



CODE OF PROFESSIONAL CONDUCT AND ETHICS

Consultation Document

July 2007

The Accounting & Corporate Regulatory Authority (ACRA) is Singapore's corporate regulator as well as the independent regulator for public accountants. It was formed from the merger of the Registry of Companies and Businesses (RCB) and the Public Accountants Board (PAB) on 1st April 2004.

ACRA's primary role is that of the regulator of businesses and public accountants. Its secondary role is that of a facilitator of businesses.

ACRA plays an important role in facilitating the doing of business in Singapore but our main role remains that of a regulator. In line with the need to create a responsive and trusted regulatory environment, ACRA seeks to facilitate a pro-enterprise environment. ACRA is committed to continually reviewing the legislation and reducing the regulatory burden to be in tune with business needs and international developments and to help promote entrepreneurship and enterprise. To this end, ACRA sees confidence in corporate reporting and governance as vital to the healthy functioning of businesses and the market, and making a significant contribution to the overall economy and Singapore's competitiveness in international markets.

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ONE - INTRODUCTION

1.1 Having a code of professional conduct and ethics is a foundation of public confidence in public accountants. It assures the public that public accountants will undertake their work with integrity, objectivity, competence and due care, and ensure confidentiality and proper professional behaviour. A code of professional conduct and ethics also helps public accountants to manage client relationships in keeping with their duty to serve the public interest. In this respect, the requirement for public accountants to be independent from their assurance clients is a cornerstone of such a code.

1.2 The current Code of Professional Conduct and Ethics (the current ACRA Code), contained in the Fourth Schedule of the Accountants (Public Accountants) Rules 2004 (the Rules), was prescribed in October 2002 by the Public Accountants Board (one of the predecessors of ACRA). It was partly based on an early version of a code issued by the International Federation of Accountants (IFAC). While the current ACRA Code is still relevant, it needs to be updated so that it remains in line with international developments and developments in the profession in Singapore.

1.3 In 2006, the Public Accountants Oversight Committee (PAOC) established the Ethics Sub-Committee (the Committee) and tasked it with reviewing the current ACRA Code to ensure that it remains relevant in promoting the standards of the profession of public accountancy in Singapore.

1.4 The Committee intends to recommend the adoption of a code based on the latest IFAC Code of Ethics for Professional Accountants (the IFAC Code) to replace the current ACRA Code. The Committee has reviewed the IFAC Code against the current ACRA Code, and has drafted a proposed Code of Professional

Conduct and Ethics for Public Accountants (the proposed Code), which it is now issuing for comments.

1.5 The proposed Code re-affirms the existing fundamental principles of professional conduct and ethics, but provides an enhanced and a more structured framework to assist public accountants to identify, evaluate and respond to threats to compliance with those fundamental principles. If identified threats are other than clearly insignificant, public accountants are required, where appropriate, to apply safeguards to eliminate the threats or reduce them to an acceptable level, such that compliance with the fundamental principles is not compromised.

1.6 The proposed Code places emphasis on a principles-based approach. The Committee believes that this is preferable to a rules-based approach to professional conduct and ethics which cannot provide for all circumstances. A rules-based approach may also lead to unquestioning compliance to the letter of a rule that may result in safeguards that are unnecessary, inappropriate or inadequate in meeting the spirit of the fundamental principles of professional conduct and ethics.

1.7 Consistent with the current ACRA Code, the finalised Code of Professional Conduct and Ethics will be issued as a schedule to the Rules.

1.8 IFAC has issued two exposure drafts of proposed revisions to the current IFAC Code of Ethics. The Ethics Sub-Committee will seek comments on these proposed revisions as a separate exercise to the present consultation.

Information for those wishing to submit comments

1.9 This document outlines the proposed Code, highlights the key differences between the proposed Code and the current ACRA Code, and seeks comments on specific questions.

1.10 Submitters should note that the intention is to adopt the IFAC Code as a baseline. While this document invites comments on individual sections of the proposed Code, this is for the purpose of determining whether further rules, guidance or clarifications are necessary in the Singapore context. It is not intended to seek comments on whether or not a particular provision of the IFAC Code should be adopted.

1.11 The Committee welcomes comments from public accountants and other stakeholders on specific questions relating to the following matters:

- The proposed additional Singapore provisions, whether the proposed Code is clear and unambiguous, and whether additional Singapore provisions, guidance or clarifications are needed.
- Certain provisions in the current ACRA Code do not have equivalent sections in the proposed Code. Comments are sought on whether it is appropriate to repeal certain of these provisions upon adoption of the proposed Code.

1.12 It would be helpful if submitters focused on the specific questions posed in the consultation document, however the Committee also welcomes comments on other matters relating to the proposed Code and its implementation.

Submission of Comments

1.13 Comments are helpful when they refer to specific paragraphs, include reasons for comments and, where appropriate, make specific suggestions for any proposed changes to wordings to enable the Committee to fully appreciate the submitter's views. Where a submitter agrees with proposals, it will also be helpful for the Committee to be made aware of this view. It would be appreciated if comments are phrased as clearly and concisely as possible. Submitters should indicate their name, and, if any, the organisation which they represent.

1.14 As the exposure draft and consultation paper are only for the purposes of consultation, it would be inappropriate to use these documents for individual or business decisions. Additionally, the content of these documents should not be construed as any representation of actions that ACRA would undertake in future.

Period of Consultation and Feedback Channel

1.15 The exposure draft and consultation document are available for public consultation from **24 July 2007 to 24 September 2007**.

1.16 Please send us your comments by email to <http://www.acra.gov.sg/feedback> (please type 'Code of Ethics' in the subject line).

Summary of Responses

1.17 As we will be publishing on ACRA's website a summary of all comments received, we would like to highlight that all comments will be regarded as being on the public record unless a request for confidentiality is expressly indicated in your feedback.

TWO - OUTLINE OF THE PROPOSED CODE

Conceptual Framework of the Proposed Code: Principles, Threats and Safeguards

2.1 The proposed Code is principles-based. To comply with the proposed Code, public accountants must assess whether any of five fundamental principles are threatened and, when they identify a threat, they should apply safeguards to eliminate the threat or reduce it to an acceptable level such that compliance with the fundamental principles is not compromised. Public accountants have an obligation to evaluate any threats to compliance with the fundamental principles if they know, or could reasonably be expected to know, of circumstances or relationships that may compromise compliance. The five fundamental principles are found in Part A.

2.2 Part B consists of application guidance that describes specific threats to the fundamental principles, and the corresponding safeguards that may be applied to address the threats. In some situations, the safeguards are compulsory, which may include rules prohibiting such situations in all cases. In other situations, a public accountant will need to exercise judgment to determine how to best deal with an identified threat. In exercising this judgment, a public accountant should consider what a reasonable and informed third party, having knowledge of all relevant information, including the significance of the threat and the safeguards applied, would reasonably conclude to be acceptable.

2.3 The application guidance and examples in Part B are not intended to be, nor should they be interpreted as, an exhaustive list of all circumstances that may create threats to compliance with the fundamental principles. Consequently, it is not sufficient for public accountants merely to comply with the examples

presented; rather, they should apply the principles to the particular circumstances they encounter.

THREE - SUMMARY OF KEY CHANGES AND CONSULTATION QUESTIONS

PART A – General Application

3.1 Part A of the proposed Code sets out five fundamental principles:

- (a) Integrity
- (b) Objectivity
- (c) Professional Competence and Due Care
- (d) Confidentiality
- (e) Professional Behaviour

3.2 The Committee considers that Part A of the IFAC Code should be adopted in its entirety without Singapore modifications so as not to either add or detract from the IFAC principles, to avoid repetition, and to ensure the integrity of the remainder of the proposed Code which flows from the fundamental principles.

3.3 The principles in Part A of the proposed Code encompass the fundamental principles contained in Paragraph 1 ‘*Fundamental Principles*’ of the current ACRA Code, with the exception of paragraphs 1(6), 1(7), and 1(8):

1(6) Public accountants who assume responsibilities in respect of financial statements or as auditors shall observe the professional and technical pronouncements of the Oversight Committee and such other professional and technical pronouncements as the Oversight Committee may adopt from those issued by any other professional accountancy body.

1(7) Notwithstanding the generality of the foregoing, a public accountant shall also comply with any supplementary Guidelines on Professional Conduct issued from time to time by the Oversight Committee to clarify ambiguities or to deal with specific circumstances of universal application, and with any other guidelines on professional conduct as the Oversight Committee may adopt from those issued by any other professional accountancy body.

1(8) No public accountant shall be substantially engaged in any business other than that of a public accountant.

3.4 The matters in paragraphs 1(6) and 1(7) will be addressed in the Accountants (Public Accountants) Rules 2004 (the Rules) which require public accountants to comply with the PAOC's auditing, professional and technical pronouncements.

3.5 The matters in paragraph 1(8) are addressed in the relevant provisions under the Accountants Act that deals with public accountants' accounting entities. The issue is also dealt with in section 200.2 of the proposed Code, which states that a public accountant should not engage in any business, occupation or activity that impairs or might impair integrity, objectivity or the good reputation of the profession and as a result would be incompatible with the rendering of public accountancy services.

Proposal: To adopt Part A of the IFAC Code without additional Singapore provisions.

Question 1: Are there other matters of general principle, relevant to Singapore, not covered by Part A of the proposed Code? Please provide reasons for your comments.

PART B – Application Guidance

3.6 Part B provides guidance on the application of the fundamental principles. Part B includes an introduction, application in relation to specific areas, and an extensive section on independence in assurance engagements.

200 - Introduction

3.7 The introduction explains the threats and safeguards approach to application of the fundamental principles, and the main categories of threats to the fundamental principles. The threats are similar to those identified in paragraph 3 of the current ACRA Code.

3.8 The introduction outlines the main categories of safeguards that public accountants need to apply in order to eliminate the threats or reduce them to an insignificant level. Some of these safeguards are similar to the practices prescribed in the current ACRA Code.

Proposal: To adopt Section 200 of the IFAC Code without additional Singapore provisions.

Section 210: Professional Appointments

3.9 Section 210 deals with client and engagement acceptance, and changes in professional appointment. The current ACRA Code covers similar matters relating to:

- (a) professional behaviour, solicitation, encroachment and client referrals (paragraphs 25(1), 25(2) and 26); and
- (b) changes in professional appointments in respect of statutory audits of financial statements (paragraphs 25(3) to 25(6)).

Professional behaviour, solicitation, encroachment and client referrals -

3.10 Paragraphs 25(1), 25(2) and 26 of the current ACRA Code deal with the following matters:

25(1) No public accountant shall act in relation to another public accountant in any way or manner as to lower the dignity or honour of the profession or to discredit the profession.

25(2) No public accountant shall directly solicit or encroach upon the business of another public accountant.

26 No public accountant who receives an assignment by referral from another public accountant shall provide any other professional services to the referring public accountant's client without informing the referring public accountant.

3.11 The IFAC Code does not deal with the above specific matters on client solicitation, encroachment and referrals, but rather, deals generally with behaviour that would bring the profession into dispute, for example the fundamental principle on Professional Behaviour, and Section 250 on Marketing Professional Services.

3.12 The Committee acknowledges the tension between professional behaviour with regard to matters on client solicitation, encroachment and referrals on the one hand, and on the other, ensuring healthy competition and free choice of services to clients. On balance, the Committee considers that the current paragraphs 25(1), 25(2) and 26 are sufficiently covered by the IFAC Code, and so does not propose to retain them in the proposed Code.

Proposal: Not to retain paragraphs 25(1), 25(2) and 26 of the current ACRA Code upon adoption of the proposed Code.

Question 2: Do you agree that paragraphs 25(1), 25(2) and 26 of the current ACRA Code should not be retained? Please provide reasons for your comments.

Changes in professional appointments in respect of statutory audits of financial statements

3.13 The IFAC Code provides guidance on changes in professional appointment in general in sections 210.10 to 210.18. It does not provide specific guidance on changes of auditors in respect of statutory audit engagements, which are currently found in paragraphs 25(3) to 25(6) of the current ACRA Code. The Committee considers that paragraphs 25(3) to 25(6) should be retained in the proposed Code

to provide better specific guidance for changes of auditors in statutory audit engagements. This is to ensure consistency of practice and to provide certainty to public accountants wishing to accept a new client.

3.14 ACRA is aware of cases where public accountants incorrectly asserted that paragraph 25 prohibits a proposed auditor from accepting the audit appointment if he is unable to obtain the professional clearance set out in paragraph 25 from the existing auditor. In fact, the purpose of paragraph 25 is to provide a structured means for the proposed auditor to obtain relevant information to help him assess risks associated with accepting the proposed engagement. If the proposed auditor is unable to obtain the professional clearance set out in paragraph 25 from the existing auditor after carrying out the due process set out in the same paragraph, he may still accept the statutory audit engagement if he has satisfied himself of the risks of accepting the engagement through other appropriate means, in accordance with the Code.

3.15 In view of this, an additional paragraph has been included in the proposed Code to clarify this specific matter. The additional Singapore provisions should be read in conjunction with the IFAC-based paragraphs, and would read as follows:

SG210.17A Before accepting a nomination as auditor in a Statutory Audit, in every case the public accountant should undertake the following safeguards:

- (a) communicate with the existing public accountant, if any, who is to be superseded; or
- (b) enquire from such existing public accountant as to whether there is any

professional or other reason for the proposed change of which he should be aware before deciding whether or not to accept the statutory audit appointment and, if there are such matters, request that existing public accountant to provide him with all the details necessary to enable him to come to a decision.

SG210.17B The existing public accountant, on receipt of communication referred to in paragraph SG210.16A, shall immediately:

- (a) reply, in writing, advising whether there are any professional or other reasons why the proposed public accountant shall not accept the statutory audit appointment;
- (b) if there are any such reasons or other matters which should be disclosed, ensure that he has the permission of the client to give details of this information to the proposed public accountant. If permission is not granted the existing public accountant shall report that fact to the proposed public accountant; and
- (c) on receipt of permission from the client, disclose all information needed by the proposed public accountant to enable him to decide whether or not to accept the statutory audit appointment and discuss freely with the proposed public accountant all matters relevant to the appointment of which the latter should be aware.

SG210.17C If the proposed public accountant does not receive, within a reasonable time, a reply to his communication to the existing public accountant and he has no reason to believe that there are any exceptional circumstances

surrounding the proposed change, he shall endeavour to communicate with the existing public accountant by some other means.

SG210.17D If the proposed public accountant is unable to obtain a satisfactory outcome pursuant to paragraph SG210.16C, he shall send a final letter by registered post, stating that he assumes there is no professional or other reason why he should not accept the statutory audit appointment and that he intends to do so. The proposed public accountant may accept the engagement if he is satisfied that there are no professional or other reasons for the proposed change after taking into account guidance set out in 201.10 to 210.18.

Proposal: To retain a revised version of paragraphs 25(3) to 25(6) of the current ACRA Code in the proposed Code

Question 3: Do you agree that the matters in paragraphs 25(3) to 25(6) on change of appointment of auditor pertaining to statutory audit engagements in the current ACRA Code should be retained in the proposed Code? Please provide reasons for your comments.

Section 220: Conflicts of Interest

3.16 Section 220 describes the threats related to conflicts of interests and the safeguards that public accountants should consider if a conflict of interest arises. Section 220 does not contain any additional Singapore provision.

Proposal: To adopt Section 220 of the IFAC Code without additional Singapore provisions.

Section 230: Second Opinions

3.17 Section 230 describes the threats related to provision of second opinions and the safeguards that public accountants should consider when asked to provide a second opinion. Section 230 does not contain any additional Singapore provisions.

Proposal: To adopt Section 230 of the IFAC Code without additional Singapore provisions.

Section 240: Fees and other types of remuneration

3.18 Section 240 deals with matters pertaining to the *setting of fees*, *contingent fees* and *referral fees*. The current ACRA Code deals with *setting of fees* in paragraph 23 and *contingency fees* in paragraph 18. The current ACRA Code also deals with *profit sharing in paragraph 23*, which the IFAC Code does not specifically cover.

3.19 ***Setting of fees*** – The provisions on setting of fees in the proposed section 240 differs from that in paragraph 23 of the current ACRA Code. Section 240.1 states that a public accountant may quote whatever fee deemed to be appropriate. The fact that one public accountant may quote a fee lower than another is not in itself unethical, as long as any threat to compliance with the fundamental principles has been addressed. For example, the public accountant must ensure that the engagement can be completed with professional competence and due care, and in accordance with applicable standards for the fee charged. In comparison,

paragraph 23(1) of the current ACRA Code prescribes that fees charged should be a fair reflection of the value of the work performed taking into account four factors, as follows:

23 (1) Professional fees charged by public accountants should be a fair reflection of the value of the work performed for the client, taking into account —

- (a) the skill and knowledge required for the type of work involved;
- (b) the level of training and experience of the persons necessarily engaged in the work;
- (c) the time necessarily occupied by each person engaged in the work; and
- (d) the degree of responsibility and urgency that the work entails.

3.20 The Committee considers that the IFAC-based provisions sensibly targets the risks involved and should be sufficient without the need to carry over the existing provisions from the current ACRA Code.

Proposal: Not to retain paragraph 23(1) of the current ACRA Code upon adoption of the proposed Code.

Question 4: Do you agree that the proposed section 240 is sufficient to deal with matters on the setting of fees, and that the matters contained in paragraph 23(1) of the current ACRA Code need not be retained upon adoption of the proposed Code? Please provide reasons for your comments.

3.21 *Profit-sharing* - Paragraphs 23(2) to 23(4) of the current ACRA Code limit the circumstances under which a public accountant may be permitted to participate

in profit-sharing arrangements, including limitations on who a public accountant may enter into such arrangements with and the need to obtain consent from the relevant client.

3.22 Paragraphs 23(2) to 23(4) are out of step with the Accountants Act, which allows public accountants to enter into partnerships and to form companies with non-public accountants provided that the relevant provisions in the Accountants Act are met.

Proposal: Not to retain paragraphs 23(2) to 23(4) of the current ACRA Code upon adoption of the proposed Code.

Question 5: Do you agree that the matters contained in paragraphs 23(2) to 23(4) of the current ACRA Code should not be retained upon adoption of the proposed Code? Please provide reasons for your comments.

3.23 *Contingency Fees* – The IFAC Code deals with contingent fees in the following sections:

- section 240, which deals with general matters on contingent fees and matters pertaining to non-assurance services; and
- section 290, which deals specifically with all assurance services and non-assurance services to assurance clients (please refer to the subsequent commentaries on section 290 on independence in relation to this matter).

3.24 The current ACRA Code prohibits public accountants from charging contingency fees or percentage based fees for any form of professional work,

except where such remuneration is provided for under a written law. The prohibition is set out in paragraph 18 of the current ACRA Code, as follows:

18(1) No accounting corporation or accounting firm shall accept or charge a fee for any form of professional work on a percentage basis except where such remuneration is provided for under the provisions of any written law.

18(2) No accounting corporation or accounting firm shall accept instructions on a contingency fee basis.

3.25 On the other hand, under the IFAC Code:

- contingent fees are not permitted for an assurance engagement under which the amount of the fee is contingent on the result of the assurance work or on items that are the subject matter information of the assurance engagement;
- contingent fees are not permitted for non-assurance services to assurance clients under certain situations (such as contingent upon the results of an assurance service to that client); and
- subject to safeguards, contingent fees may be charged for other non-assurance services.

3.26 The Committee proposes to adopt the IFAC-based provisions but in addition, retain the existing complete prohibition on contingent fee arrangements for all services provided by a public accountant to financial statement audit clients that are entities of significant public interest.

3.27 The additional Singapore provisions should be read in conjunction with the IFAC- based paragraphs, and would read as follows:

SG240.3B and repeated in SG290.212A A public accountant shall not accept or charge a contingent fee, or receive instructions on a contingent fee basis, for any form of professional work to statutory audit clients that are entities of significant public interest, except where such remuneration is provided for under the provisions of any written law.

Proposal: To adopt the IFAC-based provisions, with additional Singapore provisions to retain the current prohibition on contingent fees but only in respect of all professional work to statutory audit clients that are entities of significant public interest.

Question 6:

(a) Do you agree that contingent fee should be prohibited for any form of professional work to statutory audit clients that are entities of significant public interest, except where such remuneration is provided for under the provisions of any written law?

(b) Do you agree that the prohibition on contingent fee in all other situations as set out in paragraph 18 of the current ACRA Code should not be retained in the proposed Code?

Please provide reasons for your comments.

Section 250 Marketing Public Accountancy Services

3.28 Section 250 of the proposed Code covers matters pertaining to the marketing of public accountancy services. The current ACRA Code contains similar provisions in paragraph 22. The Committee considers that section 250 sufficiently covers the general principles contained in paragraphs 22(1) to 22(3) of the current ACRA Code, and so these would not be retained in the proposed Code.

3.29 Paragraphs 22(4) to 22(9) of the current ACRA Code contain specific rules and guidance relating to publicity. The IFAC Code does not provide such specific rules and guidance.

3.30 While specific rules and guidance can provide clarity and ease of enforcement, the Committee considers that it is unlikely to be necessary in this case as the principles set out in section 250 is sufficiently clear, and that what constitutes appropriate professional conduct in the area of marketing and publicity should be well-understood by public accountants. As such, the content in paragraphs 22(4) to 22(9) would not be retained in the proposed Code. The Committee would, however, consider providing additional guidance if there is considered a need for it in the future.

Proposal: To adopt section 250 of the IFAC Code without additional Singapore provisions.

Question 7: Do you agree that it is unnecessary to include specific rules and guidance relating to publicity as contained in paragraphs 22(4) to 22(9) of the current ACRA Code? Please provide reasons for your comments.

Section 260 Gifts and Hospitality

3.31 Section 260 outlines the general threats and safeguards in relation to gifts and hospitality. It should be read together with the section on gifts and hospitality under section 290 pertaining to independence on assurance engagements. The current ACRA code has provisions concerning gifts and hospitality in relation to auditor independence (paragraph 19).

Proposal: To adopt section 260 of the IFAC Code without additional Singapore provisions. However, please refer to the subsequent commentaries on section 290 on independence in relation to this matter.

Section 270 Custody of Client Assets

3.32 Section 270 of the proposed Code states that public accountants should not assume custody of client monies or other assets unless permitted to do so by law, and outlines the threats to the fundamental principles associated with holding of client assets, and association with client assets derived from illegal activities.

3.33 The current ACRA Code does not have an equivalent provision to section 270. As such, this would represent a new restriction on public accountants' dealings with client monies and or other assets. As the intention is to adopt the IFAC Code as a baseline and international base-mark, the proposed Code includes this section without modification.

Proposal: To adopt section 270 on custody if client assets without Singapore additions.

Question 8: Do you agree that section 270 on custody of client assets should be adopted without Singapore modifications? Please provide reasons for your answer.

Section 280 - Objectivity – All Services

3.34 Section 280 deals with matters relating to the fundamental principle of objectivity. Specific guidance on independence in assurance engagements is also

found in Section 290 Independence – Assurance Engagements (please refer to the subsequent commentaries on section 290).

Proposal: To adopt section 280 of the IFAC Code without additional Singapore provisions.

Question 9: Do you agree that section 280 of the IFAC Code should be adopted without additional Singapore provisions? Please provide reasons for your comments.

SECTION 290 – INDEPENDENCE - ASSURANCE ENGAGEMENTS

3.35 Section 290 of IFAC Code comprises extensive requirements and guidance on independence in assurance engagements. Many of the requirements in the current ACRA Code are similar to those in the proposed Code. Some of the provisions in the current ACRA Code would be carried over as additional Singapore provisions in the proposed Code.

3.36 The proposed Code requires public accountants to:

- (a) identify threats to independence;
- (b) evaluate the significance of these threats; and
- (c) in cases when the threats are not clearly insignificant, identifying and applying appropriate safeguards to eliminate or reduce the threats to an acceptable level.

3.37 Section 290 presents illustrative examples of how the conceptual approach to independence is to be applied to specific circumstances and relationships. The guidance is not intended to be, nor should it be interpreted as, an exhaustive list of all circumstances that may create threats to independence. Consequently, it would not be sufficient for a public accountant to merely comply with the examples presented. Rather, public accountants would need to apply the framework to the particular circumstances that they encounter.

3.38 It should be noted that section 290 applies to all assurance engagements that are public accountancy services as defined in the Accountants Act, and not just audit and reporting on financial statements.

GENERAL

Entities of Significant Public Interest

3.39 The current ACRA Code imposes additional independence requirements with regard to audit clients that are public companies, and the IFAC Code makes a similar distinction with regard to financial statement audit clients that are listed companies. The reason for the additional requirements is the wider public interest in these entities, which requires a high level of actual and perceived auditor independence to maintain investor and public confidence.

3.40 The IFAC Code also suggested that consideration should be given to the application of the framework in relation to the financial statement audit of listed entities to other financial statement audit clients that may be entities of significant public interest (ESPIs). In the light of the public interest associated with a wide range of entities, the Committee:

- proposes to strengthen the guidance in the IFAC Code by positively extending the independence provisions for listed entities to ESPIs in the proposed Code; and
- seeking views on the types of entities that should be included as ESPIs with the view of issuing more specific guidance in the proposed Code.

3.41 The current IFAC Code provides limited guidance on what should be included in the category of ESPIs.

3.42 The Committee is seeking views on the following specific guidance, based on IFAC literature, for possible inclusion in the proposed Code as additional Singapore provisions:

- (a) ESPIs always include *listed entities* because of the significant public interest associated with such entities.
- (b) Depending on the facts and circumstances, ESPIs would normally include *regulated financial institutions*, such as banks and insurance companies. While there is a presumption that regulated financial institutions will be considered to be ESPI, it is possible that certain regulated financial institutions would not have a large number and a wide range of stakeholders and thus, the extent of public interest in those entities would not be significant.
- (c) ESPIs may include *not-for-profit entities/charities, pension funds, government-agencies and government-controlled entities*.

Question 10:

(a) Is it appropriate to extend all of the independence provisions applicable to listed entity to ESPIs? If not, why not and which specific provisions should not be extended?

(b) Is it appropriate that, depending on the facts and circumstances, regulated financial institutions would normally be ESPIs?

(c) Is it appropriate that pension funds, government-agencies, government-owned entities and not-for-profit entities/charities may be ESPIs?

Please provide reasons for your comments.

Evidence and Documentation

3.43 Under the proposed Code, the evaluation of threats to independence and subsequent action should be supported by evidence obtained before accepting the assurance engagement and while it is being performed (see section 290.35). When public accountants identify threats to independence that are not clearly insignificant, yet choose to accept or continue the assurance engagement, the decision should be documented. The documentation should also include a description of the threats identified and the safeguards applied to eliminate or reduce the threats to an acceptable level (see section 290.40).

INDEPENDENCE: APPLICATION TO SPECIFIC SITUATIONS

Financial Interests (sections 290.104 to 290.125)

3.44 The current ACRA Code prescribes restrictions on “economic interests” held by a “covered party”, and certain other persons such as financially dependent immediate family of the public accountant.

3.45 The IFAC Code sets out a substantially more comprehensive risk-based framework pertaining to “financial interests”. Under the IFAC Code, the significance of a threat and the appropriate safeguards is dependent on, generally:

- The role of the person holding the financial interest. The IFAC Code defines categories of persons impacted by financial interests in a more risk-based manner, such as financial interests held by members of the assurance team, persons outside the assurance team, the firm, the network firm, immediate family and close family.
- The types of financial interest – direct or indirect.
- The materiality of the financial interest.
- Types of client – financial statement audit client, non-financial statement audit client and other assurance clients.
- Whether the financial statement audit client is an entity of significant public interest, which in turn can affect financial interests held in the related entities of the client.

3.46 The IFAC Code sets out situations in which financial interests would be prohibited all together. These situations include prohibition on direct financial interest or material indirect financial interest in a financial statement audit client held by a member of the assurance team, their immediate family members, the

firm, the network firm, and other partners in the same office as the engagement partner and their immediate family.

3.47 The IFAC Code also sets out situations where financial interests may be permitted provided that appropriate safeguards are in place. One of the safeguards includes disposing of a sufficient amount of a material indirect financial interest so that the remaining interest is no longer material. The IFAC Code does not contain specific threshold as to what constitutes material and not material.

3.48 In contrast, under the current ACRA Code, public accountants or staff of an accounting entity who are not directly involved in the audit may have economic interests of up to the equivalent of a 5% of the equity share capital of the audit client and each of its holding companies, subsidiaries or associates. The Committee considers it unnecessary to retain a similar threshold in the proposed Code given the comprehensiveness in which financial interests have been dealt with in the IFAC Code.

Proposal: To adopt sections 290.104 to 290.125 of the IFAC Code on financial interests without additional Singapore provisions. In particular, the 5% threshold in the current ACRA Code as discussed above will not be retained.

Question 11:

(a) Do you agree that sections 290.104 to 290.125 of the IFAC Code on financial interests should be adopted without additional Singapore provisions?

(b) Do you agree that the 5% threshold in the current ACRA Code as discussed above should not be retained?

(c) Do you have any other comments on the provisions pertaining to financial interests?

Please provide reasons for your comments.

Disposal of Financial Interests

3.49 Where a person's economic interest is prohibited, paragraph 4(3) of the current ACRA Code requires that person to dispose of the economic interests within 90 days of accepting the engagement, and in any event, before signing the auditor's report.

3.50 The IFAC Code already deals with a number of specific situations on when a disposal of financial interest should take place. For example, in respect of a direct financial interest in the assurance client, the interest must be disposed prior to the individual becoming a member of the assurance team. The Committee considers that is not necessary to retain the matters in paragraph 4(3) of the current ACRA Code in the proposed Code.

Proposal: Not to retain the 90-day disposal requirement under paragraph 4(3) of the current ACRA Code in the proposed Code.

Question 12: Do you agree that the 90-day disposal requirement under paragraph 4(3) of the current ACRA Code should not be retained in the proposed Code? Please provide reasons for your comments.

Disclosure

3.51 Paragraph 4(4) of the current ACRA Code requires that the auditor's report shall disclose on an annual basis certain details of economic interests held as defined under Paragraph 4, even though these may not be in breach of the Rules. The proposed Code would not require such disclosures. The proposed Code introduces safeguards under various circumstances, including discussing any independence issues with those charged with governance, such as the audit committee.

Proposal: Not to retain paragraph 4(4) of the current ACRA Code upon adoption of the proposed Code.

Question 13: Do you agree that the disclosure requirements in paragraph 4(4) of the current ACRA Code need not be retained in the proposed Code. Please provide reasons for your comments.

Loans and Guarantees (sections 290.126 to 290.131)

3.52 Sections 290.126 to 290.131 of the proposed Code deal more comprehensively and in a more risk-based manner on loans and guarantees. However, public accountants must continue to comply with section 10 of the Companies Act which prohibits auditors from being indebted by more than \$2,500 to audit clients.

Proposal: To adopt sections 290.126 to 290.131 of the IFAC Code on loans and guarantees without additional Singapore provisions.

Question 14: Do you agree that sections 290.126 to 290.131 of the IFAC Code on loans and guarantees should be adopted without additional Singapore provisions? Please provide reasons for your comments.

Close Business Relationships with Assurance Clients (sections 290.132 to 290.134)

3.53 Sections 290.132 to 290.134 of the IFAC Code deal with matters on close business relationships between public accountants and their clients, similar to paragraph 8 of the current ACRA Code. A key difference is that:

- under the IFAC Code, in the case of a financial statement audit client, such a relationship is permitted only if the financial interest involved is

immaterial and the relationship is clearly *insignificant* to the firm, the network firm and the audit client; and

- under Paragraph 8 of the current ACRA Code, in the case of an audit client, the audit firm's affiliated entities, and public accountants and staff not in the audit team are permitted to hold up to a 5% interest in a business venture with a client party.

3.54 The Committee assessed that the IFAC Code provisions address this particular area better through its principles-based approach, as compared to the rules-based approach under the current ACRA Code. The Committee is recommending the adoption of the IFAC Code provisions without additional Singapore provisions.

Proposal: To adopt sections 290.132 to 290.134 of the IFAC Code on close business relationships with assurance clients without additional Singapore provisions. In particular, not to retain the rules-based provisions, including the percentage-based threshold, in paragraph 8 of the current ACRA Code.

Question 15: Do you agree that sections 290.132 to 290.134 of the IFAC Code on close business relationships with assurance clients should be adopted without additional Singapore provisions, such as having the need for a percentage-based threshold as that in paragraph 8 of the current ACRA Code? Please provide reasons for your comments.

Family and Personal Relationships (sections 290.135 to 290.142)

3.55 Sections 290.135 to 290.142 cover the threats to the fundamental principles created by family and close personal relationships between the assurance team and

certain members of the assurance client. The current ACRA Code deals with this threat in paragraph 5, which prohibits a public accountant from undertaking an audit engagement if his immediate family member:

- (a) is employed by the audit client in a role that involves *accounting or financial reporting oversight*; or
- (b) is an officer of the audit client at any time during the relevant financial period or during the audit engagement period.

3.56 The IFAC Code differs from the current ACRA Code primarily in that it adopts a principles-based as opposed to a rules-based approach. For example, the IFAC Code makes a distinction between threats created through direct and significant influence over the *subject matter* and the *subject matter information* of an engagement. Under the IFAC Code, if an immediate family member of a member of the assurance team is a director, an officer or an employee of the assurance client in a position to exert direct and significant influence over the *subject matter information*, or was in such a position during any period covered by the engagement, the individual would be prohibited from being involved in the engagement. On the other hand, if an immediate family member of a member the assurance team is an employee in a position to exert direct and significant influence over the *subject matter*, the significance of the threat should be evaluated and appropriate safeguards applied, which may include the removal of the individual from the assurance team.

3.57 The IFAC Code also deals with matters in relation to close personal relationship between a member of the assurance team and certain members of the assurance client.

Proposal: To adopt section 290.135 to 290.142 of the IFAC Code on family and personal relationships without additional Singapore provisions.

Question 16: Do you agree that sections 290.135 to 290.142 of the IFAC Code on family and personal relationships should be adopted without additional Singapore provisions? Please provide reasons for your comments.

Employment with Assurance Clients (sections 290.143 to 290.145)

3.58 Sections 290.143 to 290.145 cover the threats to the fundamental principles created when a member of the assurance team or partner of the firm joins an assurance client under certain situations. Under those certain situations, the current ACRA Code (paragraph 6) and the IFAC Code prohibit such an engagement unless certain safeguards relating to the severing of financial ties between the firm and the individuals concerned have been met. The IFAC Code additionally requires risk assessment and safeguards to be applied even if there are no financial ties.

Proposal: To adopt sections 290.143 to 290.145 of the IFAC Code on employment with assurance clients without additional Singapore provisions.

Question 17: Do you agree that section 290.143 to 290.145 of the IFAC Code on employment with assurance clients should be adopted without additional Singapore provisions? Please provide reasons for your comments.

Recent Service with Assurance Clients (sections 290.146 to 290.148)

3.59 The IFAC Code and the current ACRA Code (paragraph 7) differ in that:

- the current ACRA Code prohibits a public accountant’s involvement in an audit engagement if he/she served with the client within the *preceding three years*; whereas
- the IFAC Code prohibits involvement if an assurance team member was in a position to exert direct and significant influence over the subject matter information *during the period covered by the assurance report*. In cases prior to the periods covered by the assurance reports, the IFAC Code requires a *risk assessment to be made and the appropriate safeguards adopted*.

3.60 The Committee considers that the risk-based approach in the IFAC Code adequately addresses the matter on recent service with assurance clients without the need to retain the three-year prescriptive prohibition.

Proposal: To adopt sections 290.146 to 290.148 of the IFAC Code on recent service with assurance clients without additional Singapore provisions.

Question 18: Do you agree that the proposed Code adequately addresses the matter on recent service with assurance clients without the need to retain the three-year prescriptive prohibition under paragraph 7 of the current ACRA Code? Please provide reasons for your comments.

Serving as an Officer or Director on the Board of Assurance Clients (sections 290.149 to 290.152)

3.61 The proposed Code prescribes rules which prohibit a partner or employee of a firm from serving as an officer, company secretary or director of an assurance client. The current ACRA Code does not contain an equivalent provision. The

proposed Code has been modified from the IFAC Code to clarify that a public accountant, a partner or employee of the firm or a network firm must not serve as company secretary for a financial statement audit client.

Proposal: To adopt sections 290.149 to 290.152 of the IFAC Code on serving as an officer or director on the board of an assurance client, with the clarification that a public accountant, a partner or employee of the firm or a network firm must not serve as company secretary for a financial statement audit client.

Question 19: Do you agree that sections 290.149 to 290.152 of the IFAC Code on serving as an officer or director on the board of an assurance client should be adopted with the clarification that a public accountant, a partner or employee of the firm or a network firm must not serve as company secretary for a financial statement audit client? Please provide reasons for your comments.

Long Association of Senior Personnel with Assurance Clients (sections 290.153 to 290.157)

3.62 The IFAC Code describes the familiarity threat created as a result of using the same senior personnel on an engagement over a long period of time. In respect of financial statement audit clients that are ESPIs, the engagement partner and the individual responsible for the engagement quality control review should be rotated after a pre-defined period, normally no more than seven years, and should not participate in the audit engagement until a further period of time, normally two years, has elapsed. The IFAC Code also provides that when a firm has only a few people with the necessary knowledge and experience to serve as the engagement partner, or the individual responsible for the engagement quality control review,

rotation may not be an appropriate safeguard. In these circumstances, firms are required to apply other safeguards to address the threat.

3.63 The current ACRA Code does not contain similar rotation provisions. However, auditor rotation is required of certain entities by other authorities/regulators, such as the Monetary Authority of Singapore (MAS) and Singapore Exchange Limited (SGX). The proposed Code contains an additional Singapore provision to highlight that the auditor rotation provisions under the proposed Code are subject to specific requirements that may be imposed by other authorities/regulators.

Proposal: To adopt sections 290.153 to 290.157 of the IFAC Code on long association of senior personnel with assurance clients without additional Singapore provisions, other than to include a clarification that the auditor rotation provisions under the proposed Code are subject to specific requirements that may be imposed by other authorities/regulators.

Question 20: Do you agree that sections 290.153 to 290.157 of the IFAC Code on long association of senior personnel with assurance clients should be adopted without additional Singapore provisions, other than to include a clarification that the auditor rotation provisions under the proposed Code are subject to specific requirements that may be imposed by other authorities/regulators? Please provide reasons for your comments.

PROVISION OF NON-ASSURANCE SERVICES

3.64 The proposed Code describes the threats associated with the provision of non-assurance services to assurance clients. It provides guidance on the types of activity that would always create a threat so significant that these should not be undertaken. It also provides guidance on the assessment of risk for other specific

situations where the work may be undertaken but with appropriate safeguards applied.

3.65 The specific situations on non-assurance services to assurance clients dealt with under the proposed Code are set out below.

Preparing Accounting Records and Financial Statements (sections 290.166 to 290.173)

Financial Statement Audit Clients that are Entities of Significant Public Interest

3.66 In respect of an audit client which is a public company, the current ACRA Code prohibits the provision of book-keeping, payroll services, and services relating to the client's accounting records or financial statements, except in the limited circumstances of:

- an emergency; and
- services provided to a foreign division/subsidiary of the audit client,

and provided that certain prescribed conditions are met.

3.67 The IFAC Code has similar prohibitions and exceptions in respect of such services provided by the firm or network firm to financial statement audit clients that are entities of significant public interest.

3.68 Two of the differences between the IFAC Code and the current ACRA Code are as follows:

- The current ACRA Code only allows the provision of the above accounting-related services to foreign divisions/subsidiaries of the audit client, subject to conditions. On the other hand, the IFAC Code permits such services to *all* divisions and subsidiaries of the audit client, whether foreign or non-foreign, subject to similar conditions. The Committee considers that there is no conceptual justification for the different treatment regarding foreign and non-foreign subsidiaries and divisions.
- Under the current ACRA Code, one of the conditions that must be met when providing the above accounting-related services to foreign divisions/subsidiaries is that the total fees for such services for the group must not exceed \$10,000 or 5% of the consolidated audit fee, whichever is the higher. The IFAC Code adopts a principles-based approach by stating only that the fees from the divisions/subsidiaries must be “*clearly insignificant*”, without further guidance in the form of specific thresholds as in the current ACRA Code. The Committee considers that it would be useful to retain similar thresholds in the proposed Code. These will apply to statutory audit engagements.
- Unlike the IFAC Code, paragraph 9(4) of the current ACRA Code requires that the client’s annual report must disclose the details of any service covered by the rules on services in an emergency situation, and services provided to foreign divisions or subsidiaries. The Committee considers it not necessary to disclose details of services that the Code already permits.

Proposal:

- (a) **To adopt the IFAC-based provisions without additional Singapore provisions, except that in respect of services provided to subsidiaries**

and divisions of statutory audit clients that are entities of significant public interest, to retain the specific fee cap of \$10,000 or 5% of the consolidated audit fee, whichever is the higher, as discussed above.

- (b) For services provided to subsidiaries and divisions of statutory audit clients that are entities of significant public interest, not to retain the distinction between foreign and non-foreign divisions/subsidiaries, as discussed above.
- (c) Not to retain the disclosure requirements under paragraph 9(4) of the current ACRA Code in relation to services provided in emergency situations and those provided to subsidiaries and divisions, as discussed above.

Question 21:

- (a) Do you agree that, subject to meeting the conditions in the proposed Code, the provision of accounting and bookkeeping services of a routine or mechanical nature can be provided to all divisions or subsidiaries of a statutory audit client that is an entity of significant public interest, regardless of whether the divisions or subsidiaries are foreign or non-foreign?
- (b) Under section 290.172 of the proposed Code, the provision of accounting and bookkeeping services of a routine or mechanical nature to divisions or subsidiaries of a financial statement audit client that is an entity of significant public interest would not be seen as impairing independence provided, *inter alia*, the fees to the firm, or network firm, from such services are collectively clearly insignificant. In respect of statutory audit engagements, “clearly insignificant” for the purposes of this section shall mean that the total fees for such services for the group do not exceed \$10,000 or 5% of the consolidated statutory audit fee, whichever is the higher. Do you agree?
- (c) Do you agree that the disclosure requirements under paragraph 9(4) of the current ACRA Code as discussed above are not necessary and should not be retained?

Please provide reasons for your comments.

Financial Statement Audit Clients that are not Entities of Significant Public Interest

3.69 The IFAC Code is substantively the same as the current ACRA Code for financial statement audit clients that are not entities of significant public interest.

Proposal: To adopt the IFAC-based provisions on preparing accounting records and financial statements in relation to financial statement audit clients that are not entities of significant public interest without additional Singapore provisions.

Question 22: Do you agree that the IFAC-based provisions on preparing accounting records and financial statements in relation to financial statement audit clients that are not entities of significant public interest should be adopted without additional Singapore provisions? Please provide reasons for your comments.

Valuation Services (sections 290.174 to 290.179)

3.70 The IFAC Code adopts a principles-based approach to this matter, as follows:

- Valuation services are prohibited if it involves the valuation of matters material to the financial statements and the valuation involves a significant degree of subjectivity.
- Performing valuation services for a financial statement audit client that are neither separately, nor in the aggregate, material to the financial statements, or that do not involve a significant degree of subjectivity, is permitted

provided that appropriate safeguards have been applied to reduce the threats to an acceptable level.

3.71 The current ACRA Code adopts a rules-based approach which prohibits a firm from auditing a client's financial statements if the financial statements include the product of a specialist valuation by the firm or its affiliated entity, except where the valuation relates to a foreign subsidiary of the audit client and provided that certain other prescribed conditions have been met as set out in paragraph 11(1) of the current ACRA Code. The Committee considers that there is no conceptual justification for distinguishing valuations conducted for foreign subsidiaries or making specific exemptions for foreign subsidiaries, and that the principles-based provisions under the IFAC Code more adequately addresses the risks pertaining to valuation services.

Proposal: To adopt sections 290.174 to 290.179 of the IFAC Code on valuation services without additional Singapore provisions.

Questions 23:

- (a) Do you agree that section 290.174 to 290.179 of the IFAC Code on valuation services should be adopted without additional Singapore provisions?**
- (b) Do you agree that it is not necessary to make a special exemption for valuation services relating to *foreign* subsidiaries of statutory audit clients?**

Please provide reasons for your comments.

Provision of Taxation Services to Financial Statement Audit Clients (section 290.180)

3.72 The current ACRA Code does not contain any provision on taxation services.

Proposal: To adopt section 290.180 of the IFAC Code on provision of taxation services to financial statement audit clients without additional Singapore provisions.

Question 24: Do you agree that section 290.180 of the IFAC Code on provision of taxation services to financial statement audit clients should be adopted without additional Singapore provisions? Please provide reasons for your comments.

Provision of Internal Audit Services to Financial Statement Audit Clients (sections 290.181 to 290.186)

3.73 The current ACRA Code prohibits audit firms and their affiliated entities from providing internal audit services to audit clients that are public companies. The provision of internal audit services to private companies is permitted provided that the prescribed conditions are met.

3.74 In contrast, the IFAC Code does not make any distinction on the types of financial statement audit client, and applies the same provisions to all types of financial statement audit clients. It does not also impose a complete prohibition. Instead, such services are permitted provided that appropriate safeguards are put in place.

3.75 With regard to statutory audit clients that are entities of significant public interest, whilst there could be adequate safeguards to properly address threats to

independence, the Committee considers that maintaining high standards of independence in appearance is important and continues to be expected. On balance, the Committee considers it appropriate to continue to retain the prohibition on the provision of internal audit services to statutory audit clients that are entities of significant public interest.

3.76 Under the current ACRA Code, where internal audit services are provided, the services must be provided by personnel who are not involved in the audit engagement, and have different reporting lines in the firm. The IFAC Code adopts a risk-based approach by allowing consideration on whether such non-assurance services should be provided only by personnel not involved in the financial statement audit engagement and with different reporting lines within the firm.

Proposal: To adopt section 290.181 to 290.186 of the IFAC Code on internal audit services, with an additional Singapore provision that retains the prohibition on providing internal audit services to statutory audit clients that are entities of significant public interest.

Question 25: Do you agree that section 290.181 to 290.186 of the IFAC Code on internal audit services should be adopted with an additional Singapore provision that retains the prohibition on the provision of internal audit services to statutory audit clients that are entities of significant public interest? Please provide reasons for your comments.

Provision of IT Systems Services to Financial Statement Audit Clients (section 290.187 to 290.191)

3.77 Where an audit client is a public company, the current ACRA Code prohibits audit firms and their affiliated entities from providing services involving

the design or implementation of technology or other systems if the system is used to generate financial information forming part of the client's financial statements. The provision of such services to private companies is permitted provided that the prescribed conditions are met.

3.78 In contrast, the IFAC Code does not make any distinction on the types of financial statement audit client, and applies the same provisions to all types of financial statement audit clients. It does not also impose a complete prohibition. Instead, such services are permitted provided that appropriate safeguards are put in place.

3.79 With regard to statutory audit clients that are entities of significant public interest, whilst there could be adequate safeguards to properly address threats to independence, the Committee considers that maintaining high standards of independence in appearance is important and continues to be expected. On balance, the Committee considers it appropriate to continue to retain the prohibition on the provision of such services to statutory audit clients that are entities of significant public interest.

3.80 Under the current ACRA Code, where such services are provided, the services must be provided by personnel who are not involved in the audit engagement, and have different reporting lines in the firm. The IFAC Code adopts a risk-based approach by allowing consideration on whether such non-assurance services should be provided only by personnel not involved in the financial statement audit engagement and with different reporting lines within the firm.

Proposal: To adopt section 290.187 to 290.191 of the IFAC Code on provision of IT systems services to financial statement audit clients, with an additional

Singapore provision that retains the prohibition on providing such services to statutory audit clients that are entities of significant public interest.

Question 26: Do you agree that the section 290.187 to 290.191 of the IFAC Code on provision of IT systems services to financial statement audit clients should be adopted with an additional Singapore provision that retains the prohibition on the provision of such services to statutory audit clients that are entities of significant public interest? Please provide reasons for your comments.

Temporary Staff Assignments to Financial Statement Audit Clients (section 290.192)

3.81 The proposed Code provides guidance on the lending of staff by a firm or network firm to a financial statement audit client. This is a new provision with no equivalent in the current ACRA Code.

Proposal: To adopt section 290.192 of the IFAC Code on temporary staff assignments to financial statement audit clients without additional Singapore provisions.

Question 27: Do you agree that section 290.192 of the IFAC Code on temporary staff assignments to financial statement audit clients should be adopted without additional Singapore provisions? Please provide reasons for your comments.

Provision of Litigation Support Services to Financial Statement Audit Clients (sections 290.193 to 290.195)

3.82 The proposed Code provides guidance on threats and safeguards in relation to the provision of litigation support services to financial statement audit clients. This is a new provision with no equivalent in the current ACRA Code.

Proposal: To adopt sections 290.193 to 290.195 of the IFAC Code on provision of litigation support services to financial statement audit clients without additional Singapore provisions.

Question 28: Do you agree that sections 290.193 to 290.195 of the IFAC Code on provision of litigation support services to financial statement audit clients should be adopted without additional Singapore provisions? Please provide reasons for your comments.

Provision of Legal Services to Financial Statement Audit Clients (sections 290.196 to 290.202)

3.83 The IFAC Code provides guidance on provision of legal services to financial statement audit clients. As accounting entities cannot provide legal services (those services restricted by law to the legal profession), this section of the IFAC Code would not be adopted.

Recruiting Senior Management (section 290.203)

3.84 The current ACRA Code and the IFAC Code are conceptually the same with respect to management recruiting services. However, the current ACRA Code specifically prohibits recruitment services in relation to chief executive officers (CEOs), chief financial officers (CFOs) and other senior management posts with responsibility for financial functions. In contrast, the IFAC Code only states generically that the significance of the threat will depend upon factors such as the role of the person to be recruited, without any further guidance. The Committee considers that clarity is needed in respect of statutory audit engagements, and that

the proposed Code should include an additional Singapore provision that prohibits management recruitment services relating to CEOs, CFOs, and other senior management in a position to exert direct and significant influence over the subject matter information of the engagement (ie. the financial statements). .

Proposal: To adopt section 290.203 of the IFAC Code on recruiting senior management, with an additional Singapore provision applicable to statutory audit clients that prohibits recruitment services relating to CEOs, CFOs, and other senior management in a position to exert direct and significant influence over the financial statements.

Question 29: Do you agree that section 290.203 of the IFAC Code should be adopted with an additional Singapore provision that prohibits recruitment services for a statutory audit client where the relevant position is that of chief executive officer, chief financial officer, and other senior management in a position to exert direct and significant influence over the financial statements. Please provide reasons for your comments.

Corporate Finance and Similar Activities (sections 290.204 to 290.205)

3.85 The current ACRA Code and the proposed Code are similar with regard to provision of corporate finance services.

Proposal: To adopt sections 290.204 to 290.205 of the IFAC Code on corporate finance and similar activities without additional Singapore provisions.

Question 30: Do you agree that sections 290.204 to 290.205 of the IFAC Code on corporate finance and similar activities should be adopted without additional Singapore provisions? Please provide reasons for your comments.

Fees and Pricing (sections 290.206 to 290.212)

3.86 General matters on fees and other remuneration are set out in section 240. The discussion on this matter, the Committee’s proposal and request for comments to specific questions on this matter are set under “Section 240: Fees and other types of remuneration” and are not repeated here.

3.87 In addition, sections 290.206 to 290.212 deal specifically with matters relating to assurance engagements, and are set out below.

Fees – Relative Size (sections 290.206 to 290.207)

3.88 The current ACRA Code and the IFAC Code are similar with regard to the principles on threats to independence and safeguards associated with proportionately large revenue derived from a client.

3.89 However, the current ACRA Code differs from the IFAC Code in that it prescribes specific thresholds, value and percentages, for various situations at which threats to independence and the need for safeguards must be considered and applied, as appropriate. These thresholds include guidance on the proportion/level of non-audit fees received from a client. The IFAC Code adopts a principles-based approach without providing further guidance in the form of specific thresholds as in the current ACRA Code. The IFAC Code also does not contain guidance on the proportion/level of non-audit fees as in the current ACRA Code.

3.90 The Committee considers that it would be beneficial to retain similar thresholds in the current ACRA Code in the proposed Code as Singapore specific guidance, including those relating to non-audit services. These will apply to statutory audit engagements.

Proposal: To adopt sections 290.206 to 290.207 of the IFAC Code on relative size of fees with additional Singapore provisions on specific thresholds for various situations at which threats to independence and the need for safeguards must be considered and applied, as appropriate. These will be applicable to statutory audit engagements.

Question 31:

Do you agree that sections 290.206 to 290.207 of the IFAC Code should be adopted without additional Singapore provisions except for the following.

SG290.206A The significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards such as those described in 290.206 should be considered and applied as necessary to reduce the threat to an acceptable level in all cases where:

- (a) the statutory audit client is an entity of significant public interest (ESPI) and the total fees generated by the audit client are 5% or more of the accounting entity's annual total fees;
- (b) the statutory audit client is a not an ESPI and the total fees generated by the audit client are 15% or more of the accounting entity's annual total fees; or
- (c) the total fees generated by the statutory audit client are 50% or more of the individual public accountant's annual total fees.

SG290.206B Where a statutory audit client is an entity of significant public interest, the significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards such as those described in 290.206 should be considered and applied as necessary

to reduce the threat to an acceptable level in all cases where:

- (a) the amount of the fees received for the non-audit services compared to the total annual audit fees is 50% or more; or
- (b) the total size of the non-audit fees paid for the services is significant.

SG290.207A The significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards such as those described in 290.207 should be considered and applied as necessary to reduce the threat to an acceptable level in all cases where the total fees generated by the statutory audit client are 50% or more of the individual public accountant's annual total fees.

Please provide reasons for your comments.

Fees – Overdue (section 290.208)

3.91 The current ACRA Code and the proposed Code are similar with regard to overdue fees.

Proposal: To adopt section 290.208 of the IFAC Code on overdue fees without additional Singapore provisions.

Question 32: Do you agree that section 290.208 of the IFAC Code on overdue fees should be adopted without additional Singapore provisions? Please provide reasons for your comments.

Pricing (section 290.209)

3.92 The IFAC Code provides guidance on the self-interest threat associated with obtaining an assurance engagement at a significantly lower fee level than that

charged by the predecessor firm, or quoted by other firms. In such a case, the threat will not be reduced to an acceptable level unless:

- (a) the firm is able to demonstrate that appropriate time and qualified staff are assigned to the task; and
- (b) all applicable assurance standards, guidelines and quality control procedures are being complied with.

3.93 No additional Singapore provisions are proposed.

Proposal: To adopt section 290.209 of the IFAC Code on pricing without additional Singapore provision.

Question 33: Do you agree that section 290.209 of the IFAC Code on pricing should be adopted without additional Singapore provisions? Please provide reasons for your comments.

Contingency Fees (sections 290.210 to 290.212)

3.94 General matters on contingent fees are set out in section 240. In addition, sections 290.210 to 290.212 deal specifically with matters pertaining to all assurance services and non-assurance services to assurance clients.

3.95 The discussion on this matter, the Committee’s proposal and request for comments to specific questions on this matter are set under “Section 240: Fees and other types of remuneration” and are not repeated here.

Gifts and Hospitality (section 290.213)

3.96 The IFAC Code and the current ACRA Code (paragraph 19) provisions on gifts and hospitality are similar, except that the current ACRA Code specifies a maximum threshold of \$200 annually, whereas IFAC states that the value must be “clearly insignificant”.

3.97 The Committee considers that the IFAC-based approach adequately deals with this matter without the need to retain a value-based threshold as in paragraph 19 of the current ACRA Code.

Proposal: To adopt section 290.213 of the IFAC Code on gifts and hospitality without additional Singapore provisions, including the need to retain a value-based threshold as in paragraph 19 of the current ACRA Code.

Question 34: Do you agree that section 290.213 of the IFAC Code, which adopts the test that gifts and hospitality should be “clearly insignificant” should be adopted without additional Singapore provisions, including the need to retain a value-based threshold? Please provide reasons for your comments.

Actual or Threatened Litigation (section 290.214)

3.98 The current ACRA Code requires firms to take necessary steps to withdraw from/refuse to accept an audit engagement if litigation occurs or is threatened between an audit client and the firm or a member of the audit team, except where it relates to overdue prior year’s audit fees.

3.99 The IFAC Code requires an assessment of the threats involved and the application of safeguards, including withdrawal/refusal to accept the engagement

if the threat cannot be reduced to an appropriate level. The Committee considers that the IFAC-based approach adequately deals with this matter without the need for additional Singapore provisions.

Proposal: To adopt section 290.214 of the IFAC Code on actual or threatened litigation without additional Singapore provisions.

Question 35: Do you agree that section 290.214 of the IFAC Code on actual and threatened litigation should be adopted without additional Singapore provisions? Please provide reasons for your comments.

OTHER PROVISIONS IN THE CURRENT ACRA CODE NOT RETAINED IN THE PROPOSED CODE

Method of Practice - Paragraph 21

3.100 Paragraph 21 deals with the following matter:

21. No public accountant, accounting corporation or accounting firm shall report or express an opinion on financial statements examined for the purposes of such report or opinion unless the examination is carried out by —

- (a) the public accountant; or
- (b) a member of the corporation or firm or its staff or a person registered with the Oversight Committee.

3.101 The proposed Code contains provisions that are sufficiently clear requiring a public accountant to apply professional competence and due care in his or her professional work, including the need to act diligently in accordance with applicable technical and professional standards when providing professional services. With respect to the audit of financial statements, this includes compliance with the Singapore Standards on Auditing (SSA), such as those pertaining to the use of the work of another auditor, consideration of the work of internal auditing and the use of work of an expert, where appropriate. The Committee considers that paragraph 21 does not need to be retained in the proposed Code.

Proposal: Not to retain paragraph 21 of the current ACRA Code upon adoption of the proposed Code.

Question 35: Do you agree that the matters contained in paragraph 21 of the current ACRA Code need not be retained upon the adoption of the proposed Code? Please provide reasons for your comments.

Prospectuses and Similar Documents - Paragraph 27

3.102 Paragraph 27 deals with the following matters not specifically addressed in the IFAC Code:

27(1) Statements or reports prepared by a public accountant in his capacity as public accountant for publication in a prospectus or similar document which is to be used by promoters or others for the purpose of inducing or inviting persons to invest in a company, firm, syndicate or other enterprise shall not be made unless the matters contained therein have been verified by the public accountant.

27(2) A public accountant shall ensure that any reference to him in any prospectus or document inviting the public to subscribe for shares or debentures in any company or proposed company is confined only to the requirements of the Singapore Exchange Securities Trading Limited and shall not include any laudatory references.

3.103 The Committee considers that the Code of Professional Conduct and Ethics is no longer an appropriate place to deal with these matters. The Committee also noted that the Institute of Certified Public Accountants of Singapore (ICPAS) has already issued useful guidance under Statement of Auditing Practice 24: Auditors and Public Offering Documents.

Proposal: Not to retain paragraph 27 of the current ACRA Code upon adoption of the proposed Code.

Question 36: Do you agree that the matters contained in paragraph 27 of the current ACRA Code need not be retained in the proposed Code? Please provide reasons for your comments.

FOUR – SUMMARY OF QUESTIONS

4.1 For convenience, the questions in this consultation paper are set out below:

Question 1: Are there other matters of general principle, relevant to Singapore, not covered by Part A of the proposed Code? Please provide reasons for your comments.

Question 2: Do you agree that paragraphs 25(1), 25(2) and 26 of the current ACRA Code should not be retained? Please provide reasons for your comments.

Question 3: Do you agree that the matters in paragraphs 25(3) to 25(6) on change of appointment of auditor pertaining to statutory audit engagements in the current ACRA Code should be retained in the proposed Code? Please provide reasons for your comments.

Question 4: Do you agree that the proposed section 240 is sufficient to deal with matters on the setting of fees, and that the matters contained in paragraph 23(1) of the current ACRA Code need not be retained upon adoption of the proposed Code? Please provide reasons for your comments.

Question 5: Do you agree that the matters contained in paragraphs 23(2) to 23(4) of the current ACRA Code should not be retained upon adoption of the proposed Code? Please provide reasons for your comments.

Question 6:

(a) Do you agree that contingent fee should be prohibited for any form of professional work to financial statement audit clients that are entities of significant public interest, except where such remuneration is provided for under the provisions of any written law?

(b) Do you agree that the prohibition on contingent fee in all other situations as set out in paragraph 18 of the current ACRA Code should not be retained in the proposed Code? Please provide reasons for your comments.

Question 7: Do you agree that it is unnecessary to include specific rules and guidance relating to publicity as contained in paragraphs (22)4 to 22(9) of the current ACRA Code? Please provide reasons for your comments.

Question 8: Do you agree that section 270 on custody of client assets should be adopted without Singapore modifications? Please provide reasons for your answer.

Question 9: Do you agree that section 280 of the IFAC Code should be adopted without additional Singapore provisions? Please provide reasons for your comments.

Question 10:

(a) Is it appropriate to extend all of the independence provisions applicable to listed entity to ESPIs? If not why not and which specific provisions should not be extended?

(b) Is it appropriate that, depending on the facts and circumstances, regulated financial institutions would normally be ESPIs?

(c) Is it appropriate that pension funds, government-agencies, government-owned entities and not-for-profit entities/charities may be ESPIs? Please provide reasons for your comments.

Question 11:

(a) Do you agree that sections 290.104 to 290.125 of the IFAC Code on financial interests should be adopted without additional Singapore provisions?

(b) Do you agree that the 5% threshold in the current ACRA Code as discussed above should not be retained?

(c) Do you have any other comments on the provisions pertaining to financial interests?

Question 12: Do you agree that the 90-day disposal requirement under paragraph 4(3) of the current ACRA Code should not be retained in the proposed Code? Please provide reasons for your comments.

Question 13: Do you agree that the disclosure requirements in paragraph 4(4) of the current ACRA Code need not be retained in the proposed Code. Please provide reasons for your comments.

Question 14: Do you agree that sections 290.126 to 290.131 of the IFAC Code on loans and guarantees should be adopted without additional Singapore provisions? Please provide reasons for your comments.

Question 15: Do you agree that sections 290.132 to 290.134 of the IFAC Code on close business relationships with assurance clients should be adopted without additional Singapore provisions, such as having the need for a percentage-based threshold as that in paragraph 8 of the current ACRA Code? Please provide reasons for your comments.

Question 16: Do you agree that sections 290.135 to 290.142 of the IFAC Code on family and personal relationships should be adopted without additional Singapore provisions? Please provide reasons for your comments.

Question 17: Do you agree that section 290.143 to 290.145 of the IFAC Code on employment with assurance clients should be adopted without additional Singapore provisions? Please provide reasons for your comments.

Question 18: Do you agree that the proposed Code adequately addresses the matter on recent service with assurance clients without the need to retain the three-year prescriptive prohibition under paragraph 7 of the current ACRA Code? Please provide reasons for your comments.

Question 19: Do you agree that sections 290.149 to 290.152 of the IFAC Code on serving as an officer or director on the board of an assurance client should be adopted with the clarification that a public accountant, a partner or employee of the firm or a network firm must not serve as company secretary for a financial statement audit client? Please provide reasons for your comments.

Question 20: Do you agree that sections 290.153 to 290.157 of the IFAC Code on long association of senior personnel with assurance clients should be adopted without additional Singapore provisions, other than to include a clarification that the auditor rotation provisions under the proposed Code are subject to specific requirements that may be imposed by other authorities/regulators? Please provide reasons for your comments.

Question 21:

(a) Do you agree that, subject to meeting the conditions in the proposed Code, the provision of accounting and bookkeeping services of a routine or mechanical nature can be provided to all divisions or subsidiaries of a statutory audit client that is an entity of significant public interest, regardless of whether the divisions or subsidiaries are foreign or non-foreign?

(b) Under section 290.172 of the proposed Code, the provision of accounting and bookkeeping services of a routine or mechanical nature to

divisions or subsidiaries of a financial statement audit client that is an entity of significant public interest would not be seen as impairing independence provided, *inter alia*, the fees to the firm, or network firm, from such services are collectively clearly insignificant. In respect of statutory audit engagements, “clearly insignificant” for the purposes of this section shall mean that the total fees for such services for the group do not exceed \$10,000 or 5% of the consolidated statutory audit fee, whichever is the higher. Do you agree?

(c) Do you agree that the disclosure requirements under paragraph 9(4) of the current ACRA Code as discussed above are not necessary and should not be retained? Please provide reasons for your comments.

Question 22: Do you agree that the IFAC-based provisions on preparing accounting records and financial statements in relation to financial statement audit clients that are not entities of significant public interest should be adopted without additional Singapore provisions? Please provide reasons for your comments.

Questions 23:

(a) Do you agree that section 290.174 to 290.179 of the IFAC Code on valuation services should be adopted without additional Singapore provisions?

(b) Do you agree that it is not necessary to make a special exemption for valuation services relating to *foreign* subsidiaries of statutory audit clients? Please provide reasons for your comments.

Question 24: Do you agree that section 290.180 of the IFAC Code on provision of taxation services to financial statement audit clients should be adopted without additional Singapore provisions? Please provide reasons for your comments.

Question 25: Do you agree that section 290.181 to 290.186 of the IFAC Code on internal audit services should be adopted with an additional Singapore provision that retains the prohibition on the provision of internal audit services to statutory audit clients that are entities of significant public interest? Please provide reasons for your comments.

Question 26: Do you agree that the section 290.187 to 290.191 of the IFAC Code on provision of IT systems services to financial statement audit clients should be adopted with an additional Singapore provision that retains the prohibition on the provision of such services to statutory audit clients that are entities of significant public interest? Please provide reasons for your comments.

Question 27: Do you agree that section 290.192 of the IFAC Code on temporary staff assignments to financial statement audit clients should be adopted without additional Singapore provisions? Please provide reasons for your comments.

Question 28: Do you agree that sections 290.193 to 290.195 of the IFAC Code on provision of litigation support services to financial statement audit clients should be adopted without additional Singapore provisions? Please provide reasons for your comments.

Question 29: Do you agree that section 290.203 of the IFAC Code should be adopted with an additional Singapore provision that prohibits recruitment services for a statutory audit client where the relevant position is that of chief executive officer, chief financial officer, and other senior management in a position to exert direct and significant influence over the financial statements. Please provide reasons for your comments.

Question 30: Do you agree that sections 290.204 to 290.205 of the IFAC Code on corporate finance and similar activities should be adopted without additional Singapore provisions? Please provide reasons for your comments.

Question 31: Do you agree that sections 290.206 to 290.207 of the IFAC Code should be adopted without additional Singapore provisions except for prescribing specific thresholds for various situations at which threats to independence and the need for safeguards should be considered and applied, as appropriate.

Question 32: Do you agree that section 290.208 of the IFAC Code on overdue fees should be adopted without additional Singapore provisions? Please provide reasons for your comments.

Question 33: Do you agree that section 290.209 of the IFAC Code on pricing should be adopted without additional Singapore provisions? Please provide reasons for your comments.

Question 34: Do you agree that section 290.213 of the IFAC Code, which adopts the test that gifts and hospitality should be “clearly insignificant” should be adopted without additional Singapore provisions, including the need to retain a value-based threshold? Please provide reasons for your comments.

Question 35: Do you agree that section 290.214 of the IFAC Code on actual and threatened litigation should be adopted without additional Singapore provisions? Please provide reasons for your comments.

Question 36: Do you agree that the matters contained in paragraph 21 of the current ACRA Code need not be retained upon the adoption of the proposed Code? Please provide reasons for your comments.

Question 37: Do you agree that the matters contained in paragraph 27 of the current ACRA Code need not be retained in the proposed Code? Please provide reasons for your comments.



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