

MOF AND ACRA'S RESPONSES TO KEY FEEDBACK ON THE DRAFT ACCOUNTANTS (AMENDMENT) BILL

1. Proposed Amendment: Introduction of inspections on accounting entities ("AEs") for compliance with quality control standards ("QC inspections")

- a) Feedback: The QC inspections will increase burden to the audit profession (e.g. additional cost and time to business) and may impact the long-term attractiveness of the profession.

MOF's and ACRA's response: **Feedback noted.** To manage regulatory costs, QC inspections will be carried out on a risk-based approach, with a greater focus on AEs with higher risk and public interest clients (AEs with lower risk, e.g. AEs which performed well in previous inspections, will be inspected less frequently). ACRA also aims to schedule engagement, QC and AML/CFT inspections together, where feasible, to minimise disruption to AEs.

- b) Feedback: There is no need to conduct QC inspections on firms that do not audit any public interest entities ("PIE") (i.e. non-PIE segment), given the lower public interest involved.

MOF's and ACRA's response: **Feedback not accepted.** The SSQC 1 and the new SSQM 1 and 2 require all firms performing audits or reviews of financial statements, or assurance or related services engagements to maintain a system of QC to ensure compliance with professional standards and the relevant legal and regulatory requirements. Hence, QC inspections should also apply to all AEs, including those in the non-PIE segment. In other jurisdictions, such as the UK, France and Japan, QC inspections are also not confined to auditors of PIEs only.

2. Proposed Amendment: Specification of the assessment framework for inspections for compliance with Anti-Money Laundering and Countering the Financing of Terrorism requirements ("AML/CFT inspections")

- a) Feedback: There is no need to legislate AML/CFT inspections for PAs and AEs given that other legislations¹ already impose significant reporting obligations on accountants (and other professional service providers) to report suspicious transactions relating to money laundering and terrorism financing ("ML/TF") activities they come across during the course of their professional duties.

MOF's and ACRA's response: **Feedback not accepted.** ACRA's powers to conduct AML/CFT inspections is necessary to align with Financial Action Task Force ("FATF") Recommendation 28 which requires Designated Non-Financial Businesses and Professions ("DNFBPs"), which includes PAs and AEs, to be subjected to effective systems for monitoring compliance with AML/CFT requirements, along with effective sanctions for failure to comply with AML/CFT requirements. Moreover, the AML/CFT requirements are not new, as they are consistent with the requirements currently set out in Ethics Pronouncement 200 ("EP 200") which are applicable to PAs and AEs.

¹ For example, the Corruption, Drug Trafficking and Other Serious Crimes (Confiscation of Benefits) Act (Cap. 65A) and the Terrorism (Suppression of Financing) Act (Cap. 325).

- b) Feedback: Clarity was sought on the scope and implementation approach on ACRA's AML/CFT inspections. There was also feedback that the sanctions and orders that may be imposed on PAs and AEs for non-compliance with AML/CFT requirements should not be of the same level of gravity as those that apply to the AML/CFT regime for Registered Filing Agents ("RFAs") as the former have lower ML/TF risks. PAs and AEs should also be given remedial opportunities before imposing heavier sanctions for non-compliances.

MOF's and ACRA's response: **To be clarified in subsidiary legislation.** ACRA's AML/CFT inspection will only apply to PAs and AEs involved in FATF designated activities² which are more susceptible to ML/TF risks. Proposed orders that may be imposed on AEs/PAs, should hence be aligned with ACRA's AML/CFT regime for RFAs, given that these activities are similarly designated by FATF to be of higher ML/TF risks. For avoidance of doubt, the provision of audit services is not included as a FATF designated activities, and hence, will not be subjected to AML/CFT inspection.

MOF and ACRA will clarify the AML/CFT requirements that apply to PAs and AEs, including the activities to which AML/CFT inspections will be conducted, in the subsidiary legislation to the Accountants Act. These requirements will be based on the FATF Recommendation and will be consistent with the requirements currently set out in EP 200.

3. Proposed Amendment: Appointment of the Public Accountant Oversight Committee ("PAOC") excluding members who are PAs ("PAOC (QC and AML/CFT inspections)") to decide outcomes of the QC and AML/CFT inspections

- a) Feedback: The PAOC (QC and AML/CFT inspections) should include PAs or retired PAs with the relevant knowledge and experience in quality management of AEs to enable a more robust deliberation of QC and AML/CFT inspections. To address concerns over the involvement of PAs, ACRA can consider redacting sensitive information when the inspection reports are presented to the PAOC (QC and AML/CFT Inspections) for deliberation to ensure commercially sensitive firm-level information remains confidential.

MOF's and ACRA's response: **Feedback noted and partially accepted.** The committee would need a full and complete set of information relating to the QC and AML/CFT inspections so as to make considered decisions on the inspection outcomes. Redacting of commercially sensitive information in inspection reports would not be feasible or ideal, considering that they will include information on firms' controls, processes and policies, which are pertinent for the committee' deliberation. Hence, to ensure that commercially sensitive firm-level information (e.g. firms' controls, processes and policies) remains confidential, practising PAs would not be appointed to the committee adjudicating QC and AML/CFT inspections. However, MOF and ACRA intends to appoint retired PA(s) with relevant experience (e.g. firm management and quality control roles) on the PAOC (QC and AML/CFT

² The AML/CFT requirements are applicable to accountants when they prepare for or carry out transactions for their clients concerning the following activities:

- a) Buying and selling of real estate;
- b) Managing of client money, securities or other assets;
- c) Management of bank, savings or securities accounts;
- d) Organisation of contributions for the creation, operation or management of companies; and
- e) Creating, operating or management of legal persons or arrangements, and buying and selling of business entities.

inspections) so that the committee is able to appreciate the quality control issues and discharge their duties effectively.

4. Proposed Amendment: Introduction of a 3-tier assessment framework (i.e. “Satisfactory”, “Needs Improvement”, and “Not Satisfactory”) for engagement-level and QC inspections, and the corresponding orders that may be imposed

- a) Feedback: Greater clarity was sought on the implementation of the proposal. Specifically, it is not clear if “Pass with Observation” outcomes under the current pass/fail grading system will fall under the “Needs Improvement” category under the new 3-tier system and hence be negatively perceived as a “Fail” outcome. ACRA should consider reframing the “Needs Improvement” outcomes even more positively by renaming the category, such as “Satisfactory with improvement needed”, “Acceptable with limited improvement required” or “Satisfactory with Deficiencies”, or providing another category (i.e. a 4-tier grading system) for cases where only limited and/or minor instance(s) of non-compliance are identified, to better distinguish such outcomes from the “Needs Improvement” outcomes.

MOF’s and ACRA’s response: **Feedback accepted**. The outcomes and findings under the new tiered assessment framework are not intended to mirror (or be mapped from) the current binary pass/fail regime. Instead, ACRA will be remodelling its assessment of findings and outcomes will be classified into the relevant tiers under the new framework (see table below) based on factors such as the severity, number and the recurrence of findings.

In response to the feedback, **MOF and ACRA will introduce an additional category “Satisfactory but with findings” to the assessment framework, and to rename the “Needs Improvement” category to “Partially Satisfactory”**. The additional category will help to provide greater distinction to the outcomes and give due recognition to PAs and firms who have achieved good inspection results. The renaming of the “Needs Improvement” to “Partially Satisfactory” will also help to reframe the outcome more positively whilst retaining the notion that there is still room for improvement.

Under this revised framework, inspection outcomes will be classified into 4 categories: (i) “Satisfactory”; (ii) “Satisfactory but with findings; (iii) “Partially Satisfactory”; and (iv) “Not Satisfactory”. Orders will only be imposed on inspections with “Partially Satisfactory” and “Not Satisfactory” outcomes. The 4 categories of outcomes are as defined below:

Category	Definition
Satisfactory	If the relevant professional standards/pronouncements have been complied with in all significant respects with no instance(s) of non-compliance.
Satisfactory but with findings	If the relevant professional standards/pronouncements have been complied with in all significant respects, with limited and/or minor instance(s) of non-compliance.
Partially Satisfactory	If extensive number of minor instances or more than minor instance(s) of non-compliance with relevant professional standards/pronouncements have been identified. However, the instances of non-compliance are not significant/severe.
Not Satisfactory	If extensive number and/or significant/severe and/or repeated non-compliances with relevant professional standards/pronouncements have been identified.

ACRA will communicate to the profession details of the assessment framework, namely the definition of each category, how findings will be determined and classified under the assessment framework and the types of orders that may be imposed on PAs/AEs with “Partially Satisfactory” or “Not Satisfactory” outcomes.

5. **Proposed Amendment: Powers for the PAOC to require a PA who has obtained a “Not Satisfactory” grading on his inspections to send a copy of the order (containing the inspection outcome and findings) served on him to his audited entity**

- a) Feedback: Audited entities may not be able to interpret the information regarding inspection outcomes or understand what steps to take next. There should be guidance to audited entities on how to interpret the inspection results.

MOF’s and ACRA’s response: **Feedback noted**. Disclosure of inspection results and findings to the audited entity (i.e. the subject of the audit inspection) is not new. Since the introduction of ACRA’s Audit Quality Indicator (“AQI”) Disclosure Framework in 2015, PAs auditing the listed entity segment have been called to disclose their most recent engagement inspections results and findings to their audit clients. Guidance had also been issued alongside the framework to educate audit committees on how to interpret the inspection outcomes of their auditors. It is noted that some firms have been voluntarily disclosing such (or similar) information to the audit committees of their listed clients. ACRA will continue to work with the audit profession and audit committees to raise awareness on our regulatory work and how audit committees should use the inspection findings (e.g. engage with their auditors to understand the remedial actions taken, and whether there is any impact to the financial reporting).

- b) Feedback: Such disclosures may have an impact on PAs’ livelihood and the integrity and reputation of the profession. They may be interpreted as an admission/indication of the PA’s negligence and lead to unwarranted legal claims or actions against the PA. There may also be risks of information leaks to parties other than the audited entity. Hence, ACRA should consider voluntary disclosure of such information (instead of mandating it in law), or to impose the order only for audits of entities with significant public interest or only to the most egregious cases, and possibly accord protection to PAs from frivolous and opportunistic claims in law.

MOF’s and ACRA’s response: **Feedback partially accepted**. The policy intent of this proposal is to provide greater transparency of PAs’ inspection results and to enhance the ability of the audit committees to evaluate the quality and effectiveness of their auditors. The disclosure of audit inspection findings to the audited entity is also in line with the practices/legislations in other jurisdictions such as Canada, Australia and Malaysia.

Nonetheless, MOF and ACRA note the concerns raised by the profession and will **apply this order only on PAs with “Not Satisfactory” grading on PIEs audit engagements for a start. The order is for the PA to share only the inspection findings, and not the outcome (i.e. “Not Satisfactory” grading) with the audited entity.** This is intended to focus the auditor and the audited entity’s discussions on the inspection findings and measures that can/will be taken to remediate the findings.