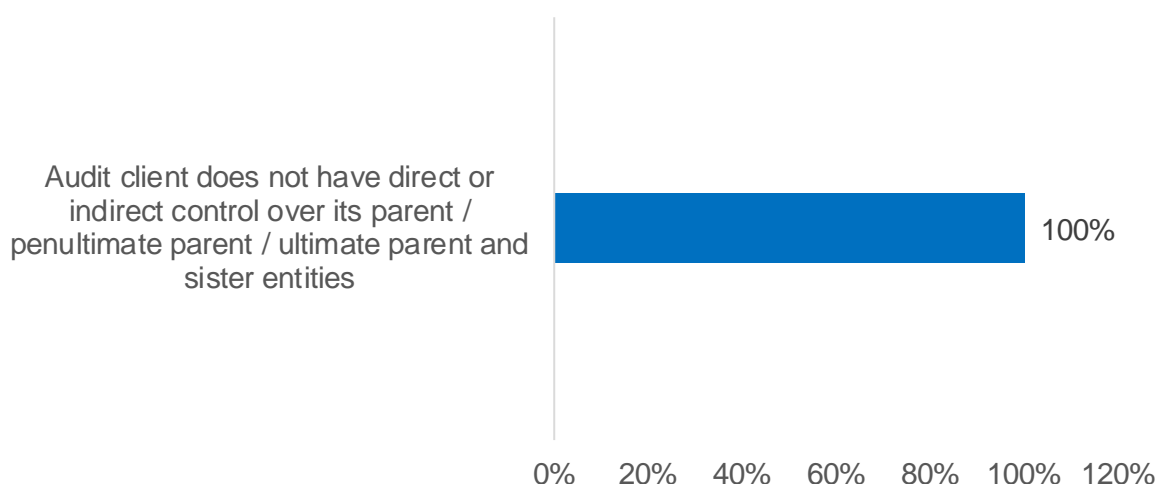
Scope of Entities to be Considered for Communication of NAS to TCWG (cont'd)

Results



Question 2:

Of the respondents (i.e. 8% who answered “no” to Question 1) who do not consider information on NAS provided by network firms to parent and sister entities of the audit client to be important for TCWG’s assessment on auditors’ independence, **100%** view that the audit client does not have direct or indirect control over its parent, penultimate parent, ultimate parent and sister entities.

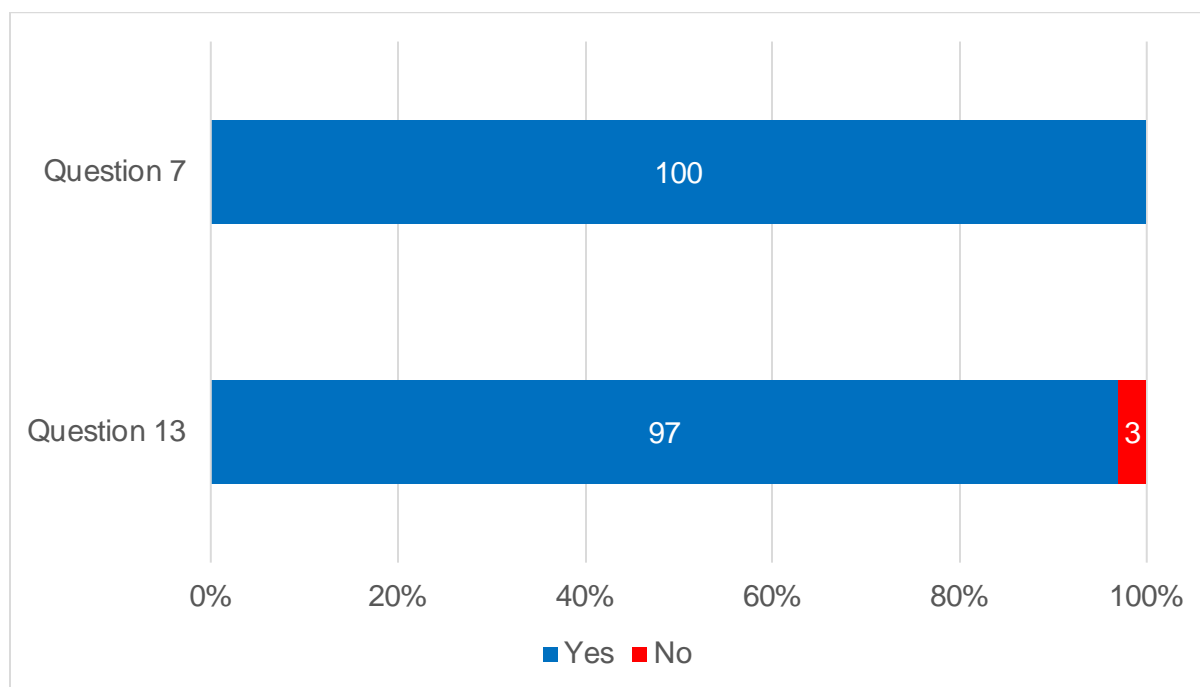


Question 5:

Of the respondents i.e. 27% who answered “no” to Question 5, we noted that majority view that 1% threshold is too low and added that a range of 3% to 10% might be more appropriate.

Definition of “Audit-Related Services”Questions

7. Do you agree that a concept of “audit-related services” as provided above should be developed for application in Singapore?
13. Do you agree to exclude “audit-related services” (i.e. NAS that are closely related to the work performed in the audit engagement) from the formula to compute the threshold?

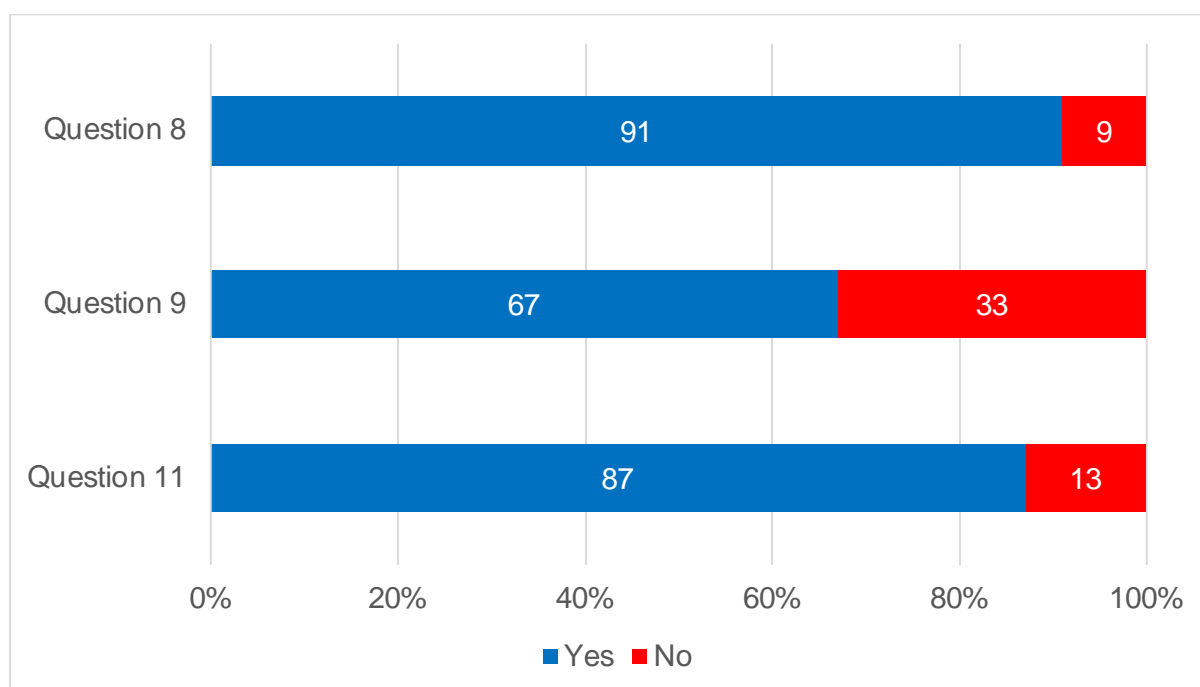
Results

Approach to Trigger TCWG's Review and Approval on Provision of NAS

Questions

8. Do you think that there should be a threshold before TCWG's review on provision of NAS by the audit firm be triggered?
9. Alternatively, do you agree that TCWG should take a principles-based approach to review the provision of NAS?
10. Should the computation of such threshold cover only NAS fees earned by the audit firm or NAS fees earned by the audit firm and its network firms?
11. Should the computation of such threshold cover only controlled/downstream entities of the audited entity?
12. Should the formula for such threshold be one of the followings, i.e. NAS fees over total fees (audit fees + NAS fees) or NAS fees over audit fees?

Results

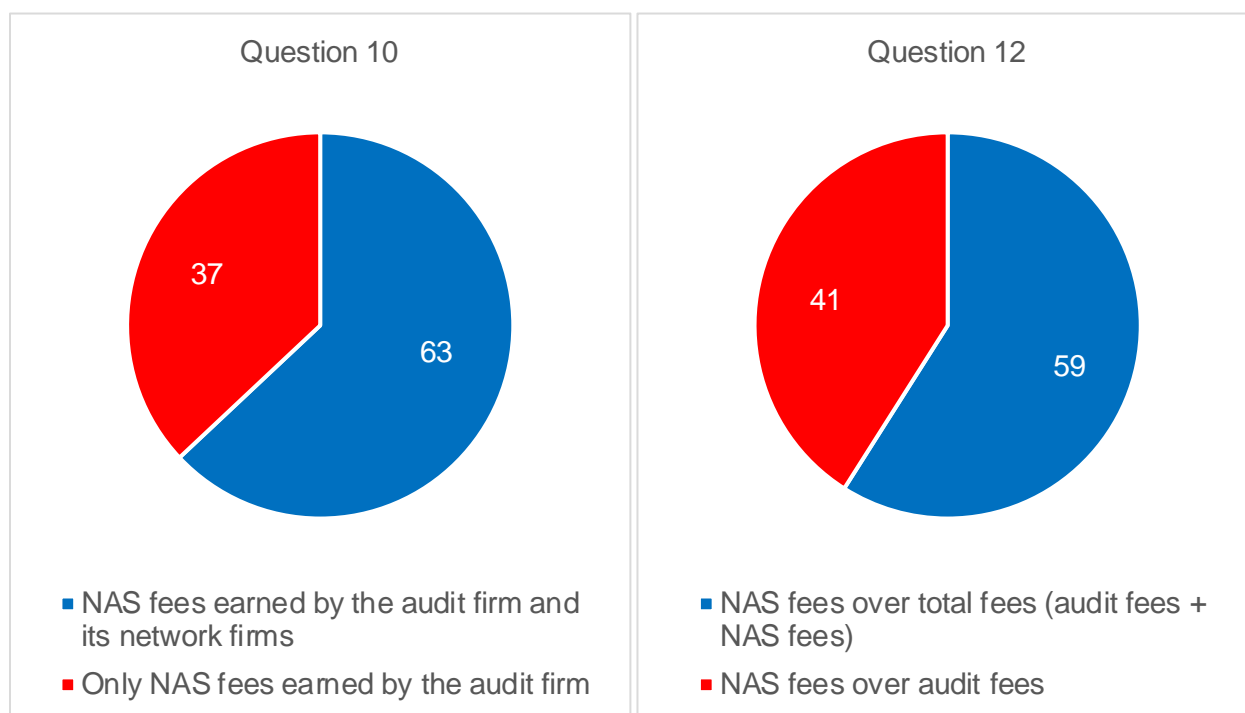


Question 9:

Of the respondents i.e. 9% who answered “no” to Question 8 who did not view that a quantitative threshold is needed to trigger TCWG’s review on provision of NAS by audit firms, 67% agreed that TCWG should take a principles-based approach instead.

Approach to Trigger TCWG's Review and Approval on Provision of NAS (cont'd)

Results (cont'd)



Question 10:

Of the respondents i.e. 91% who answered “yes” to Question 8 who viewed that a quantitative threshold is needed to trigger TCWG’s review on provision of NAS by audit firms, 63% considered that such threshold should include NAS fees earned by both the audit firm and its network firms.

Question 12:

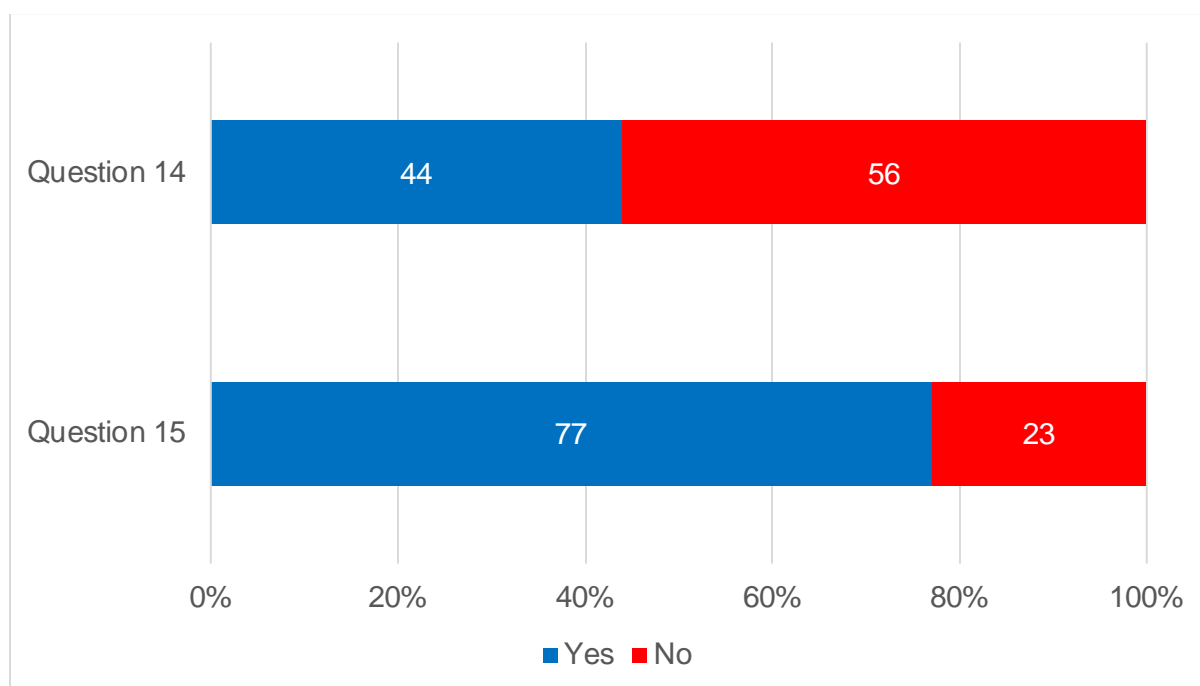
As seen from the results above, there is no clear indication on the preference on the formula for the threshold.

TCWG's Elevated Approval on Provision of NAS

Questions

14. Other than the 50% threshold as mentioned in an earlier question as repeated above, should there be another higher threshold to trigger TCWG's elevated approval on provision of NAS?
15. Do you agree that the elevated approval (mentioned in previous question) would require a unanimous approval from independent directors on the provision of NAS if NAS fees exceed a higher threshold (mentioned in previous question)?

Results



Question 14:

As seen from the results above, there is no clear support from directors to have a higher threshold to trigger TCWG's elevated approval on provision of NAS.

Question 15:

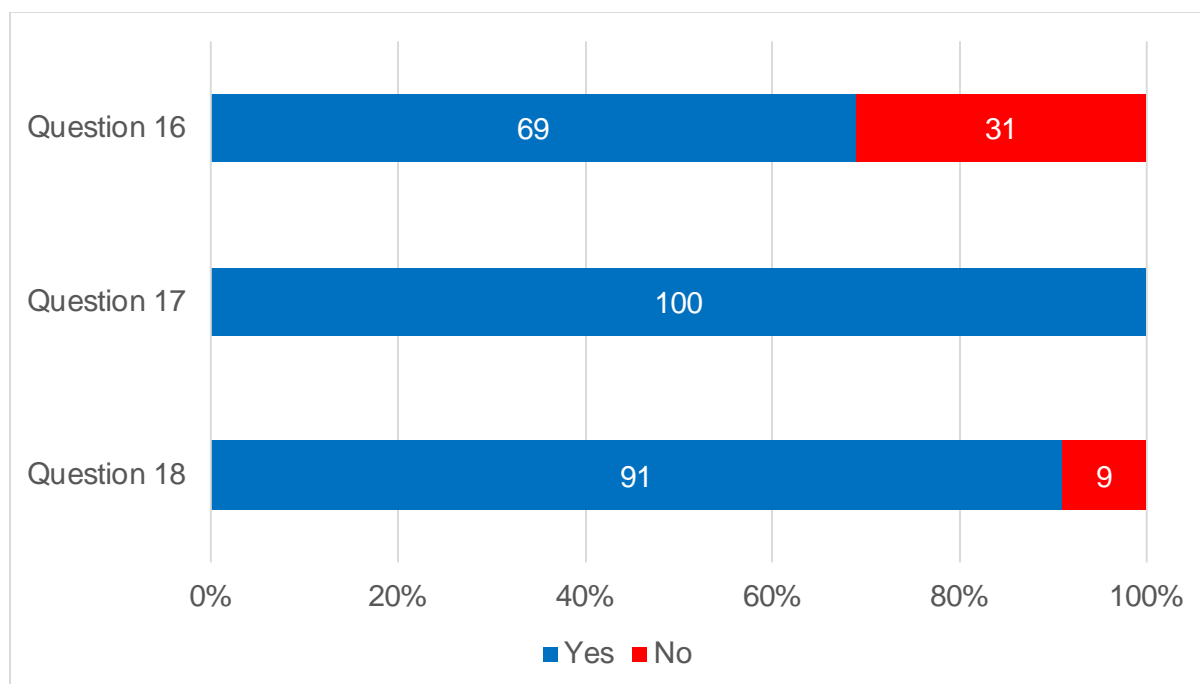
Of the respondents i.e. 44% who answered "yes" to Question 14 who supported an elevated approval, 77% agreed that such an elevated approval would require a unanimous approval from independent directors.

TCWG's Pre-Approval on Provision of NAS

Questions

16. Should pre-approval from TCWG be obtained for provision of NAS to the audit client by the audit firm and its network firms?
17. Do you agree that blanket approval should be applied for NAS that are recurring in nature, subject to certain threshold?
18. Do you agree that pre-approval from TCWG should be restricted to audit client and its unlisted downstream entities?

Results



Question 16:

31% of the directors surveyed answered “no” to this question. They view that pre-approval should be given on a case-by-case basis, depending on the scope and amount of the NAS.

Question 17:

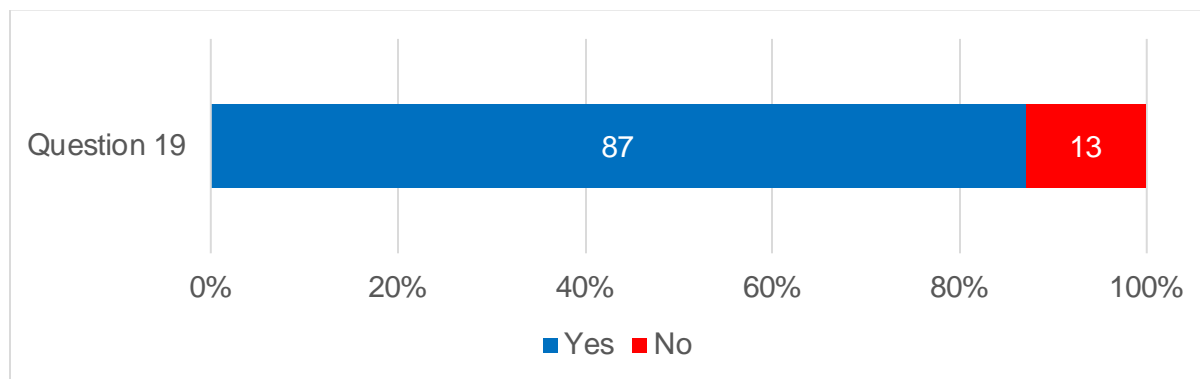
100% of the directors surveyed concurred with the ISCA NAS WG’s recommendation of applying blanket approval for NAS, i.e. consent given to an audit firm to carry out NAS without requiring approval from TCWG, for NAS that are recurring in nature, subject to certain threshold.

Question 18:

Of the respondents i.e. 69% who answered “yes” to Question 16 who supported audit firm to obtain pre-approval from TCWG, 91% of them agreed that such approval should be restricted to the audit client and its unlisted downstream entities.

Communication to TCWG and Public Disclosure of Audit FeesQuestion

19. Do you think audit fees paid or payable to firms other than the audit firm and network firms (of the audit firm) warrant disclosure?

Result

Section 4: Proposed Revisions to the NAS and Fee-related Provisions of the Code

Overview

EP 100 (Revised on 14 August 2020) is modelled after the International Code of Ethics for Professional Accountants (including International Independence Standards) ("the Code").

In January 2020, the IESBA issued two EDs aimed at strengthening the NAS and fee-related independence provisions of the Code:

- Proposed Revisions to the Non-Assurance Services Provisions of the Code ("NAS ED"); and
- Proposed Revisions to the Fee-Related Provisions of the Code ("Fees ED").

IESBA Chairman Dr. Stavros Thomadakis said: "Our proposals are a timely response to growing public perceptions about the need to reinforce auditor independence, as well as specific concerns from the regulatory community and the Public Interest Oversight Board, especially in relation to audits of public interest entities (PIEs). The more stringent provisions concerning the offer of NAS to PIE audit clients, as well as the transparency and other substantive proposals concerning fees, further raise the bar on auditor independence in the public interest."⁵

Key changes proposed in the two EDs are as tabled:

NAS ED⁶	Fees ED⁷
1. A prohibition on providing NAS to an audit client that is a PIE if a self-review threat to independence will be created.	1. A prohibition on firms allowing the audit fee to be influenced by the provision of services other than audit to the audit client.
2. Further tightening of the circumstances in which materiality may be considered in determining the permissibility of a NAS.	2. In the case of PIEs, a requirement to cease to act as auditor if fee dependency on the audit client continues beyond a specified period.
3. Strengthened provisions regarding auditor communication with TCWG, including, for PIEs, a requirement for NAS pre-approval by TCWG.	3. Communication of fee-related information to TCWG and to the public to assist their judgments about auditor independence.
4. Stricter requirements regarding the provision of some NAS, including certain tax and corporate finance advice.	

⁵ "Global Ethics Board Proposes Significant Revisions to International Independence Standards". IESBA, 2020, <https://www.ethicsboard.org/news-events/2020-01/global-ethics-board-proposes-significant-revisions-international-independence-standards>.

⁶ "Proposed Revisions To The Non-Assurance Services Provisions Of The Code". IESBA, 2020, <https://www.ethicsboard.org/publications/proposed-revisions-non-assurance-services-provisions-code>.

⁷ "Proposed Revisions To The Fee-Related Provisions Of The Code". IESBA, 2020, <https://www.ethicsboard.org/publications/proposed-revisions-fee-related-provisions-code>.

ISCA has gone through a rigorous due diligence process to deliberate over the proposals in the two EDs. We have solicited feedback from:

- Members of the ISCA EC;
- A one-month public consultation; and
- A survey of directors (who are Audit Committee members).

Based on the feedback received, we have submitted our comment letters to IESBA in June 2020 (see **Appendix 2** and **Appendix 3**). We highlighted key recommendations to IESBA in the following areas based on feedback received from the survey of directors:

- (a) Scope of entities to be considered for communication of NAS to TCWG;
- (b) Definition of “audit-related services”; and
- (c) TCWG’s pre-approval on provision of NAS.

Scope of Entities to be Considered for Communication of NAS to TCWG

Paragraph 410.10 A1 of the Fees ED proposes that the proportion of fees for services other than audit include fees for services other than audit charged by both the firm and the network firms to the audit client and related entities of the audit client.

We agreed in theory that fee information on NAS provided by network firms (of the audit firm) to the related entities of the audit client (parent, penultimate parent, ultimate parent and sister entities of the audit client) should be included in the determination of the proportion of fees for NAS. However, there is a risk that the cost of doing this analysis will outweigh the benefits.

Accordingly, we suggested that IESBA excludes NAS fees earned by network firms from audit client’s parent and sister entities in the fee proportion computation in paragraph 410.10 A1. Only NAS fees earned by network firms from controlled/downstream entities of the audited entity should be included in the fee proportion computation.

Instead, we recommended that IESBA considers confirmation by each network firm that the NAS fees earned by the network firm from the parent, penultimate parent, ultimate parent and sister entities of the audit client do not exceed 1% (cumulative per annum) of the network firm’s revenue [Question 3] to mitigate any perceived or real independence threats (intimidation and undue influence threats).

We viewed that any threats to independence would be clearly insignificant in situations where the NAS fees earned by each network firm from the parent, penultimate parent, ultimate parent and sister entities of the audit client is less than 1% of the relevant network firm’s revenue.

In the event that the above threshold exceeds 1%, we shared with IESBA that majority of the directors surveyed agreed that obtaining a confirmation from the audit firm/the audit firm’s ethics and independence partner (or equivalent) that there is no undue influence from network firms on the audit firm for its execution of audit to TCWG [Question 4] would be an adequate safeguard.

Definition of “Audit-Related Services”

We viewed that the scope of NAS under the extant Code might be too wide as it covers all services other than audit and review engagements. In the UK FRC Revised Ethical Standard 2019, “audit-related services” is defined as non-audit services that are largely carried out by members of the audit engagement team, and where the work is closely related to the work performed in the audit and the threats to auditor independence are clearly insignificant and, as a consequence, safeguards need not be applied.

We recommended that IESBA adopts the concept of “audit-related services” in the Code to reflect non-audit services carried out by the audit engagement team, whose work is closely related to the work performed in the audit, and the threats to auditor independence are clearly insignificant such that no safeguards are required. Scoping out audit-related services from the current definition of NAS would better reflect the essence of what NAS is.

We shared with IESBA that directors surveyed were supportive of developing the concept of “audit-related services” for application in Singapore [Question 7] and scoping that out from the formula to compute the ratio of fees for services other than audit to audit fees [Question 13].

TCWG’s Pre-Approval on Provision of NAS

We are supportive of the proposals in the NAS ED for improved firm communication with TCWG, including for PIEs, the requirement to obtain concurrence from TCWG prior to provision of NAS to an audit client and the entities over which the audit client has direct or indirect control, i.e. the downstream entities.

IESBA’s proposed requirement coincides with our recommendations to obtain pre-approval from TCWG on provision of NAS and to restrict the pre-approval from TCWG to unlisted downstream entities because TCWG of listed downstream entities would likely have separate procedures in place for firm’s assessment of auditor independence. Accordingly, it might not be practical for TCWG of the audit client to pre-approve the provision of NAS to listed downstream entities.

Based on the above, we shared with IESBA that majority of the directors surveyed supported that pre-approval on provision of NAS should be obtained from TCWG [Question 16] and agreed with the proposal to restrict the pre-approval from TCWG to audit client and its unlisted downstream entities [Question 18].

Section 5: Conclusion

The outcomes of the survey reflect support from directors on recommendations to address auditor independence when providing NAS to audit clients in three broad areas:

(1) *Scope of Entities to Be Considered for Communication of NAS to TCWG*

92%

Information on NAS provided by network firms (of the audit firm) to parent, penultimate parent, ultimate parent (“upstream entities”) and sister entities of the audit client is important for TCWG’s assessment on auditors’ independence.

94%

To mitigate any perceived or real independence threats, we recommend that the audit firm obtains confirmation from each network firm that the NAS fees earned by the network firm from the upstream and sister entities of the audit client do not exceed 1% of the network firm’s revenue.

94%

If the amount exceeds 1%, audit firm to apply safeguards:

- A confirmation from the audit firm; or
- A confirmation from the audit firm’s ethics and independence partner (or equivalent).

(2) *Definition of “Audit-Related Services”*

100%

Develop a concept of “audit-related services”.

97%

Exclude “audit-related services” from the computation of the proportion of fees for services other than audit to audit fee.

(3) *TCWG’s Pre-Approval on Provision of NAS*

69%

To obtain pre-approval from TCWG for provision of NAS to the audit client by the audit firm and its network firms.

100%

Blanket approval i.e.

- Consent given to an audit firm to carry out NAS without requiring approval from TCWG;
- For NAS that are recurring in nature, subject to certain threshold.

91%

Restrict pre-approval from TCWG to unlisted downstream entities.

Appendix 1: Survey Questionnaire

Background

- 1.1 In 2018, International Ethics Standards Board for Accountants (“IESBA”) approved non-assurance services (“NAS”) and fees projects with the aim to strengthen the NAS and fees-related provisions for global application, thereby increasing confidence in the independence of audit firms. In January 2020, IESBA issued the following exposure drafts (“EDs”).
- Proposed Revisions to the NAS Provisions of the IESBA Code (“NAS ED”); and
 - Proposed Revisions to the Fee-Related Provisions of the IESBA Code (“Fees ED”).
- 1.2 Institute of Singapore Chartered Accountants Non-Assurance Services Working Group (“ISCA NAS WG”) has received feedback that there were diversities in interpretations and practices in applying certain NAS and fees-related provisions in ISCA’s EP 100 *Code of Professional Conduct and Ethics*. There is also no empirical evidence to ascertain what information is relevant to Those Charged with Governance (“TCWG”) in assessing the independence of audit firms. To address NAS related concerns in EP 100, ISCA NAS WG has considered possible ways and recommendations as follows:
- Confirmation by each network firm on whether the NAS fees earned by the network firm* from the parent, penultimate parent, ultimate parent and sister entities* of the audit client is less or more than 1% of the network firm’s revenue;
 - Definition of audit-related services;
 - Setting a higher threshold to trigger TCWG’s elevated approval on provision of NAS;
 - TCWG’s pre-approval on provision of NAS;
 - Enhanced communication to TCWG and to public on NAS; and
 - Additional safeguards to address threats to auditors’ independence arising from NAS.

* Network firm refers to a firm that belongs to a network.

* Sister entity refers to an entity which is under common control with the audit client.

- 1.3 ISCA believes that TCWG’s feedback on the recommendations are vital and would be helpful to address the NAS related concerns in EP 100.

Objective and Outcome

- 2.1 Professional bodies globally view that TCWG can play a greater role in enhancing auditor independence. The objective of this survey is to obtain TCWG’s views on matters concerning provisions of NAS by audit firms and the recommendations by ISCA NAS WG as they relate to public interest entities.

If you are a director, we seek your participation in this survey, which is meant to be completed by each director individually. You could spend approximately 12 minutes to complete the survey. Personal information from this survey will be kept strictly confidential, and only summarized data and analyses will be reported.

We value your contribution in shedding more light on TCWG’s role in relation to NAS monitoring and reporting.

Appendix 1: Survey Questionnaire

Section A: Survey questions

Scope of Entities to be Considered for Communication of NAS to TCWG

1. Do you think that information on Non Assurance Services (“NAS”) provided by network firms (of the audit firm) to parent, penultimate parent, ultimate parent and sister entities of the audit client is important for Those Charged With Governance’s (“TCWG’s”) assessment on auditors’ independence?

- Yes
 No

If answer is yes, the online survey will skip Q2 and proceed directly to Q3 to Q6.

If answer is no, the online survey will proceed to Q2 and skip Q3 to Q6.

2. If answer for Q1 is no, is your reason due to:
- The audit client does not have direct or indirect control over its parent / penultimate parent / ultimate parent and sister entities.
- Other reasons. Please provide your reasons: _____

ISCA NAS WG recommends that each network firm confirms to the audit firm, that the NAS fees received by the network firm from the parent, penultimate parent, ultimate parent and sister entities of the audit client do not exceed 1% (cumulative per annum) of the network firm’s revenue.

ISCA NAS WG’s view is that any threats to independence would be clearly insignificant in situations where the NAS fees earned by each network firm from the parent, penultimate parent, ultimate parent and sister entities of the audit client is less than 1% of the relevant network firm’s revenue.

3. Do you think that the proposal by the ISCA NAS WG “to obtain confirmation by each network firm that the NAS fees earned by the network firm from the parent, penultimate parent, ultimate parent and sister entities of the audit client do not exceed 1% of the network firm’s revenue” would mitigate any perceived or real independence threats (intimidation and undue influence threats)?

- Yes
 No, suggest alternative approach(es): _____

If answer is no, the online survey will skip Q4 to Q6, proceed directly to Q7.

4. Do you agree that:
- (i) a confirmation from the audit firm that there is no undue influence from network firms on the audit firm for its execution of audit; or
- (ii) a confirmation from the audit firm’s ethics and independence partner (or equivalent) that there is no undue influence from network firms on the audit firm for its execution of audit

to TCWG is a safeguard if the NAS fees earned by any of the network firms from the parent, penultimate parent, ultimate parent and sister entities of the audit client exceeds 1% of that network firm’s revenue?

- Yes
 No, provide reasons: _____

Appendix 1: Survey Questionnaire

5. Is 1% of network firm's revenue an appropriate threshold for the confirmation mentioned in the previous question?
- Yes
- No, suggest an appropriate threshold: _____
Basis of the threshold: _____
6. Should an absolute figure (i.e. a monetary amount) be set as a threshold for the confirmation?
- Yes, suggest an appropriate quantum: _____
Basis of the quantum: _____
- No

Definition of "Audit-Related Services"

IESBA considered services other than audit and review engagement to be classified as NAS. IESBA (NAS ED) proposed that members of the audit engagement team should not be allowed to provide NAS. In applying IESBA's proposal, members of audit engagement team in Singapore would not be allowed to provide services such as EDB grant certifications and agreed upon procedures on turnover rental.

UK FRC Revised Ethical Standard 2019 defines "audit-related services" as *non-audit services that are largely carried out by members of the audit engagement team, and where the work is closely related to the work performed in the audit and the threats to auditor independence are clearly insignificant and, as a consequence, safeguards need not be applied.*

ISCA NAS WG's view is that services such as reporting required by laws and regulations, EDB grant certifications and agreed upon procedures on turnover rental would be considered as "audit-related services" as the work is (i) closely related to the work performed in the audit engagement and (ii) usually carried out by audit engagement team members who are required to comply with the independence requirements

ISCA NAS WG proposed to introduce the concept of 'audit-related services' for application in Singapore.

7. Do you agree that a concept of "audit-related services" as provided above should be developed for application in Singapore?
- Yes
- No, provide reasons: _____

Appendix 1: Survey Questionnaire

Approach to Trigger TCWG's Review and Approval on Provision of NAS

- (i) Regulation 12 of Companies Regulations says that a public company shall review the fees, expenses and emoluments of an auditor if the total amount of the 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.
- (ii) SG290.232A in EP 100 requires the audit firm to disclose to TCWG of the listed entity or public company when the fees on NAS exceeds 50% of the total annual audit fees from the audit client, and discuss the safeguards it will apply to reduce the threats to an acceptable level.

8. Do you think that there should be a threshold before TCWG's review on provision of NAS by the audit firm be triggered?

- Yes
- No, provide reasons: _____

If answer is yes, the online survey will skip Q9 and proceed directly to Q10 to Q15.
If answer is no, the online survey will proceed directly to Q9 and skip Q10 to Q15.

Improved firm communication with TCWG on NAS matters would promote transparency and support good corporate governance practice. There are views that a principle-based approach of disclosing the following information regarding NAS to TCWG would enable TCWG to assess the audit firm's independence:

- Nature and scope of NAS
- Fees charged for NAS
- Any threats to independence arising from provision of NAS
- Actions to be taken as safeguards to address threats and reduce threats

9. Alternatively, do you agree that TCWG should take a principle-based approach to review the provision of NAS?

- Yes
- No, suggest an alternative approach: _____

10. Should the computation of such threshold cover only NAS fees earned by the audit firm or NAS fees earned by the audit firm and its network firms? Please choose one of the following:

- Only NAS fees earned by the audit firm
- NAS fees earned by both the audit firm and its network firms

11. Should the computation of such threshold cover only controlled/downstream entities of the audited entity?

- Yes
- No, provide reasons: _____

Note: See Q1 on the scope of entities to be considered for communication of NAS to TCWG.

Appendix 1: Survey Questionnaire

12. Should the formula for such threshold be one of the followings?
- NAS fees over total fees (i.e. audit fees + NAS fees)
 - NAS fees over audit fees
13. Do you agree to exclude audit-related services (i.e. NAS that are closely related to the work performed in the audit engagement) from the formula to compute the threshold?
- Yes
 - No, provide reasons: _____

TCWG's Elevated Approval on Provision of NASApproach to trigger TCWG's review and approval on provision of NAS

- (i) Regulation 12 of Companies Regulations says that a public company shall review the fees, expenses and emoluments of an auditor if the total amount of the 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.
- (ii) SG290.232A in EP 100 requires the audit firm to disclose to TCWG of the listed entity or public company when the fees on NAS exceeds 50% of the total annual audit fees from the audit client, and discuss the safeguards it will apply to reduce the threats to an acceptable level.

Do you think that there should be a threshold before TCWG's review on provision of NAS by the audit firm be triggered?

14. Other than the 50% threshold as mentioned in an earlier question as repeated above, should there be another higher threshold to trigger TCWG's elevated approval on provision of NAS?
- Yes, suggest an appropriate threshold: _____
 - No, provide reasons: _____

If answer is no, the online survey will skip Q15.

15. Do you agree that the elevated approval (mentioned in previous question) would require a unanimous approval from independent directors on the provision of NAS if NAS fees exceed a higher threshold (mentioned in previous question)?
- Yes
 - No, suggest compensating safeguards: _____

Appendix 1: Survey Questionnaire

TCWG's Pre-Approval on Provision of NAS

It is important for the audit firm to have timely communication with TCWG regarding NAS. ISCA NAS WG noted that some NAS were only reviewed and approved by TCWG after the services were provided. To address such concern, ISCA NAS WG recommends that audit firm should obtain pre-approval from TCWG on the provision of NAS, i.e. audit firm to obtain concurrence from TCWG prior to the provision of NAS to audit client. For NAS that are recurring in nature, subject to certain threshold, ISCA NAS WG also recommends having blanket approval to pre-approve the provision of NAS, i.e. consent given to an audit firm to perform NAS without requiring approval from TCWG.

16. Should pre-approval from TCWG be obtained for provision of NAS to the audit client by the audit firm and its network firms?

- Yes
 No, provide reasons: _____

If answer is no, the online survey will skip Q17 and Q18.

With reference to SEC Regulation S-X (17 Code of Federal Regulations Part 210), ISCA NAS WG recommends that blanket approval, i.e. consent given to an audit firm to carry out NAS without requiring approval from TCWG, should be applied for NAS that are recurring in nature, subject to certain threshold. If the NAS is not within the list of services for blanket approval, it is recommended for audit firm to initiate discussion with TCWG.

17. Do you agree that blanket approval should be applied for NAS that are recurring in nature, subject to certain threshold?

- Yes
 No, provide suggestions: _____

ISCA NAS WG considered that the pre-approval from TCWG should only include the provision of services to the audit client and its downstream entities as these entities are within the control of TCWG. In addition, the pre-approval from TCWG should be restricted to unlisted downstream entities as TCWG of the listed downstream entities would have assessed their auditors' independence separately.

18. Do you agree that pre-approval from TCWG should be restricted to audit client and its unlisted downstream entities?

- Yes
 No

Communication to TCWG and Public Disclosure of Audit Fees

IESBA (Fees ED) proposed disclosure of the fee for the audit of the financial statements, comprising (i) fees paid or payable to the audit firm and network firms (of the audit firm), and (ii) actual or estimated fees paid or payable to other firms that have performed audit procedures on the engagement. This is to enable TCWG and the public to assess the independence of the audit firm.

Appendix 1: Survey Questionnaire

19. Do you think audit fees paid or payable to firms other than the audit firm and network firms (of the audit firm) warrant disclosure?
- Yes
 - No, please provide your reasons: _____

Section B: Respondent Profile** Required fields*

1. Please indicate the organization(s) of which you are a director*:
 - Mainboard-listed companies
 - Catalist-listed companies
 - Unlisted companies
 - Other organizations
 2. Years of experiences of acting as a director*: _____
 3. Are you a Chartered Accountant of Singapore (CA (Singapore))?*
- Yes
 - No

Appendix 2: ISCA Comment Letter to IESBA – NAS ED

4 June 2020

Mr Ken Siong
Senior Technical Director
International Ethics Standards Board for Accountants
529 Fifth Avenue
New York, NY 10017
USA

Dear Sir,

RESPONSE TO THE INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS (“IESBA”) EXPOSURE DRAFT (“ED”) – PROPOSED REVISIONS TO THE NON-ASSURANCE SERVICES (“NAS”) PROVISIONS OF THE CODE

In preparation of this comment letter, the Institute of Singapore Chartered Accountants (“ISCA”) has gone through a rigorous due diligence process to deliberate over the proposals in the ED. ISCA has sought views from its members on the ED through a one-month public consultation and discussed the ED with members of the ISCA Ethics Committee (“ISCA EC”).

Prior to the issuance of this ED, ISCA EC formed a working group (“ISCA NAS WG”) to deep-dive into the local concerns in applying NAS and fee-related provisions in ISCA’s EP 100 *Code of Professional Conduct and Ethics*, and to recommend practices that are relevant and practical to strengthen auditor independence.

To consider inputs across all stakeholders, the ISCA NAS WG was formed, comprising representatives who are practitioners from accounting firms, those charged with governance (“TCWG”), professional accountants in business, academic community and members from regulatory bodies.

ISCA NAS WG received feedback indicating diversities in interpretations and practices in applying certain NAS and fee-related provisions in ISCA’s EP 100 *Code of Professional Conduct and Ethics*. There was also no empirical evidence to ascertain what information is relevant to TCWG in assessing the independence of audit firms.

With this in mind, ISCA NAS WG conducted a survey of directors (who are Audit Committee members) to obtain views on matters concerning auditor independence when providing NAS to audit clients; and on certain ISCA NAS WG recommendations to address NAS independence concerns.

We believe IESBA’s initiative for the proposed revisions to the Code in the ED is in the public interest. The proposed application materials in the ED provides clarity to professional accountants in identifying, evaluating and addressing threats to their independence. ISCA has also contributed some additional recommendations and suggestions, which we hope IESBA will seriously consider in revising the Code.

We are supportive of the proposal to obtain concurrence of TCWG prior to provision of NAS to an audit client and the entities over which the audit client has direct or indirect control, i.e. the downstream entities. This coincides with the ISCA NAS WG’s recommendation to obtain pre-approval from TCWG on provision of NAS. Through the survey, we observed that a majority of the directors agreed that pre-approval on provision of NAS should be obtained from TCWG.

Appendix 2: ISCA Comment Letter to IESBA – NAS ED

The ISCA NAS WG also agreed that pre-approval on provision of NAS should be restricted to unlisted downstream entities since TCWG of listed downstream entities would likely have separate procedures in place for firm's assessment of auditor independence. Accordingly, it might not be practical for TCWG of the audit client to pre-approve the provision of NAS to listed downstream entities. This was strongly supported by the directors [91% of the respondents] who have participated in the survey. Accordingly, we recommend that IESBA restricts the concurrence of TCWG prior to provision of NAS to audit client and its unlisted downstream entities.

We view that the scope of NAS under the extant Code might be too wide as it covers all services other than audit and review engagements. In the UK FRC Revised Ethical Standard 2019, "audit-related services" is defined as non-audit services that are largely carried out by members of the audit engagement team, and where the work is closely related to the work performed in the audit and the threats to auditor independence are clearly insignificant and, as a consequence, safeguards need not be applied.

The ISCA NAS WG observed that in Singapore, audit engagement teams might undertake certain NAS as required by laws or regulations since they are best placed to perform certain NAS under legislation, regulations or contracts. With reference to UK FRC Revised Ethical Standard 2019, such services would be considered as "audit-related services". Accordingly, the ISCA NAS WG proposes to introduce the concept of "audit-related services" for application in Singapore. This proposal is fully endorsed by the directors [100% of the respondents] we surveyed. Hence, we recommend that IESBA adopts the concept of "audit-related services" in the Code to reflect non-audit services carried out by the audit engagement team, whose work is closely related to the work performed in the audit, and the threats to auditor independence are clearly insignificant such that no safeguards are required. Scoping out audit-related services from the current definition of NAS would better reflect the essence of what NAS is.

We also note that the IESBA is committed to accelerate the review of public interest entity ("PIE") definition and approve the ED in December 2020. Without a clear definition of PIE, the accounting profession would likely encounter difficulties in applying the appropriate provisions proposed in the ED. In our view, both the concept of "audit-related services" and a review of the PIE definition would help facilitate the application of NAS proposals.

Our comments to the specific questions in the ED are as follows:

Prohibition on NAS that Will Create a Self-review Threat for PIEs

Question 1: Do you support the proposal to establish a self-review threat prohibition in proposed paragraph R600.14?

Proposed paragraph R600.14 – A firm or a network firm shall not provide a non-assurance service to an audit client that is a public interest entity if a self-review threat will be created in relation to the audit of the financial statements on which the firm will express an opinion.

We support the principle underlying the proposal in paragraph R600.14 to establish a self-review threat prohibition given that stakeholders' concerns on firm independence are heightened in the case of a PIE and stakeholders expect to place higher reliance on the audited financial statements of PIEs.

However, there is insufficient guidance within the proposal to assist a professional accountant in determining when a self-review threat prohibition is required. Although the proposed paragraph 600.11 A2 below provides some criteria to determine whether the provision of a NAS to an audit client will create a self-review threat, these criteria are not sufficiently clear and may likely be misinterpreted. We appreciate that 600.11 A2 is a principles-based framework and provides broad markers for the auditors to look at when assessing whether

Appendix 2: ISCA Comment Letter to IESBA – NAS ED

self-review threat is created when a NAS is provided to an audit client. However, in view that the definition of self-review threat under paragraph 600.11 A1 in itself already requires a judgment to determine whether there is a risk that the auditor will audit its own work, the framework under 600.11 A2 does not in substance provide much more additional guidance over and above what is already within the definition of self-review threat.

We further elaborate our concern in our response to Question 2.

Proposed paragraph 600.11 A2 – Identifying whether the provision of a non-assurance service to an audit client will create a self-review threat involves determining whether there is a risk that:

- (a) The results of the service will affect the accounting records, internal controls over financial reporting, or the financial statements on which the firm will express an opinion;
- (b) In the course of the audit of those financial statements, the results of the service will be subject to audit procedures; and
- (c) When making an audit judgment, the audit team will evaluate or rely on any judgments made or activities performed by the firm or network firm in the course of providing the service.

Question 2: Does the proposed application material in 600.11 A2 set out clearly the thought process to be undertaken when considering whether the provision of a NAS to an audit client will create a self-review threat? If not, what other factors should be considered?

Under the extant Code, firms are required to apply the conceptual framework to identify, evaluate and address threats to independence in relation to an audit engagement. The proposed application material to identify a self-review threat is not entirely new when read in conjunction with the provisions to apply conceptual framework in the extant Code.

Hence, the factors in the proposed application material in paragraph 600.11 A2 does not provide sufficiently clear guidance to determine whether a self-review threat is created when a NAS is provided to an audit client.

Certain wordings (eg “whether there is a risk that”) in proposed paragraph 600.11 A2 create uncertainties which would result in differing interpretations in practice. This raises even more concern since paragraph 600.12 A1 would require firms to identify any self-review threat for the provision of advice and recommendations in accordance with paragraph 600.11 A2.

Furthermore, considering the proposal to establish a self-review threat prohibition in Question 1 for PIEs together with the proposal to withdraw the materiality qualifier for PIEs, it is even more critical that IESBA establishes robust and clear criteria to determine whether the provision of a NAS to an audit client creates a self-review threat. As highlighted in Question 1, paragraph 600.11 A2 does not in substance provide much additional guidance over and above what is already within the definition of self-review threat.

In our view, a principles-based framework for the determination on whether a self-review risk exist should take into consideration the various aspects already embedded in the proposed International Standard on Quality Management 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (“ISQM 1”), International Standard of Auditing 220 *Quality Control for an Audit of Financial Statements* (“ISA 220”) and professional standards. Paragraph 600.11 A2 needs to be expanded to include these and to emphasize the importance of management responsibility for decision making with regard to the output of the NAS.

Appendix 2: ISCA Comment Letter to IESBA – NAS ED

In addition, we propose that IESBA considers establishing the concept of “audit-related services” in the Code as defined in the cover letter, and scopes out “audit-related services” from the category of NAS that may give rise to a self-review threat under paragraph 600.11 A1.

Providing Advice and Recommendations

Question 3: Is the proposed application material relating to providing advice and recommendations in proposed paragraph 600.12 A1, including with respect to tax advisory and tax planning in proposed paragraph 604.12 A2, sufficiently clear and appropriate, or is additional application material needed?

Proposed paragraph 600.12 A1 – Providing advice and recommendations might create a self-review threat. Whether providing advice and recommendations creates a self-review threat involves making the determination set out in 600.11 A2. This includes considering the nature of the advice and recommendations and how such advice and recommendations might be implemented by the audit team. If a self-review threat is identified, application of the conceptual framework requires the firm to address the threat where the audit client is not a public interest entity. If the audit client is a public interest entity, paragraph R600.14 applies.

In our view, the application material in proposed paragraph 600.12 A1 does not provide sufficiently clear guidance. It also does not adequately elevate the importance of management’s responsibility for decision making with regards to the output of the NAS. We also suggest the removal of technical accounting advice from the examples of accounting and bookkeeping services under paragraph 601.2 A3.

As for proposed paragraph 604.12 A2 (c), the threshold ‘likely to prevail’ is not a recognised standard and may draw various interpretations. Having a basis in tax law should suffice.

Please refer to paragraphs below for further explanations regarding proposed paragraph 600.12 A1.

In the course of the audit, the auditor is required to discuss various matters including new financial reporting standards, the results of which will affect the accounting records or financial statements (ISA260 *Communication with those charged with governance*).

In paragraph 601.3 A4 of the extant Code, providing technical advice on accounting issues is cited as a service that does not usually create threats, and accordingly, is not listed as an example of accounting and bookkeeping service subject to the requirements of that subsection. This paragraph has not been included in IESBA’s proposed revisions to the NAS provisions of the Code.

The proposed paragraph 601.2 A3 specifically identifies technical advice on accounting issues as an example of an accounting and bookkeeping service, thereby subjecting NAS involving such advice to the proposed requirements and application guidance in section 600 including paragraph 600.12 A1 and paragraph R600.14.

Based on the application guidance in proposed paragraph 601.3 A1, providing such technical advice on accounting issues as part of a NAS would be deemed to create a self-review threat solely when the results of the services will affect the accounting records or the financial statements on which the firm will express an opinion, without consideration for the other two criteria present in paragraph 600.11 A2. We believe this would likely result in the substantial prohibition of providing technical accounting advice through a NAS to PIE audit clients.

Appendix 2: ISCA Comment Letter to IESBA – NAS ED

We would like to highlight that providing technical advice on accounting issues during the course of the audit is neither an accounting nor a bookkeeping service. It is in substance an integral part of the audit process whereby the auditor provides his/her interpretation of how a client transaction ought to be accounted for, having regard to management's proposed accounting treatment. Based on IESBA's proposed revision to the NAS provisions of the Code, it would appear that if time spent discussing such accounting issues is billed as part of the audit, it is permissible but if that technical advice on accounting issues is billed separately, it becomes a NAS that is not permissible. This is an undesirable outcome which we would not and should not allow to happen. Notwithstanding the manner of billing, time spent providing technical accounting advice in the course of the audit is in substance an integral part of the auditing process and is permissible.

We suggest the removal of technical accounting advice from the examples of accounting and bookkeeping services under paragraph 601.2 A3. We believe that the provision of technical accounting advice does not have a direct linkage to the preparation of the financial statements and the underlying accounting records as compared to the other examples of accounting and bookkeeping services noted in paragraph 601.2 A3 because of the extent of judgment required to be applied, and action required to be taken, by client management to evaluate and implement the advice as they determine appropriate, and then execute the financial accounting and reporting based on their judgment.

We believe that the three criteria included in proposed paragraph 600.11 A2 should be allowed to be applied in determining whether the provision of technical accounting advice creates a self-review threat, similar to how they are to be applied for other NAS through which advice and recommendations are provided as indicated in paragraph 600.12 A1.

Project on Definitions of Listed Entity and PIE

Question 4: Having regard to the material in section I, D, "Project on Definitions of Listed Entity and PIE," and the planned scope and approach set out in the approved project proposal, please share your views about what you believe the IESBA should consider in undertaking its project to review the definition of a PIE.

As commented under Question 1, we agree and support the differential approach for PIEs and non-PIEs which is premised on the view that stakeholder concerns on firm independence are heightened in the case of a PIE and stakeholders expect to place higher reliance on the audited financial statements of PIEs.

Most of the NAS proposals relate to provisions that apply only to audit clients that are PIEs. We believe that the distinction between the requirements for PIEs and non-PIEs should be retained. Accordingly, we support IESBA's commitment to accelerate the review of PIE definition as a clearer definition of PIE will help to facilitate the application of NAS proposals.

It is also important for IESBA to accelerate its strategic commitment to review the PIE definition in close coordination with the International Auditing and Assurance Standards Board ("IAASB"). We believe the definition within the Code should be a baseline, principles-based definition, to which local jurisdictions can supplement if and as required.

Appendix 2: ISCA Comment Letter to IESBA – NAS ED**Materiality**

Question 5: Do you support the IESBA’s proposals relating to materiality, including the proposal to withdraw the materiality qualifier in relation to certain NAS prohibitions for audit clients that are PIEs (see Section III, B “Materiality”)?

We agree and support IESBA’s proposal to withdraw the materiality qualifier in relation to certain NAS prohibitions for audit clients that are PIEs. We appreciate IESBA’s proposal that acknowledges the view that stakeholder concerns on firm independence are heightened in the case of a PIE.

However, with the proposed introduction of other requirements such as the requirements around communication with TCWG, including before providing a NAS to a PIE, the withdrawal of the materiality qualifier seems to be excessive especially in the context of small and medium listed entities where it might be cost prohibitive to engage other professionals especially if the NAS will not have a material effect on the accounting records, internal controls over financial reporting or the financial statements.

Notwithstanding the above, we understand that IESBA is reviewing the PIE definition and could possibly expand the definition of PIEs. Hence, there might be more scenarios where a materiality qualifier could be useful and appropriate.

Question 6: Do you support the proposal to prohibit the following NAS for all audit clients, irrespective of materiality:

- **Tax planning and tax advisory services provided to an audit client when the effectiveness of the tax advice is dependent on a particular accounting treatment or presentation and the audit team has doubt about the appropriateness of that treatment or presentation (see proposed paragraph R604.13)?**
- **Corporate finance services provided to an audit client when the effectiveness of such advice depends on a particular accounting treatment or presentation and the audit team has doubt about the appropriateness of that treatment or presentation (see proposed paragraph R610.6)?**

Yes, we support the proposal to prohibit these NAS, irrespective of materiality.

Communication with TCWG

Question 7: Do you support the proposals for improved firm communication with TCWG (see proposed paragraphs R600.18 to 600.19 A1), including the requirement to obtain concurrence from TCWG for the provision of a NAS to an audit client that is a PIE (see proposed paragraph R600.19)?

Under the extant Code, regular communication is encouraged between firms and TCWG regarding relationships and other matters that might reasonably bear on independence.

For PIEs, the NAS proposals to obtain concurrence from TCWG prior to the provision of NAS will improve the actual and perceived independence of the firm. We believe that interaction with TCWG on a relevant and timely basis will facilitate meaningful assessment by TCWG.

Accordingly, we agree and support the proposals to enhance firm communication with TCWG prior to provision of NAS. We support the flexibility that IESBA is providing with respect to the process which firms should obtain concurrence from TCWG, since governance models and protocols could differ in various jurisdictions.

Appendix 2: ISCA Comment Letter to IESBA – NAS ED

IESBA also proposed a new application material in paragraph 900.34 A2 to encourage firms to communicate with TCWG in relation to assurance engagements other than audits and reviews. We believe that there could be some practical issues as the firm providing the assurance service may not have access to TCWG.

As mentioned above, we propose that the concurrence of TCWG prior to provision of NAS should be restricted to unlisted downstream entities based on the survey we conducted of directors. This is because TCWG of listed downstream entities would likely have separate procedures in place for firm's assessment of auditor independence.

Other Proposed Revisions to General NAS Provisions**Question 8: Do you support the proposal to move the provisions relating to assuming management responsibility from Section 600 to Section 400, and from Section 950 to Section 900?**

Yes, we support the new location of these provisions in the Code to establish their prominence as the prohibition on assuming management responsibility remains substantively unchanged.

Question 9: Do you support the proposal to elevate the extant application material relating to the provision of multiple NAS to the same audit client to a requirement (see proposed paragraph R600.10)? Is the related application material in paragraph 600.10 A1 helpful to implement the new requirement?

Under the extant Code, the firm evaluates the combined effect of threats created by the provision of multiple NAS to the same audit client.

We are of the view that the elevation of the extant application material to a requirement does not bring additional benefit. Instead, it creates additional uncertainties on how to comply with the requirement. Proposed paragraph R600.10, as it is currently written, could result in multiple interpretations. We are unsure whether "multiple non-assurance services" mean multiple instances of the same NAS being provided (eg a one-off NAS engagement versus same NAS engagement on a recurring basis), or multiple discrete and different NAS being provided. The period to be covered in this assessment of multiple NAS is also unclear i.e. how far back would auditor need to consider in its assessment.

If IESBA intends to raise the current application material to a requirement, additional application material will be needed to ensure that firms understand how to comply with the new requirement.

Appendix 2: ISCA Comment Letter to IESBA – NAS ED

Proposed Revisions to Subsections

Question 10: Do you support the proposed revisions to subsections 601 to 610, including:

- **The concluding paragraph relating to the provision of services that are “routine or mechanical” in proposed paragraph 601.4 A1?**
- **The withdrawal of the exemption in extant paragraph R601.7 that permits firms and network firms to provide accounting and bookkeeping services for divisions and related entities of a PIE if certain conditions are met?**
- **The prohibition on the provision of a tax service or recommending a tax transaction if the service or transaction relates to marketing, planning or opining in favor of a tax treatment, and a significant purpose of the tax treatment or transaction is tax avoidance (see proposed paragraph R604.4)?**
- **The new provisions relating to acting as a witness in subsection 607, including the new prohibition relating to acting as an expert witness in proposed paragraph R607.6?**
- Proposed paragraph 601.4 A1

Proposed paragraph 601.4 A1 states that routine and mechanical accounting and bookkeeping services require little or no professional judgment.

The concluding paragraph states that a firm may provide such services to audit clients that are not PIEs provided that the firm complies with the requirement in paragraph R400.14 to ensure that it does not assume management responsibility and with the requirement in paragraph R601.4(b) to address any threats that are not at an acceptable level.

We agree with the concluding paragraph especially on the emphasis on not assuming management responsibility.

- The withdrawal of the exemption in extant paragraph R601.7 that permits firms and network firms to provide accounting and bookkeeping services for divisions and related entities of a PIE if certain conditions are met?

We generally agree with the withdrawal of the exemption in extant paragraph R601.7.

However, we are of the view that preparing statutory financial statements based on information in the client-approved trial balance and preparing related notes based on client-approved records for the divisions and related entities of a PIE audit client would generally not create a self-review threat for the PIE.

We also reiterate our suggestion in Question 3 to remove ‘technical accounting advice’ from the examples of accounting and bookkeeping services under paragraph 601.2 A3.

- The prohibition on the provision of a tax service or recommending a tax transaction if the service or transaction relates to marketing, planning or opining in favor of a tax treatment, and a significant purpose of the tax treatment or transaction is tax avoidance (see proposed paragraph R604.4)?

We do not support the prohibition on the provision of tax services as provided in proposed paragraph R604.4 in its current form.

Multiple interpretations could be applied to the definitions of “significant purpose” and “tax avoidance” within proposed paragraph R604.4

Appendix 2: ISCA Comment Letter to IESBA – NAS ED

We would also suggest for alternatives for the phrase “unless that tax treatment has a basis in applicable tax law and regulation that is likely to prevail” in paragraph R604.4. The threshold ‘likely to prevail’ is not a recognised standard and may draw various interpretations.

- The new provisions relating to acting as a witness in subsection 607, including the new prohibition relating to acting as an expert witness in proposed paragraph R607.6

We support the new provisions relating to acting as a witness in subsection 607, including the new prohibition relating to acting as an expert witness in proposed paragraph R607.6.

Our other comments relating to subsections 601 to 610 are as follows:

1. There needs to be more clarity on the difference between the definition of “audit process” in paragraph 601.2 A2 and the definition of “accounting and book-keeping” in paragraph 601.2 A3.

We note that the concluding paragraph under 601.2 A2 states that “These activities do not usually create threats as long as the client accepts responsibility for making the decisions involved in the preparation of accounting records or financial statements and the firm does not assume a management responsibility”.

A similar concluding paragraph is not included under paragraph 601.2 A3. Instead, paragraph 601.3 A1 concluded that “Providing accounting and bookkeeping services to an audit client creates a self-review threat when the results of the services will affect the accounting records of the financial statements on which the firm will express an opinion”.

The above inconsistency is particularly relevant for the below three services.

- (i) Technical assistance on matters such as resolving account reconciliations
“Discussing how to resolve account reconciliation problems” is an example of a dialogue between the firm and the audit client management during the “audit process” under paragraph 601.2 A2.

“Providing technical assistance on matters such as resolving account reconciliation problems” is an example of an “accounting and book-keeping” service under paragraph 601.2 A3.

It is unclear how resolving account reconciliation problems appears under both paragraphs 601.2 A2 and 601.2 A3, as shown above. The same “resolving account reconciliation” activity that appears under paragraph 601.2 A3 is deemed “accounting and bookkeeping service”, and hence would be deemed to give rise to a self-review threat under paragraph 601.3 A1. But when appearing under paragraph 601.2 A2 as part of the audit process, it would not give rise to self-review threat if no management responsibility is assumed.

- (ii) Technical advice on accounting issues, including GAAP conversion
“Discussing how to convert existing financial statements from one financial reporting framework to another” is an example of a dialogue between the firm and the audit client management during the “audit process” under paragraph 601.2 A2.

“Providing technical advice on accounting issues, including the conversion of existing financial statements from one financial reporting framework to another” is an example of an “accounting and book-keeping” service under paragraph 601.2 A3.

Appendix 2: ISCA Comment Letter to IESBA – NAS ED

Similarly, it is unclear how providing technical advice on GAAP conversion appears under both paragraph 601.2 A2 and 601.2 A3, as shown above.

The same activity that appears under paragraph 601.2 A3 is deemed “accounting and bookkeeping service”, and hence would be deemed to give rise to a self-review threat under paragraph 601.3 A1. But when appearing under paragraph 601.2 A2 as part of the audit process, it would not give rise to self-review threat if no management responsibility is assumed.

(iii) Technical advice on accounting issues

“Proposing adjusting journal entries arising from audit findings” is analogous to providing technical advice on accounting issues, and is an example of a dialogue between the firm and the audit client management during the “audit process” under paragraph 601.2 A2.

“Providing technical advice on accounting issues” is an example of an “accounting and book-keeping” service under paragraph 601.2 A3.

Similarly, it is unclear how providing technical advice on accounting issues appears under both paragraph 601.2 A2 and 601.2 A3, as shown above.

The same activity that appears under paragraph 601.2 A3 is deemed “accounting and bookkeeping service”, and hence would be deemed to give rise to a self-review threat under paragraph 601.3 A1. But when appearing under paragraph 601.2 A2 as part of the audit process, a proposal on adjusting journal entries arising from audit findings would not give rise to self-review threat if no management responsibility is assumed.

2. How is paragraph R604.19 “valuation is subject to external review...” different from paragraph 604.6 A1 (b) “tax returns are subject to whatever review or approval process...”?

Proposed Consequential Amendments

Question 11: Do you support the proposed consequential amendments to Section 950?

We agree with IESBA to retain the existing alignment between the provisions in Section 600 in Part 4A and Section 950 in Part 4B. Accordingly, we support the proposed consequential amendments to Section 950 to mirror the proposed revisions to the general provisions in Section 600.

Appendix 2: ISCA Comment Letter to IESBA – NAS ED

Question 12: Are there any other sections of the Code that warrant a conforming change as a result of the NAS project?

We have no further recommendations related to the NAS project except those that we have commented above.

Should you require any further clarification, please feel free to contact myself or Ms Alice Tan, Senior Manager, TECHNICAL: Ethics & Specialised Industries, from ISCA via email at jumay.lim@isca.org.sg or alice.tan@isca.org.sg respectively.

Yours faithfully,

Ms Ju May, LIM
Deputy Director
TECHNICAL: Financial & Corporate Reporting;
Ethics & Specialised Industries;
Audit & Assurance

Appendix 3: ISCA Comment Letter to IESBA – Fees ED

11 June 2020

Mr Ken Siong
Senior Technical Director
International Ethics Standards Board for Accountants
529 Fifth Avenue
New York, NY 10017
USA

Dear Sir,

RESPONSE TO THE INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS (“IESBA”) EXPOSURE DRAFT (“ED”) – PROPOSED REVISIONS TO THE FEE-RELATED PROVISIONS OF THE CODE

In preparation of this comment letter, the Institute of Singapore Chartered Accountants (“ISCA”) has gone through a rigorous due diligence process to deliberate over the proposals in the ED. ISCA has sought views from its members on the ED through a one-month public consultation and discussed the ED with members of the ISCA Ethics Committee (“ISCA EC”).

Prior to the issuance of this ED, ISCA EC formed a working group (“ISCA NAS WG”) to deep-dive into the local concerns in applying NAS and fee-related provisions in ISCA’s EP 100 *Code of Professional Conduct and Ethics*, and to recommend practices that are relevant and practical to strengthen auditor independence.

To consider inputs across all stakeholders, the ISCA NAS WG was formed, comprising representatives who are practitioners from accounting firms, those charged with governance (“TCWG”), professional accountants in business, academic community and members from regulatory bodies.

ISCA NAS WG received feedback indicating diversities in interpretations and practices in applying certain NAS and fee-related provisions in ISCA’s EP 100 *Code of Professional Conduct and Ethics*. There was also no empirical evidence to ascertain what information is relevant to TCWG in assessing the independence of audit firms.

With this in mind, ISCA NAS WG conducted a survey of directors (who are Audit Committee members) to obtain views on matters concerning auditor independence when providing NAS to audit clients; and on certain ISCA NAS WG’s recommendations to address NAS independence concerns. Based on the outcome of the survey, we put forth the following recommendations for IESBA’s consideration:

Appendix 3: ISCA Comment Letter to IESBA – Fees ED

- (i) Confirmation by each network firm that the NAS fees earned by the network firm from the parent, penultimate parent, ultimate parent and sister entities of the audit client do not exceed 1% of the network firm's revenue

94% of directors surveyed agreed that the above confirmation would mitigate any perceived or real independence threats (intimidation and undue influence threats). If the percentage exceeds 1% of the network firm's revenue, 94% of respondents agreed that the below is an appropriate safeguard:

- a confirmation from the audit firm that there is no undue influence from network firms on the audit firm for the execution of audit; or
- a confirmation from the audit firm's ethics and independence partner (or equivalent) that there is no undue influence from network firms on the audit firm for its execution of audit.

Our survey also included questions on the appropriate threshold to trigger TCWG's review of the provision of NAS to the audit client. Majority of the directors [87% of the respondents] view that the computation of such threshold should only cover NAS fees earned by the audit firm and its network firms from services rendered to controlled/downstream entities of the audited entity, i.e. the audit client's downstream entities. This is consistent with the ED's requirement for the firm to communicate with TCWG of an audit client that is a public interest entity ("PIE"), the fees for services other than audit by the firm or a network firm to the client's downstream entities in paragraph R410.23.

Paragraph 410.10 A2 of the ED lists the ratio of fees for services other than audit to the audit fee as one of the factors relevant in evaluating the level of threats (self-interest threat, intimidation threat, threat to auditor's objectivity) to independence.

Paragraph 410.10 A1 states that the proportion of fees for services other than audit include fees for services other than audit charged by both the firm and the network firms to the audit client and related entities of the audit client.

We agree with IESBA that the exact ratio of fees for services other than audit to the audit fee would be a complex task, and firms might not be able to obtain all the necessary information in a timely manner.

Accordingly, we recommend the following:

- (a) to exclude NAS fees earned by network firms from audit client's parent and sister entities in the fee proportion computation in paragraph 410.10 A1. Only NAS fees earned by network firms from controlled/downstream entities of the audited entity should be included in the fee proportion computation; and
- (b) to adopt the above-mentioned confirmation by each network firm as an alternative safeguard to mitigate any perceived or real independence threats (intimidation and undue influence threats).

Further detail is included in our comment on question 5.

Appendix 3: ISCA Comment Letter to IESBA – Fees ED**(ii) Introducing the concept of “Audit-related services” and excluding it from the computation of the proportion of fees for services other than audit to audit fee****• Concept of “Audit-related services”**

The scope of NAS under the extant Code might be too wide as it covers all services other than audit and review engagements. In the UK FRC Revised Ethical Standard 2019, “audit-related services” is defined as non-audit services that are largely carried out by members of the audit engagement team, and where the work is closely related to the work performed in the audit and the threats to auditor independence are clearly insignificant and, as a consequence, safeguards need not be applied.

The ISCA NAS WG observed that in Singapore, audit engagement teams might undertake certain NAS as required by laws or regulations since they are best placed to perform certain NAS under legislation, regulations or contracts, given their knowledge of the audit client’s system of internal controls and financial reporting process gained through the audit. Examples of such NAS include assurance services or agreed upon procedures engagements (i) related to specific financial line items or internal controls; (ii) for purposes of reporting compliance with industry specific regulations; and (iii) in connection with government grant schemes.

With reference to UK FRC Revised Ethical Standard 2019, such services would be considered as “audit-related services”. Accordingly, the ISCA NAS WG proposes to introduce the concept of “audit-related services” for application in Singapore. This proposal is fully endorsed by the directors [100% of the respondents] we surveyed. Hence, we recommend that IESBA adopts the concept of “audit-related services” in the Code to reflect non-audit services carried out by the audit engagement team, whose work is closely related to the work performed in the audit, and the threats to auditor independence are clearly insignificant such that no safeguards are required. Scoping out “audit-related services” from the current definition of NAS would better reflect the essence of what NAS is.

• For computation, exclude “audit-related services” from formula

Taking into consideration the nature of “audit-related services”, a question on whether such “audit-related services” should be excluded from the formula to compute the ratio of fees for services other than audit to audit fees was included in the survey. The directors were supportive [97% of the respondents] of ISCA NAS WG’s proposals on “audit-related services”. More information is included in our comment on question 5.

• “Audit-related services” to be separately disclosed

We also believe that a separate category of “audit-related services” would better clarify the nature of services provided by the firm or its network firms to audit clients. This would better assist the public in their judgments and assessment about the firm’s independence. More information is included in our comment on question 12.

Appendix 3: ISCA Comment Letter to IESBA – Fees ED

Accordingly, we recommend that IESBA:

- (a) introduces and develops the concept of “audit-related services”;
- (b) excludes “audit-related services” from the computation of the proportion of fees for services other than audit to audit fee to focus on identifying and evaluating the threats created by ‘genuine’ NAS; and
- (c) requires “audit-related services” to be separately disclosed from other NAS.

Our comments to the specific questions in the ED are as follows:

Evaluating Threats Created by Fees Paid by the Audit Client

Question 1: Do you agree that a self-interest threat to independence is created and an intimidation threat to independence might be created when fees are negotiated with and paid by an audit client (or an assurance client)?

We agree that theoretically and inherently, a self-interest threat and an intimidation threat to independence may be created when fees are negotiated with and paid by an audit client (or an assurance client).

However, provisions in the proposed International Standard on Quality Management 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (“ISQM 1”) would provide significant safeguards, which we believe would be adequate to address the threat to auditor independence.

ISQM 1 deals with a firm’s responsibilities to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements. One of the components for a firm’s system of quality management required under ISQM 1 is relevant ethical requirements, which should comprise of a firm’s processes for managing compliance with relevant ethical requirements and includes how threats to complying with relevant ethical requirements are identified, assessed and addressed. We believe that ISQM 1 is a sufficient safeguard to ensure that firms and their personnel comply with relevant ethical requirements.

Another safeguard to independence is having an independent audit regulator perform regular audit inspections. Such inspections provide an independent oversight on audit firms and ensure that audit firms hold themselves to high ethical standards.

Question 2: Do you support the requirement in paragraph R410.4 for a firm to determine whether the threats to independence created by the fees proposed to an audit client are at an acceptable level:

- (a) Before the firm accepts an audit or any other engagement for the client; and**
- (b) Before a network firm accepts to provide a service to the client?**

Although we agree in principle that a firm should determine whether the threats to independence created by the fees proposed are at an acceptable level, we disagree with the proposed paragraph R410.4 in its current drafting.

Under the extant Code, audit client is defined as “an entity in respect of which a firm conducts an audit engagement. When the client is a listed entity, audit client will always include its related entities.”

Appendix 3: ISCA Comment Letter to IESBA – Fees ED

If an audit client is listed, related entities will therefore include an entity that has direct or indirect control over the client if the client is material to such entity (“parent entity”) and an entity which is under common control with the client (a “sister entity”) if the sister entity and the client are both material to the parent entity.

We question the appropriateness of the proposed paragraph R410.4 for a firm to determine whether the threats to independence created by the fees proposed to an audit client are at an acceptable level before a network firm accepts an engagement to provide a service to the audit client’s parent and sister entities, if the audit client is a listed entity.

In our view, it is practically difficult for a firm to implement such requirements as it might not have visibility of all the audit or other engagements to be provided by its network firms to the audit client’s parent and sister entities, especially when the nature of the services provided to the parent and sister entities is price sensitive and confidential.

The engagement/operational effectiveness and efficiency erosion resulting from the significant additional efforts required may not justify the proposed measure.

Alternatively, as mentioned in our cover letter, the ISCA NAS WG proposed requesting each network firm to confirm to the firm, that the NAS fees received by the network firm from the parent, penultimate parent, ultimate parent and sister entities of the audit client do not exceed 1% (cumulative per annum) of the network firm’s revenue. This could provide the firm with information to enable the firm to assess if there were any threats to independence.

Question 3: Do you have views or suggestions as to what the IESBA should consider as further factors (or conditions, policies and procedures) relevant to evaluating the level of threats created when fees for an audit or any other engagement are paid by the audit client? In particular, do you support recognizing as an example of relevant conditions, policies and procedures the existence of an independent committee which advises the firm on governance matters that might impact the firm’s independence?

We note the proposed paragraph 410.4 A2 on factors relevant in evaluating the level of threats created when fees for an audit or any other engagement are paid by the audit client. Although these factors are helpful, we believe that a holistic approach or framework is needed.

In our view, compliance with the proposed ISQM 1 and professional standards should be sufficient. There should also be greater acknowledgement of International Standard of Auditing 220 *Quality Control for an Audit of Financial Statements* (“ISA 220”), whereby the engagement partner is required to ensure that the audit engagement team complies with relevant ethical requirements, including independence requirements that apply to an audit engagement.

The holistic approach or framework should require the consideration of the various aspects already embedded within ISQM 1, ISA 220 and professional standards for the purpose of evaluating whether the inherent self-interest threat is at an acceptable level.

Notwithstanding the above, an audit firm’s independence may be affected by its client’s threats to subject a potential audit engagement to a ‘Request for Proposal (RFP)’. The RFP could be under the ambit of the client’s corporate governance policies or best practices and leaves the audit firm with little or no room to negotiate.

Appendix 3: ISCA Comment Letter to IESBA – Fees ED

Impact of Services other than Audit Provided to an Audit Client

Question 4: Do you support the requirement in paragraph R410.6 that a firm not allow the level of the audit fee to be influenced by the provision by the firm or a network firm of services other than audit to the audit client?

Paragraph R410.6 – A firm shall not allow the audit fee to be influenced by the provision by the firm or a network firm of services other than audit to the audit client

Yes, we support the requirement in proposed paragraph R410.6. However, the challenge lies in demonstrating compliance with this requirement. This requirement is in substance a precept regulating behavior and more research is required in this area.

Proportion of Fees for Services Other than Audit to Audit Fee

Question 5: Do you support that the guidance on determination of the proportion of fees for services other than audit in paragraph 410.10 A1 include consideration of fees for services other than audit:

- (a) Charged by both the firm and network firms to the audit client; and
(b) Delivered to related entities of the audit client?**

Paragraph 410.10 A1 – The evaluation of the level of the self-interest threat might be impacted when a large proportion of fees charged by the firm or network firms to an audit client is generated by providing services other than audit to the client, due to concerns about the potential loss of either the audit engagement or other services. Such circumstances might also create an intimidation threat. A further consideration is a perception that the firm or network firm focuses on the non-audit relationship, which might create a threat to the auditor's objectivity.

Yes, we agree in theory that fee information on NAS provided by network firms (of the audit firm) to the related entities of the audit client (parent, penultimate parent, ultimate parent and sister entities of the audit client) should be included in the determination of the proportion of fees for NAS.

However, there is a risk that the cost of doing this analysis will outweigh the benefit. Furthermore, as mentioned in Question 1, the proposed ISQM 1 contains provisions that will provide significant safeguards against self-interest threat.

Accordingly, we recommend that IESBA excludes NAS fees earned by network firms from audit client's parent and sister entities in the fee proportion computation. Only NAS fees earned by network firms from controlled/downstream entities of the audited entity should be included in the fee proportion computation.

We note that the proposed paragraph 410.10 A3 provides an example of a safeguard of "...having an appropriate reviewer who was not involved in the audit or the service other than audit review the relevant audit work". It is unclear who this "appropriate reviewer" would be.

We recommend an alternative safeguard (see below), which 94% of the directors (who are Audit Committee members) we surveyed, believe would mitigate any perceived or real independence threats (intimidation and undue influence threats). We view that any threats to independence would be clearly insignificant in situations where the NAS fees earned by each

Appendix 3: ISCA Comment Letter to IESBA – Fees ED

network firm from the parent, penultimate parent, ultimate parent and sister entities of the audit client is less than 1% of the relevant network firm's revenue.

Alternative safeguard – Each network firm confirms to the audit firm, that the NAS fees earned by the network firm from the parent, penultimate parent, ultimate parent and sister entities of the audit client do not exceed 1% (cumulative per annum) of the network firm's revenue.

In the event that the above threshold exceeds 1%, 94% of the directors we surveyed agree that obtaining a confirmation from the audit firm/the audit firm's ethics and independence partner (or equivalent) that there is no undue influence from network firms on the audit firm for its execution of audit to TCWG would be an adequate safeguard.

“Audit-related services”

NAS under the extant Code would include any services other than audit and review engagement.

We recommend that IESBA develops the concept of “audit-related services” to reflect non-audit services carried out by the audit engagement team, whose work is closely related to the work performed in the audit, and the threats to auditor independence are clearly insignificant such that no safeguards are required. “Audit-related services” should then be excluded from the computation of the proportion of fees for services other than audit to audit fee.

100% of the directors surveyed agree that the concept of “audit-related services” as defined below should be developed for application in Singapore. 97% of the directors surveyed agree to exclude “audit-related services” from the fee proportion computation.

In our view, “audit-related services” are work that is (i) closely related to the work performed in the audit engagement; and (ii) usually carried out by audit engagement team members who are required to comply with the independence requirements.

We also note that the UK FRC Revised Ethical Standard 2019 defines “audit-related services” as non-audit services that are largely carried out by members of the audit engagement team, and where the work is closely related to the work performed in the audit and the threats to auditor independence are clearly insignificant and, as a consequence, safeguards need not be applied.

Fee Dependency for non-PIE Audit Clients

Question 6: Do you support the proposal in paragraph R410.14 to include a threshold for firms to address threats created by fee dependency on a non-PIE audit client? Do you support the proposed threshold in paragraph R410.14?

Paragraph R410.14 proposes that when total fees from a non-PIE audit client exceed 30% of the total fees received by the audit firm for each of 5 consecutive years, the audit firm shall determine whether a pre-issuance or post-issuance review on the fifth year's financial statements might be a safeguard to address the threats created by fee dependency on a non-PIE audit client, and if so apply it.

We note that the proposal in R410.14 mirrors the existing fee dependency model for PIE audit clients with greater latitude in the threshold and safeguards applied, with the aim of creating a consistent approach to address the threats for non-PIE audit clients. IESBA may consider reviewing the threshold after a period of implementation to assess whether any adjustments are needed.

Appendix 3: ISCA Comment Letter to IESBA – Fees ED

We generally agree and support the above. However, we wish to highlight the risk that a bright line percentage threshold would direct the focus on the calculation of percentage instead of evaluation of threats. A statement to remind users of the need to observe the spirit and intent of the Code might be warranted.

Question 7: Do you support the proposed actions in paragraph R410.14 to reduce the threats created by fee dependency to an acceptable level once total fees exceed the threshold?

As mentioned in Question 6, we support the proposal to include a threshold for firms to address threats created by fee dependency on a non-PIE audit client. However, we observe that it might be practically challenging for small-medium practitioners (SMPs) to apply the proposed actions in paragraph R410.14, i.e. pre-issuance or post-issuance review on the fifth year's financial statements to reduce the threats created by fee dependency to an acceptable level once total fees exceed the threshold. Such proposed actions might result in higher costs for the audit of non-PIE audit clients and burden the SMPs.

We also question the appropriateness of having a professional body review the audit work of a firm before an audit opinion is issued on a non-PIE audit client's sixth year's financial statements, taking into consideration the resources and time required to perform the review. Professional bodies would need to be authorized to perform such review.

In addition, it is vital for IESBA to clarify the expected scope of review on the audit work to facilitate implementation of this proposal by firms.

Fee Dependency for PIE Audit Clients**Question 8: Do you support the proposed action in paragraph R410.17 to reduce the threats created by fee dependency to an acceptable level in the case of a PIE audit client?**

We note the proposed action in paragraph R410.17 for audit firm to determine whether a pre-issuance review on the second year's financial statements would be a safeguard if the fee dependency continues in the second year of the audit engagement and if so, apply it. The pre-issuance review is proposed to be equivalent to an engagement quality review and be performed by a professional accountant who is not a member of the firm expressing the opinion on the financial statements.

In general, we observe that an engagement quality review would be required for the audit of listed entities or PIEs and should be undertaken throughout an engagement, rather than prior to the issuance of financial statements. Such review is normally performed by a professional accountant from the same firm expressing the opinion on the financial statements and who is not involved in the audit engagement. Accordingly, it will be costly for the firm to have another round of pre-issuance review being performed by a member who is not from the firm opining on the financial statements. It is necessary for IESBA to provide clarity on the expected scope of 'pre-issuance review' for users to understand the comparison against engagement quality review.

We also note that IESBA proposes to remove both pre-issuance review on the second year's financial statements by a professional body and post-issuance review on the second year's financial statements (by a member who is not from the firm opining on the financial statements or by a professional body) from the extant Code.

Appendix 3: ISCA Comment Letter to IESBA – Fees ED

In our opinion, SMPs might face challenges in performing pre-issuance reviews on the financial statements as there will be additional costs to be borne by the SMPs to comply with this proposal.

Question 9: Do you agree with the proposal in paragraph R410.19 to require a firm to cease to be the auditor if fee dependency continues after consecutive 5 years in the case of a PIE audit client? Do you have any specific concerns about its operability?

We agree with the proposal to require an audit firm to cease to be the auditor if fee dependency continues after consecutive 5 years in the case of a PIE audit client as stated in paragraph R410.19. We believe that this proposal will mitigate situations in which fee dependency on a PIE audit client become persistent and no safeguard could be applied to reduce the self-interest and intimidation threats to an acceptable level.

We question the operability of this proposal if it is expected to be applied on the network firms. If this proposal applies to network firms, it raises the question on whether the network firm is able to continue as the statutory auditor of the related entities in other jurisdictions when the threshold of fee dependency is crossed, i.e. when the total fees from audit client and its related entities exceed 15% of the total fees of the firm expressing the audit opinion on the financial statements.

Question 10: Do you support the exception provided in paragraph R410.20?

We support the exceptions in paragraph R410.20 to allow an audit firm to continue as the auditor for a PIE audit client after 5 consecutive years if there is a compelling reason with regard to the public interest.

We believe that the exception would cater for circumstances in which no other appropriate audit firm is available to perform the audit for the PIE audit client as proposed in paragraph 410.20 A1.

However, we question the appropriateness of IESBA's proposal for the firm to consult with a professional body in the relevant jurisdiction to obtain concurrence for the firm to continue as the auditor for a PIE audit client, if fees from a PIE audit client crosses the 15% threshold for 5 consecutive years. In Singapore, only relevant regulatory bodies have the authority to assess whether the appointment of audit firm will be in the public interest. It also raises the question whether professional bodies would be equipped to perform such consultation even if they are authorized to do so. Accordingly, we recommend that IESBA considers restricting such consultation and concurrence to be provided by an independent regulatory body.

Transparency of Fee-related Information for PIE Audit Clients**Question 11: Do you support the proposed requirement in paragraph R410.25 regarding public disclosure of fee-related information for a PIE audit client? In particular, having regard to the objective of the requirement and taking into account the related application material, do you have views about the operability of the proposal?**

We support the proposed requirement in paragraph R410.25 to publicly disclose the following fee-related information for a PIE audit client:

- (a) Fee for the audit of the financial statements;
- (b) Fees for services other than audit provided by the firm or a network firm; and
- (c) Fact of fee dependency, if applicable.

Appendix 3: ISCA Comment Letter to IESBA – Fees ED

In our view, this proposed requirement provides clarity to the public on the nature and value of the services provided by audit firm. The proposed disclosure requirement promotes transparency and facilitates the public's assessments about the audit firm's independence.

In addition to the above, we propose that IESBA consider a requirement to disclose fees for "audit-related services" for a PIE audit client. The concept of "audit-related services" is highlighted in the cover letter, as well as in our comment on question 5.

We generally support the proposed application materials and believe that they would better assist audit firms to determine the relevant matters to be communicated to the public. On the ED's proposal to disclose actual or estimated fees paid or payable by a PIE audit client to other audit firm that have performed audit procedures on the group audit engagement for the audit of the financial statements, we observe from our survey of directors, that majority of the directors [87% of the respondents] were of the view that such a proposal would enable the public to better assess the audit firm's independence.

We also agree with IESBA that such information might not be readily available or provided by a component auditor outside the network of the audit firm in a timely manner for disclosure purpose. In this regard, we note that the exception proposed in paragraph R410.26 which requires disclosures of an explanation of the qualitative significance of the fee information that is not available, would assist the audit firm to fulfill the transparency objective.

Paragraph 410.25 A4 proposed that it would be appropriate for audit firm to disclose the fee-related information required by paragraph R410.25 in the audit report as part of the auditors' other reporting responsibilities in accordance with ISA 700 (Revised) *Forming an Opinion and Reporting on Financial Statements*. It is important for TCWG and the public to understand the rigor of the proposed ISQM 1 and the applicable auditing standard that firms need to comply with to form an audit opinion on the financial statements. In our view, including fee-related information in the auditors' report is inappropriate as the public might have a perception that there could be an implicit relationship between the firm's opinion on the financial statements and the fees earned from the client. Its inclusion in the auditors' report might also raise doubts or create an impression that the fees paid by an audit client creates a self-interest threat to the firm. Hence, it would be more appropriate for the audit client to make such disclosure.

Question 12: Do you have views or suggestions as to what the IESBA should consider as:

- (a) Possible other ways to achieve transparency of fee-related information for PIEs audit clients; and**
- (b) Information to be disclosed to TCWG and to the public to assist them in their judgments and assessments about the firm's independence?**

We believe that IESBA's coordination with the International Auditing and Assurance Standards Board is important for IESBA to propose any requirements or guidance on public disclosure of fee-related information. This will help to ensure consistencies between the requirements in respective standard.

As mentioned in question 5, we recommend that IESBA develops the concept of "audit-related services" and excludes "audit-related services" from the computation of the proportion of fees for services other than audit to audit fee.

We also believe that a separate category of "audit-related services" as per UK FRC Revised Ethical Standard 2019¹, would better clarify the nature of services provided by audit firm and its network firms to audit client and assist the public in their judgments and assessment about

Appendix 3: ISCA Comment Letter to IESBA – Fees ED

the firm's independence. Accordingly, we recommend that IESBA requires "audit-related services" to be separately disclosed from other NAS.

Anti-Trust and Anti-Competition Issues

Question 13. Do you have views regarding whether the proposals could be adopted by national standard setters or IFAC member bodies (whether or not they have a regulatory remit) within the framework of national anti-trust or anti-competition laws? The IESBA would welcome comments in particular from national standard setters, professional accountancy organizations, regulators and competition authorities.

We do not have views regarding the above.

Proposed Consequential and Conforming Amendments

Question 14. Do you support the proposed consequential and conforming amendments to Section 905 and other sections of the Code as set out in this Exposure Draft? In relation to overdue fees from an assurance client, would you generally expect a firm to obtain payment of all overdue fees before issuing its report for an assurance engagement?

We support the proposed consequential amendments to Section 905 and other sections of the Code as set out in the ED. We generally do not expect a firm to obtain payment of all overdue fees before issuing its report for an assurance engagement.

Question 15. Do you believe that there are any other areas within the Code that may warrant a conforming change as a result of the proposed revisions?

We have no further recommendations related to the Fees project, other than those commented above.

Should you require any further clarification, please feel free to contact myself or Ms Alice Tan, Senior Manager, TECHNICAL: Ethics & Specialised Industries, from ISCA via email at jumay.lim@isca.org.sg or alice.tan@isca.org.sg respectively.

Yours faithfully,

Ms Ju May, LIM
Deputy Director
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¹ See UK FRC Revised Ethical Standard 2019's *Appendix A: Illustrative template for communicating information on audit and non-audit services provided to the group.*

Acknowledgements

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