INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

Implementation Guidance
EP 100 IG 2

Code of Professional Conduct and Ethics

Frequently Asked Questions on Key Audit Partner

This Implementation Guidance (IG) was issued by the Council of the Institute of Singapore Chartered Accountants (ISCA) in March 2018.

CODE OF PROFESSIONAL CONDUCT AND ETHICS

FREQUENTLY ASKED QUESTONS ON KEY AUDIT PARTNER

CONTENTS

Introduction

Members of the Institute of Singapore Chartered Accountants (ISCA) must adhere to Ethics Pronouncement (EP) 100 *Code of Professional Conduct and Ethics.* EP 100 is modelled after the *Code of Ethics for Professional Accountants* published by the International Ethics Standards Board for Accountants of the International Federation of Accountants. It also encompasses locally-developed 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.

With the objective of supporting the accountancy profession by providing clarification of the definition and identification on Key Audit Partners, ISCA has developed EP 100 Implementation Guidance (IG) 2 – *Frequently Asked Questions on Key Audit Partners* to assist professional accountants and professional firms.

1. <u>Definitions and Clarifications</u>

<u>Definition of Key Audit Partner</u>

A key audit partner (KAP) is defined as the engagement partner, the individual responsible for the engagement quality control review, and other audit partners, if any, on the engagement team who make key decisions or judgements on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, "other audit partners" may include, for example, audit partners responsible for significant subsidiaries or divisions.

1.1 Key Decision or Judgement on Significant Matter

What is a "key decision or judgement on significant matter"?

As EP 100 does not provide guidance on what a "key decision or judgement on significant matter" constitutes, reference may be drawn from auditing standards which cover similar or related concepts.

While the Singapore Standards on Auditing (SSAs) do not define "key decision or judgement", professional judgement in the context of audit engagements is defined in the SSAs as "the application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making informed decisions about the courses of action which are appropriate in the circumstances of the engagement". Thus, any judgment relating to a significant matter is deemed a key judgement.

Similarly, the SSAs do not specifically define what constitutes a "significant matter". Notwithstanding that, paragraph A8 of SSA 230 *Audit Documentation* provides the following as examples of significant matters:

- Matters that give rise to significant risks as defined in SSA 315 (Revised) *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*.
- Results of audit procedures indicating (a) that the financial statements could be materially misstated, or (b) a need to revise the auditor's previous assessment of the risks of material misstatement and the auditor's responses to those risks.
- Circumstances that cause the auditor significant difficulty in applying necessary audit procedures.
- Findings that could result in a modification to the audit opinion or the inclusion of an Emphasis of Matter paragraph in the auditor's report. According to paragraph 7b of Financial Reporting Standard (FRS) 1 *Presentation of Financial Statements,* omissions or misstatements of items are material if they could individually or collectively influence the economic decisions that users make on the basis of the financial statements. The size or nature of the items, or a combination of both, could be the determining factor.

Paragraph 28 of SSA 315 (Revised) further clarifies that the auditor should consider at least the following in exercising judgement as to which risks are significant:

(a) Whether the risk is a risk of fraud;
(b) Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention;
(c) The complexity of transactions;
(d) Whether the risk involves significant transactions with related parties;
(e) The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty; and
(f) Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

Another related concept would be "key audit matter". According to paragraph 8 of Singapore Standard on Auditing (SSA) 701 *Communicating Key Audit Matters in the Independent Auditor's Report*, key audit matters are those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance. Paragraph 9 of SSA 701 further elaborates that some matters requiring significant auditor attention would include:

- Areas of higher assessed risk of material misstatement, or significant risks identified;
- Significant auditor judgements relating to areas in the financial statements that involved significant management judgement, including accounting estimates that have been identified as having high estimation uncertainty

The auditors should keep in mind or apply the above concepts to help them determine what may be considered "key decisions or judgements on significant matters.

1.2 Indicators to Identify Significant Subsidiaries/Divisions or "Other Audit Partners"

What are some indicators that may be used to identify "significant subsidiaries or divisions"? Are audit partners responsible for the audit of significant subsidiaries or divisions always required to be subject to rotation requirements as "other audit partners"?

The auditors should refer to provisions and materials on "significant components" in SSA 600 *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* for purposes of identifying significant subsidiaries and divisions. In particular, paragraphs A5-A6 of SSA 600 provide application and other explanatory material on "significant components". These paragraphs indicate, amongst others, that the group engagement team may apply a percentage to a chosen benchmark (such as group assets, liabilities, cash flow, profit or turnover) as an aid to identify components that are of individual financial significance. Identifying a benchmark and determining a percentage to be applied to it involve the exercise of professional judgement.

An audit partner responsible for the audit of a significant subsidiary or division is subject to rotation requirements as a KAP if the individual makes key decisions or judgements on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Hence, the audit partner responsible for the audit of a significant subsidiary or division may or may not be a KAP as the determination of a KAP is based on the abovementioned criterion. Therefore, audit partners responsible for the audit of significant subsidiaries or divisions may not always be subject to rotation requirements as “other audit partners”.

In certain situations, an audit partner responsible for the audit of significant subsidiaries or divisions may not be determined to be an “other audit partner”. In such a situation, the engagement team should document its basis in arriving at this conclusion.

2. <u>Illustrative Scenarios</u>

The below illustrative scenarios are meant to provide broad guidance when assessing if a partner is a key audit partner. These illustrative scenarios are not meant to be an exhaustive list.

For the purpose of the illustrative scenarios, the audit clients are assumed to be public interest entities as defined in paragraph 290.25 to paragraph 290.26 of EP 100.

2.1 Technical Partner

Is the Technical partner considered a KAP of an audit engagement, if she is consulted on technical matters during the engagement (assuming the Technical partner is not the engagement quality control reviewer of the same engagement)?

A technical partner's role is to provide advice on technical (i.e. accounting and auditing) issues. But the technical partner does not make any decision on behalf of the engagement partner who ultimately makes the final decision. Thus, in this respect, the technical partner is usually not considered a KAP.

Notwithstanding the above, in some circumstances, it is possible that the technical partner may have to make key decisions or judgements on significant matters. For example, if the issue is uncommon and there is no established literature or reference on the issue, the technical partner may have to make key decisions or judgements. In such circumstances, the technical partner may be considered a KAP on the engagement.

2.2 Senior Partner Consulted on Independence Issues in an Audit Engagement

A is a senior partner in her audit firm and the other partners in the firm usually consult her on independence issues in relation to their audit engagements. Is A a KAP in an audit engagement if the audit engagement team consults her on independence matters in relation to their audit engagement?

The audit engagement team's consultation with A on independence matters is unlikely to directly influence the outcome of the audit engagement.

Hence, A's consultation would not constitute a key decision or judgement on significant matters having an impact on the financial statements. Thus, A should not be considered a KAP on the audit engagement.

2.3 Working Partner

B is a "working partner" who is involved in the engagement but does not sign the auditor's report. Is he considered a KAP?

Considerations for KAPs are not dependent on whether a person signs the auditor's report.

While B does not sign the auditor's report, he would likely have made key decisions or judgements on significant matters relating to the audit as the working partner, which are then submitted to the engagement partner for concurrence. Thus, B should be considered a KAP.

2.4 Relationship Partner

C serves as the "relationship partner" on his firm's engagement with Company X. C's responsibilities as relationship partner includes leading and coordinating his firm's professional services to Company X. However, C is not the engagement partner. Is C considered a KAP?

If C's role as "relationship partner" does not involve making key decisions or judgements on significant matters with respect to the audit of the financial statements on which the firm would express an opinion, C is not considered a KAP.

2.5 Partner Performing Review Engagement

D performs a review engagement for Company Y. However, she is neither the audit engagement partner nor the audit engagement quality control reviewer. Is D a KAP for the audit engagement with Company Y?

The definition of KAP encompasses other audit partners who make key decisions or judgements on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. It does not cover engagements (such as reviews) other than audits. Hence, D is not considered a KAP.

2.6 Partner Consulted Prior to Audit Engagement

E is the most experienced partner in his firm and he is regarded as the subject matter expert for clients in the shipping industry. His colleague, F, had consulted him to get a better understanding of issues facing companies in the shipping industry before she tendered her proposal to bid for the audit engagement of Company Z, a shipping company. F subsequently won the tender and is now the audit engagement partner of Company Z. E is neither involved in the audit of Company Z nor consulted on any other matters relating to the audit of Company Z.

Is E considered a KAP by virtue of the consultation with him on Company Z prior to the engagement?

E is not the engagement partner or engagement quality control reviewer of Company Z. As the consultation took place prior to the engagement, it is also unlikely that E would have provided inputs on significant matters relating to the current audit engagement with Company Z. As such, E should not be considered a KAP.