

25 February 2014

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Technical Director, International Ethics Standards Board for Accountants  
International Federation of Accountants  
529 Fifth Avenue, 6<sup>th</sup> Floor  
New York, NY 10017  
USA

Dear Sirs,

**RESPONSE TO THE INTERNATIONAL ETHICS STANDARDS BOARD FOR  
ACCOUNTANTS CONSULTATION PAPER – PROPOSED STRATEGY AND  
WORK PLAN, 2014-2018**

The Institute of Singapore Chartered Accountants (ISCA) appreciates the opportunity to comment on the above consultation paper (CP) issued by the International Ethics Standards Board for Accountants (IESBA) in December 2013.

We generally support the IESBA's proposed strategy and work plan (SWP) for 2014-2018. The SWP takes into account changes and expectations of stakeholders, ensuring that the Code of Ethics for Professional Accountants (Code) remains current and robust. The SWP also emphasises on outreach to key stakeholders which is important to enhance the global acceptance of the Code as the default benchmark of ethical standards, including auditor independence rules.

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

1. Do you support the four work streams the Board added to its SWP in 2012, i.e., Long Association, Non-Assurance Services, Review of Part C, and Structure of the Code? If not, please explain why.

***a) Long Association***

The independent auditor plays an important role in providing the principal external check on the integrity of financial statements. Long association of senior audit engagement personnel with audit clients can adversely impact actual or perceived objectivity, and professional scepticism. It is timely that the Board reviews the existing requirements in light of changing

expectations of stakeholders, including regulators. For example, concerns have been raised that the 2-year cooling off period on key audit partners of audit clients that are PIEs is inadequate. It allows an individual to serve an audit client in a key audit partner role for a total of 14 years over a 16-year period.

We also observed greater scrutiny by regulators on familiarity risks. For instance, the United Kingdom has recently introduced new corporate governance code on audit firm rotation and re-tendering. The European Union is currently deliberating proposals to introduce mandatory firm rotation and audit re-tendering rules. Indeed, given the increased scrutiny of “Long Association” between senior audit personnel and their clients by public bodies and regulators around the world, the “Long Association” work stream comes across as a timely addition into the SWP. The Board must show leadership as the international standards setter by re-examining the robustness of the current safeguards as a credible and effective alternative. We hope, however, that the Board will adopt a balanced approach as it deliberates this topic. Familiarity poses a risk, but at the same time, an auditor must gain adequate familiarity of an audit client (e.g. business, risk areas, etc) to ensure a quality audit.

Based on the above, we support the “Long Association” work stream in the SWP.

#### ***b) Non-Assurance Services (“NAS”)***

Similar to familiarity risks, there has been significant focus on the provision of NAS by auditors to audit clients. The Board needs to be responsive and we support the inclusion of NAS in the SWP.

#### ***c) Review of Part C of the Code***

There has been a perceived lack of appropriate attention being placed on enhancing guidance in Part C to address topical issues faced by professional accountants in business (PAIBs). For example, PAIBs may sometimes face undue pressure from their superiors to engage in unethical or illegal acts. The Board needs to be proactive in identifying areas where there is greater need for good guidance, and to provide such guidance. After all, PAIBs form a significant portion of our profession. Thus, the project to review Part C to ensure that its provisions remain appropriate and robust is timely.

#### ***d) Structure of the Code***

It has been noted by IESBA that the current structure and drafting convention of the Code have been an impediment to more rapid and wider adoption of the Code and more effective implementation around the world. On this basis, the work stream to structure and write the Code in a way that will be easier to understand and adopt to facilitate convergence of international and national ethics standards is appropriate.

Given these considerations, we support this work stream.

2. Are the strategic themes identified for the period 2014-2018 appropriate? If not, please explain why.

The strategic themes identified for the period 2014-2018 address relevant key areas. Not only will the strategic themes give rise to a more robust Code that supports audit quality and more comprehensively address ethical issues faced by PAIBs in their roles in business, the Code will also evolve for it to remain relevant in a changing global environment. Last but not least, given that professional accountants form an integral part of the entire business landscape which also includes regulators, investors and employer organisations, we strongly support the strategic theme to increase engagement and cooperation with key stakeholders to not only increase awareness and enhance acceptance of the Code, but also to garner valuable inputs to make the Code more relevant to the rapidly evolving global context.

We agree that the strategic themes identified for the period 2014-2018 are appropriate.

3. Are the actions identified with respect to each strategic theme, and their relative prioritizations appropriate? If not, please explain why.

We generally agree that the actions identified with respect to each strategic theme, and their relative prioritisations are appropriate.

Notwithstanding the above, we noted in the SWP that initial discussion on fee dependency will only start in Q2 2016, with consideration of a project proposal only in Q1 2017. We believe that fee dependency is a key risk to auditor independence. Fee dependency can affect the behaviour of auditors when undue pressure is placed by an audit client. Greater challenges can be faced by smaller firms, and even smaller offices of a large audit firm. We are of the view that this is an important aspect of auditor independence which should be addressed sooner than later. Hence, we would recommend that IESBA consider if the work stream on fee dependency could be brought forward to the earlier stages of the 2014-2018 timeframe, in which the initial discussion could commence in 2015. Areas which could be enhanced include better guidance on factors to consider when assessing risks of fee dependency, the involvement of those charged with governance, better safeguards such as concurring partner involvement, etc.

4. Are there any actions not included in the proposed SWP that you believe the Board should consider for the 2014-2018 period? If so, please explain why, and indicate which actions identified in the proposed SWP should be displaced (i.e. deferred or eliminated).

We generally agree with the proposed actions proposed in the 2014-2018 SWP and do not propose to displace any of the actions identified in the proposed SWP in favour of other actions not included.

5. The Board invites comments on any other matters you believe would be important for it to consider in developing its SWP for 2014-2018.

We provide the following additional views for the Board's consideration.

**Robustness and consistency of safeguards in the Code**

We observed that the Board has been discussing the robustness of existing safeguards in the Code, particularly in relation to auditor independence.

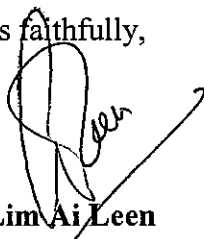
The Code is principles-based, and adopts a threats and safeguards approach. Stakeholders must have confidence in the effectiveness of safeguards to threats. Otherwise, the trust stakeholders have in the Code can be impacted.

We believe it is appropriate that the Board look into whether there is a need to re-examine the continued robustness of safeguards in the Code. For example, should the Code adopt a more holistic approach to requirements on safeguards, such as:

- (i) consistency of safeguards across NAS, where applicable;
- (ii) communication and involvement of those charged with governance; and
- (iii) prescribing minimum required safeguards.

Should you require any further clarification, please feel free to contact Mr Kang Wai Geat, Deputy Head, Technical Standards Development and Advisory, or Mr Ang Soon Lii, Manager, Technical Standards Development and Advisory, at ISCA via email at [waigeat.kang@isca.org.sg](mailto:waigeat.kang@isca.org.sg) or [soonlii.ang@isca.org.sg](mailto:soonlii.ang@isca.org.sg) respectively.

Yours faithfully,



**Ms Lim Ai Leen**  
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