

Exposure Draft

Proposed Changes to EP 100 Code of Professional Conduct and Ethics

Comments are requested by 17 November 2021.

Once issued, the proposed changes are effective as of 15 December 2022.

REQUEST FOR COMMENTS

This Exposure Draft of ISCA was approved for publication in October 2021. This Exposure Draft may be modified in light of comments received before being issued in its final form. Comments should be submitted so as to be received by 17 November 2021, preferably by e-mail. All comments will be considered a matter of public record. Email responses should be sent to professionalstandards@isca.org.sg.

**PROPOSED CHANGES TO EP 100
CODE OF PROFESSIONAL CONDUCT AND ETHICS**

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EXPLANATORY MEMORANDUM

Introduction

1. All members of the Institute of Singapore Chartered Accountants (ISCA) must adhere to the EP 100 *Code of Professional Conduct and Ethics* (the Code or EP 100). EP 100 is modelled after the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for Accountants (IESBA) of the International Federation of Accountants (IFAC).
2. EP 100 also encompasses the SG provisions included in the *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* issued by the Accounting and Corporate Regulatory Authority (ACRA). SG provisions are local adaptations to serve the public interest in Singapore and to conform to Singapore's regulatory environment and statutory requirements.
3. This memorandum provides background to ISCA's Exposure Draft (ED), and an explanation of the proposed changes to EP 100.

Background

4. EP 100, revised on 7 July 2021 and expected to be effective 31 December 2021, is based on the *Handbook of the International Code of Ethics for Professional Accountants, 2020 Edition* of the IESBA, published by the IFAC in February 2021.
5. In January 2021, IFAC published the final pronouncement, *Revisions to the Code Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers* (EQR final pronouncement). If adopted, the Code would contain revised section 300 and new section 325 within Part 3 of EP 100, and revised section 540 within Part 4A of EP 100.

Consultation

6. This consultation seeks feedback on the revisions to Part 3 and Part 4A of EP 100 in this ED to adopt the EQR final pronouncement. The key elements of the proposed changes to EP 100 are highlighted in the section that follows below.

Key Elements of the Proposed Changes to EP 100

7. Revisions to Part 3 and Part 4A of EP 100 provide guidance that supports International Standard on Quality Management (ISQM) 2, *Engagement Quality Reviews* (ISQM 2) in addressing the eligibility of an individual to serve in an engagement quality reviewer (EQR) role.

Key revisions to EP 100 to adopt the EQR final pronouncement are as follows:

- Elaborates on the need to identify, evaluate and address threats to compliance with the fundamental principle of objectivity that might arise in the appointment of an individual as an EQR for a given engagement;
- Explicitly refers to and supports the requirement in ISQM 2 for a firm to establish, as a condition for eligibility, a cooling-off period of two years before an engagement partner can assume the EQR role on the same engagement; and
- Emphasizes that this cooling-off requirement in ISQM 2 serves the dual objective of supporting compliance with the fundamental principle of objectivity and the high quality of engagements.

Effective Date

8. The proposed changes to Part 3 of EP 100 in this ED will be effective for engagements beginning on or after 15 December 2022.
9. The proposed changes to Part 4A of EP 100 relating to independence for audit and review engagements in this ED will be effective for audits and reviews of financial statements for periods beginning on or after 15 December 2022.
10. Early adoption is permitted.

Useful Resource

11. The Staff of IESBA has issued Basis for Conclusions which relate to but does not form part of the EQR final pronouncement. This Basis for Conclusions explain how the IESBA has addressed the significant matters raised on exposure.
12. The Basis for Conclusions relating to the EQR final pronouncement issued in January 2021 may be downloaded from the IESBA website using this [link](#).

PROPOSED CHANGES TO EP 100

MARK-UP FROM EXTANT VERSION

SECTION 300

APPLYING THE CONCEPTUAL FRAMEWORK – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

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Requirements and Application Material

General

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Identifying Threats

300.6 A1 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. The categories of threats are described in paragraph 120.6 A3. The following are examples of facts and circumstances within each of those categories of threats that might create threats for a professional accountant when undertaking a professional service:

(a) Self-interest Threats

- A professional accountant having a direct financial interest in a client.
- A professional accountant quoting a low fee to obtain a new engagement and the fee is so low that it might be difficult to perform the professional service in accordance with applicable technical and professional standards for that price.
- A professional accountant having a close business relationship with a client.
- A professional accountant having access to confidential information that might be used for personal gain.
- A professional accountant discovering a significant error when evaluating the results of a previous professional service performed by a member of the accountant's firm.

(b) Self-review Threats

- A professional accountant issuing an assurance report on the effectiveness of the operation of financial systems after implementing the systems.
- A professional accountant having prepared the original data used to generate records that are the subject matter of the assurance engagement.

(c) Advocacy Threats

- A professional accountant promoting the interests of, or shares in, a client.
- A professional accountant acting as an advocate on behalf of a client in litigation or disputes with third parties.
- A professional accountant lobbying in favor of legislation on behalf of a client.

(d) Familiarity Threats

- A professional accountant having a close or immediate family member who is a director or officer of the client.
- A director or officer of the client, or an employee in a position to exert significant influence over the subject matter of the engagement, having recently served as the engagement partner.
- An audit team member having a long association with the audit client.
- An individual who is being considered to serve as an appropriate reviewer, as a safeguard to address a threat, having a close relationship with an individual who performed the work.

(e) Intimidation Threats

- A professional accountant being threatened with dismissal from a client engagement or the firm because of a disagreement about a professional matter.
- A professional accountant feeling pressured to agree with the judgement of a client because the client has more expertise on the matter in question.
- A professional accountant being informed that a planned promotion will not occur unless the accountant agrees with an inappropriate accounting treatment.
- A professional accountant having accepted a significant gift from a client and being threatened that acceptance of this gift will be made public.

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[Other paragraphs of extant Section 300 remain unchanged.]

SECTION 325

OBJECTIVITY OF AN ENGAGEMENT QUALITY REVIEWER AND OTHER APPROPRIATE REVIEWERS

Introduction

- 325.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 325.2 Appointing an engagement quality reviewer who has involvement in the work being reviewed or close relationships with those responsible for performing that work might create threats to compliance with the principle of objectivity.
- 325.3 This section sets out specific application material relevant to applying the conceptual framework in relation to the objectivity of an engagement quality reviewer.
- 325.4 An engagement quality reviewer is also an example of an appropriate reviewer as described in paragraph 300.8 A4. Therefore, the application material in this section might apply in circumstances where a professional accountant appoints an appropriate reviewer to review work performed as a safeguard to address identified threats.

Application Material

General

- 325.5 A1 Quality engagements are achieved through planning and performing engagements and reporting on them in accordance with professional standards and applicable legal and regulatory requirements. ISQM 1 establishes the firm's responsibilities for its system of quality management and requires the firm to design and implement responses to address quality risks related to engagement performance. Such responses include establishing policies or procedures addressing engagement quality reviews in accordance with ISQM 2.
- 325.5 A2 An engagement quality reviewer is a partner, other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.

Identifying Threats

- 325.6 A1 The following are examples of circumstances where threats to the objectivity of a professional accountant appointed as an engagement quality reviewer might be created:
- (a) Self-interest threat
- Two engagement partners each serving as an engagement quality reviewer for the other's engagement.
- (b) Self-review threat
- An accountant serving as an engagement quality reviewer on an audit engagement after previously serving as the engagement partner.
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(c) Familiarity threat

- An accountant serving as an engagement quality reviewer has a close relationship with or is an immediate family member of another individual who is involved in the engagement.

(d) Intimidation threat

- An accountant serving as an engagement quality reviewer for an engagement has a direct reporting line to the partner responsible for the engagement.

Evaluating Threats

325.7 A1 Factors that are relevant in evaluating the level of threats to the objectivity of an individual appointed as an engagement quality reviewer include:

- The role and seniority of the individual.
- The nature of the individual's relationship with others involved on the engagement.
- The length of time the individual was previously involved with the engagement and the individual's role.
- When the individual was last involved in the engagement prior to being appointed as engagement quality reviewer and any subsequent relevant changes to the circumstances of the engagement.
- The nature and complexity of issues that required significant judgment from the individual in any previous involvement in the engagement.

Addressing Threats

325.8 A1 An example of an action that might eliminate an intimidation threat is reassigning reporting responsibilities within the firm.

325.8 A2 An example of an action that might be a safeguard to address a self-review threat is implementing a period of sufficient duration (a cooling-off period) before the individual who was on the engagement is appointed as an engagement quality reviewer.

Cooling-off Period

325.8 A3 ISQM 2 requires the firm to establish policies or procedures that specify, as a condition for eligibility, a cooling-off period of two years before the engagement partner can assume the role of engagement quality reviewer. This serves to enable compliance with the principle of objectivity and the consistent performance of quality engagements.

325.8 A4 The cooling-off period required by ISQM 2 is distinct from, and does not modify, the partner rotation requirements in Section 540, which are designed to address threats to independence created by long association with an audit client.

SECTION 540

LONG ASSOCIATION OF PERSONNEL (INCLUDING PARTNER ROTATION) WITH AN AUDIT CLIENT

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Requirements and Application Material

All Audit Clients

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Audit Clients that are Public Interest Entities

R540.5 Subject to paragraphs R540.7 to R540.9, in respect of an audit of a public interest entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years (the “time-on” period):

- (a) The engagement partner;
- (b) The individual appointed as responsible for performing the engagement quality ~~control~~-review; or
- (c) Any other key audit partner role.

After the time-on period, the individual shall serve a “cooling-off” period in accordance with the provisions in paragraphs R540.11 to R540.19.

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Cooling-off Period

R540.11 If the individual acted as the engagement partner for seven cumulative years, the cooling-off period shall be five consecutive years.

R540.12 Where the individual has been appointed as responsible for the engagement quality ~~control~~-review and has acted in that capacity for seven cumulative years, the cooling-off period shall be three consecutive years.

R540.13 If the individual has acted as a key audit partner other than in the capacities set out in paragraphs R540.11 and R540.12 for seven cumulative years, the cooling-off period shall be two consecutive years.

540.14 A1 The partner rotation requirements in this section are distinct from, and do not modify, the cooling-off period required by ISQM 2 as a condition for eligibility before the engagement partner can assume the role of engagement quality reviewer (see paragraph 325.8 A4).

Service in a combination of key audit partner roles

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[Other paragraphs of extant Section 540 remain unchanged.]

PERMISSION FOR REPRODUCTION

This ED is based on the Final Pronouncement, *Revisions to the Code Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers*, of the International Ethics Standards Board for Accountants, published by the International Federation of Accountants (IFAC) in January 2021 and is used with the permission of IFAC.

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