

4 June 2020

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

Dear Sir,

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

However, there is insufficient guidance within the proposal to assist a professional accountant in determining when a self-review threat prohibition is required. Although the proposed paragraph 600.11 A2 below provides some criteria to determine whether the provision of a NAS to an audit client will create a self-review threat, these criteria are not sufficiently clear and may likely be misinterpreted. We appreciate that 600.11 A2 is a principles-based framework and provides broad markers for the auditors to look at when assessing whether self-review threat is created when a NAS is provided to an audit client. However, in view that the definition of self-review threat under paragraph 600.11 A1 in itself already requires a judgment to determine whether there is a risk that the auditor will audit its own work, the framework under 600.11 A2 does not in substance provide much more additional guidance over and above what is already within the definition of self-review threat.

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

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

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

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

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

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

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

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

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

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

#### Providing Advice and Recommendations

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

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

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

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

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

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

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

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

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

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

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

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

### Project on Definitions of Listed Entity and PIE

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

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

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

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

### Materiality

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

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

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

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

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

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

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

### Communication with TCWG

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

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

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

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

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

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

### Other Proposed Revisions to General NAS Provisions

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

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

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

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

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

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

#### Proposed Revisions to Subsections

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The same activity that appears under paragraph 601.2 A3 is deemed “accounting and bookkeeping service”, and hence would be deemed to give rise to a self-review threat under paragraph 601.3 A1. But when appearing under paragraph 601.2 A2 as part of the audit process, a proposal on adjusting journal entries arising from audit

findings would not give rise to self-review threat if no management responsibility is assumed.

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

Proposed Consequential Amendments

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

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

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

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

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

Yours faithfully,



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TECHNICAL: Financial & Corporate Reporting;  
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