

Center for Board Matters

Audit Committee Bulletin

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Welcome to the
Audit Committee Bulletin,
which brings you important
information on corporate and
financial reporting matters

In this issue:

Auditor independence is key to ensuring public trust in audited financial statements and contributes to audit quality. In recent years, the provision of non-assurance services (NAS) by audit firms to their audit clients has emerged as a regular discussion topic. In view of this, in April 2021, the International Ethics Standards Board for Accountants (IESBA) released changes to the non-assurance services provisions and fee-related provisions of the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) to require pre-concurrence from those charged with governance (TCWG) for NAS that the audit firm and the audit network firms provide to a Public Interest Entity (PIE) under audit and certain affiliates of the PIE.

The Institute of Singapore Chartered Accountants (ISCA) issued the Ethics Pronouncement EP 100 Code of Professional Conduct and Ethics (EP 100) in September 2022 to adopt the IESBA's final pronouncements and a revised Singapore provision.

In this publication, we summarize the IESBA Code and EP 100 changes in relation to NAS and set out the possible implementation solutions to facilitate the pre-concurrence process for consideration.



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New IESBA and EP 100 requirements to obtain pre-concurrence of non-assurance services

Auditor independence is key to ensuring public trust in audited financial statements and contributes to audit quality. In recent years, the provision of non-assurance services (NAS) by audit firms to their audit clients has emerged as a regular discussion topic. In view of this, in April 2021, the International Ethics Standards Board for Accountants (IESBA) released changes to the non-assurance services provisions and fee-related provisions of the International Code of Ethics for Professional Accountants (including International Independence Standards) (the IESBA Code) to require pre-concurrence from those charged with governance (TCWG) for NAS that the audit firm and the audit network firms provide to a Public Interest Entity (PIE) under audit and certain affiliates of the PIE. The amended Code is effective for audit periods beginning on or after 15 December 2022, with a transition provision for NAS where the audit firm has entered into an engagement agreement and the work has commenced before 15 December 2022. It is important to note that an audit firm cannot undertake to perform or commence an NAS before pre-concurrence from TCWG is provided.

In the Singapore context, the Ethics Pronouncement EP 100 Code of Professional Conduct and Ethics (EP 100) establishes ethical requirements for members of ISCA and is modeled after the IESBA Code. The ISCA issued EP100 in September 2022 to adopt the IESBA's final pronouncements and a revised Singapore provision.

EP 100 continues to require firms to disclose to TCWG if the annual non-audit fees received or to be received represent 50% or more of the total annual audit fees received by the firm and also to discuss the safeguards it will apply to reduce the threat to an acceptable level.

The IESBA Code and EP 100 are collectively referred to as "Codes" in this publication. We understand that the ISCA will be issuing an Implementation Guidance on the provision of non-audit services to PIEs in due course.

Applicability

Under the Codes, pre-concurrence from TCWG of the PIE audit client will be required for any proposed NAS to the following:

- ▶ The PIE entity
- ▶ Entities directly or indirectly controlled by the PIE
- ▶ Entities directly or indirectly controlling the PIE

It is important to note that pre-concurrence is required for NAS provided to an entity controlling the PIE regardless of how (im)material the PIE audit client is to its controlling entities and regardless of whether the controlling entity is part of the audit client definition for the PIE audit client (e.g., pre-concurrence is also required in situations where the auditor is not required to be independent of the controlling entity under the applicable audit client definition).

Key changes to the Codes' independence requirements

The changes to the Codes that are broadly applicable to PIE audit clients include:

- ▶ A new general prohibition on the provision of any NAS to a PIE audit client that might create a self-review threat, including a specific requirement to assess whether the provision of "advice and recommendations" might create a self-review threat.
 - ▶ The prohibition and the required assessment are irrespective of the materiality of the outcome or results of the NAS to the audited financial statements.

- ▶ The revisions include new guidance on when tax advisory and planning services would not create a self-review threat.
- ▶ Services that might create a self-review threat, which were previously permitted on the basis that such services had an immaterial impact on the financial statements, are no longer permitted.
- ▶ Requiring auditor communication with and concurrence by TCWG prior to providing an NAS to a PIE audit client, including its controlling or controlled affiliates, either under a pre-approval process established with TCWG or in relation to a specific service.
- ▶ Requiring public disclosure of fee information such as in the entity's annual report or on the entity's website. Where such fee information is not publicly disclosed by the audit client, the auditor must disclose it. When disclosing fee-related information in compliance, the audit firm might disclose the information in a manner deemed appropriate, taking into account the timing and accessibility of the information to stakeholders, for example:
 - ▶ On the audit firm's website
 - ▶ In the firm's transparency report
 - ▶ In an audit quality report
 - ▶ Through targeted communication to specific stakeholders, for example, a letter to the shareholders
 - ▶ In the auditor's report

New restrictions on specific types of NAS include the following:

- ▶ New prohibition relating to the provision of a tax service or recommending a transaction to any audit client (PIE or non-PIE), when it relates to a tax treatment previously recommended by the auditor, if a significant purpose of the tax treatment or transaction is tax avoidance, unless the firm is confident that the proposed treatment has a basis in applicable tax law or regulation that is likely to prevail.
- ▶ Advisory and tax planning services remain generally permissible if such services fall under any of the following:
 - ▶ Are supported by a tax authority or other precedent.
 - ▶ Are based on an established practice (i.e., a practice that has been commonly used and has not been challenged by the relevant tax authority).
 - ▶ Have a basis in tax law that the firm is “confident is likely to prevail”.
- ▶ Specific prohibition on expert witness services to PIE audit clients, except when (a) appointed by a tribunal or court, or (b) when advising or acting as an expert witness in relation to a class action and certain conditions are met.
- ▶ New prohibition on acting in an advocacy role for a PIE audit client in a dispute or litigation before a court or tribunal (tax or other matters), irrespective of materiality of the amounts involved in the dispute or litigation.

With respect to non-PIE audit clients, the changes to the Code include new application material to assist in the evaluation of threats to independence for fees and the provision of NAS to non-PIEs.

The pre-concurrence process

The Codes’ requirements require the TCWG to provide concurrence on:

- ▶ The audit firm’s conclusion that the provision of the NAS will not create a threat to independence as the auditor of the PIE or that any identified threat is at an acceptable level or, if not, will be eliminated or reduced to an acceptable level.
- ▶ The provision of that service.

The purpose of the pre-concurrence requirement is to enable TCWG of the PIE audit client to have effective oversight of the independence of the firm that audits the financial statements. To facilitate compliance with such requirements, the entity and the audit firm can agree on a process that addresses when and with whom in TCWG the audit firm is to communicate. The Code allows for flexibility with regard to the pre-concurrence process.



Independence is a joint responsibility. Working together is essential to enable compliance with the IESBA requirements.

Information to be provided by the auditor to TCWG

The auditor is to provide information that enables TCWG to make an informed assessment about the impact of the provision of the NAS on the audit firm's independence for the pre-concurrence process. Examples of such information include:

- ▶ That the audit firm has determined that the provision of the NAS:
 - ▶ Is not prohibited.
 - ▶ Will not create a threat to the firm's independence or that any identified threat is at an acceptable level or, if not, will be eliminated or reduced to an acceptable level.
- ▶ The nature and scope of the NAS to be provided.
- ▶ The basis and amount of the proposed fee.
- ▶ Where the firm has identified any threats to independence that might be created by the provision of the proposed NAS, the basis for the firm's assessment that the threats are at an acceptable level or, if not, the actions the firm or network firm will take to eliminate or reduce any threats to independence to an acceptable level.
- ▶ Whether the combined effect of providing multiple NAS creates threats to independence or changes the level of previously identified threats.

Confidentiality

In the event that the audit firm is prohibited by applicable professional standards, laws or regulations from providing TCWG with information about a proposed NAS, or where the provision of such information would result in disclosure of sensitive or confidential information, the audit firm would need to:

- ▶ Provide such information that the auditor is able to provide such NAS without breaching legal or professional obligations.
- ▶ Confirm to TCWG that the provision of the NAS will not create a threat to independence in regard to the audit of the financial statements of the PIE or that any identified threat is at an acceptable level or, if not, will be eliminated or reduced to an acceptable level.

The board's perspective

- ▶ The board should in due care establish with the auditor:
 - ▶ A policy and pre-concurrence process to understand and concur with the auditor's conclusion that the proposed NAS can be provided and is consistent with applicable independence requirements, prior to commencement of the service.
 - ▶ The determination of an appropriate meeting forum and timing for NAS discussions.
- ▶ In establishing the pre-concurrence process, the board may consider the following:
 - ▶ Establishing a protocol or process for the provision of information about a proposed NAS, which might be on an individual engagement basis, under a general policy or on any other agreed basis.
 - ▶ Identifying the entities to which the process would apply, which might include other PIEs within the corporate structure.
 - ▶ Identifying any NAS that can be provided without specific concurrence (if the entity has established a general policy).
- ▶ Establishing authority to concur NAS when there are multiple PIEs within the same corporate structure, hereunder if concurrence is to be provided on a centralized basis within the group.
- ▶ Establishing a protocol or process to be followed when the provision of information necessary for TCWG to evaluate whether a proposed NAS might create a threat to the firm's independence is prohibited or limited by professional standards, laws or regulations, or might result in the disclosure of sensitive or confidential information.
- ▶ Specifying how any issues not covered by the process might be resolved.
- ▶ Identifying one or more individuals within TCWG (and possibly the management team) who may be named delegates to coordinate and provide pre-concurrence for any additional request for NAS from the entity, its controlled entities or controlling entities.

Please reach out to your audit partner if you require any clarification or assistance.

Contact us

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