

Exposure Draft

Proposed Changes to EP 200

Anti-Money Laundering and Countering the Financing of Terrorism – Requirements and Guidelines for Professional Accountants in Singapore

Comments are requested by 22 May 2023.

The proposed changes are expected to be effective in in the third quarter of 2023.



REQUEST FOR COMMENTS

This Exposure Draft of ISCA was approved for publication in April 2023. This Exposure Draft may be modified in light of comments received before being issued in its final form. Comments should be submitted by 22 May 2023 via email to professionalstandards@isca.org.sg. All comments will be considered a matter of public record.

PROPOSED CHANGES TO EP 200
ANTI-MONEY LAUNDERING AND COUNTERING THE FINANCING OF
TERRORISM – REQUIREMENTS AND GUIDELINES FOR
PROFESSIONAL ACCOUNTANTS IN SINGAPORE
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EXPLANATORY MEMORANDUM

Introduction

1. All members of the Institute of Singapore Chartered Accountants (ISCA) must adhere to the Ethics Pronouncement 200 *Anti-Money Laundering and Countering the Financing of Terrorism – Requirements and Guidelines for Professional Accountants in Singapore* (EP 200).
2. This memorandum provides background to ISCA's Exposure Draft (ED), and an explanation of the proposed changes to EP 200.

Background

3. EP 200 was first issued by ISCA Council on 29 October 2014. It was subsequently updated on 25 November 2015, 10 August 2016 and 28 March 2017. Anti-money laundering and countering the financing of terrorism (AML/CFT) requirements for public accountants and public accounting entities are currently prescribed in EP 200.
4. Singapore is a member of the Financial Action Task Force (FATF) which is the global money laundering and terrorist financing watchdog. FATF members are expected to effectively implement the FATF Recommendations which are the basis on which all countries should meet the shared objective of tackling money laundering, terrorist financing and the financing of proliferation, in their national systems.
5. Following the passing of the Accountants (Amendment) Bill by Parliament on 3 October 2022, the Accounting and Corporate Regulatory Authority (ACRA) will be prescribing a set of AML/CFT requirements applicable to public accountants and public accounting entities in the subsidiary legislation to the Accountants Act. These requirements will be aligned to the requirements set out in the FATF Recommendations and the extant EP200 requirements.
6. For consistency with the AML/CFT requirements to be issued by ACRA, ISCA has collaborated with ACRA to adopt the AML/CFT requirements prescribed by ACRA when it is issued.

Consultation

7. This consultation seeks feedback on the proposed changes to EP 200 in this ED to adopt the AML/CFT requirements prescribed by ACRA.
8. The key elements of the proposed changes to EP 200 are highlighted in the section that follows below.

Key Elements of the Proposed Changes to EP 200

9. ISCA's approach is to amend EP 200 to adopt the AML/CFT requirements prescribed by ACRA. These requirements will apply to professional accountants in public practice and professional firms, providing any service described in paragraph 4 of the scope to EP 200 in its entirety.
10. There are no changes to the scope of the pronouncement for:
 - i) Professional accountants in business; and

- ii) Professional accountants in public practice and professional firms, providing services other than those described in paragraph 4 of the scope to EP 200.

11. The scope of the proposed revised EP 200 is illustrated below (also in paragraph 7 of the “Scope” section):

Section/ Category of Professional Accountants	Section 1	Section 2	AML/CFT Requirements Prescribed by ACRA
Professional accountants in business	Mandatory	Not applicable	Not applicable
Professional accountants in public practice and professional firms, providing any service described in paragraph 4 of the scope to EP 200	Mandatory	Mandatory	Mandatory (as per paragraph 5 of the scope to EP 200)
Professional accountants in public practice and professional firms, providing services other than those described in paragraph 4 of the scope to EP 200	Mandatory	Mandatory	<i>Although [name of the subsidiary legislation to the Accountants Act] is not applicable to ISCA Members who do not prepare for or carry out transactions for their clients concerning activities described in paragraph 4 above, EP 200 still requires them to comply with the AML/CFT requirements prescribed by ACRA on a risk-based approach. Please refer to paragraph 6 of the scope to EP 200.</i>

Effective Date

12. The proposed changes to EP 200 in this ED are expected to be effective in the third quarter of 2023, after the AML/CFT requirements prescribed by ACRA is released.

**PROPOSED CHANGES TO EP 200
MARK-UP FROM EXTANT VERSION**

PREAMBLE
ANTI-MONEY LAUNDERING AND COUNTERING THE
FINANCING OF TERRORISM – REQUIREMENTS AND
GUIDELINES FOR PROFESSIONAL ACCOUNTANTS IN
SINGAPORE

PREAMBLE Purpose of the Code

1. Singapore has established a strict and rigorous anti-money laundering (AML) and countering the financing of terrorism (CFT) regime through its comprehensive and sound legal, institutional, policy and supervisory frameworks to ensure that Singapore is not a safe haven for money launderers and terrorist financiers.
2. The Financial Action Task Force (FATF) is an inter-governmental body established in 1989 to set standards and to promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and the financing of proliferation, and other related threats to the integrity of the international financial system. Singapore is committed to the fight against money laundering and terrorist financing and is a member of several international AML/CFT organisations, including FATF. As a member of FATF, Singapore is committed to comply with and implement the "International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation" issued by the FATF (FATF Recommendations).
3. The AML and CFT legislations in Singapore provide a framework for discouraging money laundering and terrorist financing by, for example, establishing criminal sanctions for such activities and requiring the reporting of suspicious transactions to the authorities.
4. These legislations have implications on the responsibilities of professional accountants, including the risk of criminal liability on professional accountants for non-compliance.
5. The purpose of this Pronouncement is to provide ~~information about our current AML and CFT legislations, and guidance on compliance with these legislations, as well as additional~~ requirements and guidelines on AML and CFT to the professional accountants in Singapore.

SCOPE

1. ISCA Members will apply the scoping in this section for compliance with the relevant mandatory AML and CFT requirements.
2. The Accounting and Corporate Regulatory Authority (ACRA) has prescribed a set of AML and CFT requirements in the [name of the subsidiary legislation to the Accountants Act] for public accountants and public accounting entities.
3. ISCA Members who are professional accountants in business will need to comply with the AML and CFT requirements prescribed in Section 1 of EP 200.
4. There are specific measures on customer due diligence and records keeping under the FATF Recommendations which professional accountants in public practice and professional firms have to follow when they prepare for or carry out transactions for their clients concerning the following situations:
 - (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) Creation, operation or management of legal persons or arrangements, and buying and selling of business entities.
5. ISCA Members who are professional accountants in public practice who prepare for or carry out transactions for their clients concerning the activities as described in paragraph 4 above are to comply with the same set of AML and CFT requirements prescribed by ACRA.
6. ISCA Members, who are professional accountants in public practice who prepare for or carry out transactions for their clients concerning activities other than those described in paragraph 4 above are to comply with the AML and CFT requirements prescribed by ACRA based on a risk-based approach.

7. The table below illustrates the scope of this Pronouncement:

<u>Section/ Category of Professional Accountants</u>	<u>Section 1</u>	<u>Section 2</u>	<u>AML/CFT Requirements Prescribed by ACRA</u>
<u>Professional accountants in business</u>	<u>Mandatory</u>	<u>Not applicable</u>	<u>Not applicable</u>
<u>Professional accountants in public practice and professional firms, providing any service described in paragraph 4 of the scope to EP 200</u>	<u>Mandatory</u>	<u>Mandatory</u>	<u>Mandatory</u> <u>(as per paragraph 5 of the scope to EP 200)</u>
<u>Professional accountants in public practice and professional firms, providing services other than those described in paragraph 4 of the scope to EP 200</u>	<u>Mandatory</u>	<u>Mandatory</u>	<u><i>Although [name of the subsidiary legislation to the Accountants Act] is not applicable to ISCA Members who do not prepare for or carry out transactions for their clients concerning activities described in paragraph 4 above, EP 200 still requires them to comply with AML/CFT requirements prescribed by ACRA on a risk-based approach. Please refer to paragraph 6 of the scope to EP 200.</i></u>

8. ~~However, t~~This Pronouncement:

- (a) Does not address issues beyond those set out in this Pronouncement which may arise when providing professional services to financial institutions, such as providing reports to a regulator or other authority which may be required in relation to these entities' arrangements to prevent and detect money laundering and terrorist financing, their compliance with legislations and regulations, or their systems of controls more generally;
- (b) Does not constitute legal advice, which a professional accountant shall consider obtaining to address specific situations that the professional accountant faces, such as if the professional accountant wishes to adopt legal interpretations that are different from those set out in this Pronouncement; and
- (c) Shall not be regarded as guidance on foreign legislations. Professional accountants who perform services outside Singapore shall consider the need to familiarise themselves with the foreign AML and CFT legislations in order to mitigate the risk of committing offences in that foreign country.

[The other paragraphs in Section 1 of extant EP 200 are removed.]

SECTION 2.1 – REPORTING AND TIPPING-OFF

The [Corruption, Drug Trafficking and Other Serious Crimes \(Confiscation of Benefits\) Act 1992 \(CDSA\)](#) and [Terrorism \(Suppression of Financing\) Act 2002 \(TSFA\)](#) relevant legislations in Singapore make it mandatory for a person, who in the course of his or her trade, profession, business or employment, [knows or has reasonable grounds to suspect transactions related to money laundering or terrorist financing](#) to lodge a suspicious transaction report to the Suspicious Transaction Reporting Office, Commercial Affairs Department (CAD) of the Singapore Police Force (STRO) ~~if one knows or has reasonable grounds to suspect transactions related to money laundering or terrorist financing~~. One is also prohibited from disclosing any information to any person if doing so is likely to prejudice an investigation or proposed investigation under the CDSA or TSFA. This Section provides a summary of the related criminal offences and guidance on reporting and tipping-off which is applicable for all professional accountants in Singapore.

Criminal Offences

~~1.1 Details of the criminal offences under the CDSA, TSFA and Penal Code are summarised in Appendices B, C and D respectively.~~

4.21.1 Professional accountants shall ensure that they are sufficiently aware of the main provisions of the AML and CFT legislations. In particular, the professional accountants' attention is drawn to the following matters:

- (a) *Unknowingly assisting an offence.* Services provided by professional accountants could be of value to a successful criminal transaction. These include expertise in creating corporate vehicles, trusts and other legal arrangements that facilitate money laundering or terrorist financing, and the provision of financial and fiscal advice that is often an important element in criminal schemes.

Therefore, a professional accountant could be used by criminals resulting in a risk that the professional accountant [is](#) being held liable for assisting in the crime, notwithstanding that the assistance was provided unknowingly. The prosecution need not prove that a person had actual knowledge of the relevant facts (e.g. knowing that the criminal's proceeds are from drug [trafficking-dealing](#) or other criminal conduct). Instead, a person can be held liable based merely on evidence showing that he had "reasonable grounds to believe" (e.g. that the proceeds were derived from criminal conduct).

Statutory defences are available. However, professional accountants shall note that the burden of establishing those statutory defences is upon the defendant, who must satisfy the Court on the balance of probabilities.

- (b) *Statutory reporting responsibilities.* It is a criminal offence for failing to report money laundering to the authorities. Reporting is mandatory even in cases where a professional accountant merely has reasonable grounds to suspect that money laundering has occurred. Similarly, a professional accountant who fails to report terrorist financing faces the prospect of criminal liability.
- (c) *Tipping-off offence.* It is an offence to disclose any information to any person if doing so is likely to prejudice an investigation or proposed investigation under the CDSA or TSFA.

4.31.2 When considering whether or not a professional accountant acted in a reasonable way, the Court could have regard to the requirements of this Pronouncement. Therefore, all professional accountants shall be familiar with and apply the requirements in the relevant Sections of this Pronouncement.

4.41.3 The offence of "assisting" may become relevant to professional accountants when suspicions of money laundering or terrorist financing exist. In normal circumstances, fulfilment of the professional accountant's responsibilities does not give rise to risk of committing the offence, even if subsequently money laundering or terrorist financing is found to have taken place. However, where the professional accountants discover information which could indicate to them that money

laundering or terrorist financing is occurring or has occurred, they shall complete their assessment of whether there are reasonable grounds to suspect money laundering or terrorist financing is occurring or has occurred (and, if appropriate, to report to the STRO) as discussed later in this Section before completing their professional responsibilities, for example, issuing their auditor's report on the client's financial statements.

4.51.4 To avoid the risk of being held liable to have assisted a money laundering or terrorist financing activity, professional accountants shall report any knowledge or suspicion of money laundering or terrorist financing through the professional firm's usual internal channels to an appropriate partner of the professional firm (where applicable), who will then determine whether a report to the STRO is necessary, or to the STRO directly.

Reporting and Tipping-off

4.61.5 A professional accountant faces the prospect of criminal liability for failing to report to the authorities suspicious transactions relating to money laundering or terrorist financing. All suspicious transactions, including attempted transactions, shall be reported regardless of the amount of the transaction.

4.71.6 Suspicious transactions shall be reported to the STRO and using as a recommendation, electronically via STRO Online Notices and the Suspicious Transaction Reporting Platform (SONAR) (STR) template available on the Singapore Police Force website⁶, “STR Forms, Red Flag Indicators, Guidelines, The requirements on STR-AML/CFT and the red flag indicators for a number of reporting and other AML/CFT requirements” section industries and the guidance for suspicious transaction reporting (STR) are also available on the Singapore Police Force website⁷. The version updated as at the issuance date of this Pronouncement is in Appendix F. It is therefore critically important that professional accountants make a careful assessment of matters which put them on notice of money laundering or terrorist financing, in order to determine what type of activity may be involved and what obligations or consequences arise.

In the event that urgent disclosure is required, particularly where a transaction is known to be part of an ongoing investigation by the relevant authorities, professional accountants shall give initial notification to the STRO by telephone or email and follow up with such other means of reporting as the STRO may direct.

4.81.7 Professional accountants shall consider whether the following circumstances are suspicious that warrant a report to the STRO. Such considerations and conclusions shall be documented:

- (a) The professional accountant is for any reason unable to complete the CDD-customer due diligence measures; or
- (b) The client is reluctant, unable or unwilling to provide any information requested by the professional accountant, decides to withdraw from establishing business relations or a pending engagement, or to terminate existing business relations.

4.91.8 Professional accountants shall keep watch for suspicious transactions in the course of conducting screening against lists of terrorist suspects as may be required by law or by any relevant authority. The professional accountant shall consider filing a suspicious transaction report even though there is no positive match against any name if the surrounding circumstances raise sufficient suspicions.

Knowledge and Suspicion

4.101.9 Suspicion is not defined in the existing legislations. Case law and other sources indicate that suspicion is more than speculation but it falls short of proof or knowledge. Suspicion is personal and subjective but will generally be built on some objective foundation.

⁶ <http://www.police.gov.sg/about-us/organisational-structure/specialist-staff-departments/commercial-affairs-department/aml-cft/suspicious-transaction-reporting-office/suspicious-transaction-reporting#content> <http://www.police.gov.sg/sonar>

⁷ <https://www.police.gov.sg/Advisories/Crime/Commercial-Crimes/Suspicious-Transaction-Reporting-Office>

4.141.10 Generally speaking, knowledge or reasonable grounds to suspect is likely to include:

- (a) Actual knowledge;
- (b) Shutting one's mind to the obvious;
- (c) Deliberately refraining from making inquiries, the results of which one might not care to have;
- ~~(e)~~(d) Deliberately deterring a person from making disclosures, the content of which one might not care to have;
- ~~(d)~~(e) Knowledge of circumstances which would indicate the facts to an honest and reasonable person; and
- ~~(e)~~(f) Knowledge of circumstances which would put an honest and reasonable person on inquiry and failing to make the reasonable inquiries which such a person would have made.

4.121.11 Suspicion is a subjective concept which may be caused by a transaction or transactions or set of circumstances which to the professional accountants appear unusual or out of context. It can arise from a single transaction or from on-going activity over a period of time.

4.131.12 Reasonable grounds to suspect shall not be confused with the existence of higher than normal risk factors which may affect certain sectors or classes of persons. Whilst a particular sector or business may be subject to a greater degree of inherent risk of criminal activities than another sector, or the assessment of control risk in a particular entity may raise the overall risk of fraudulent, illegal or unauthorised transactions, an assessment that there is a higher than normal risk of money laundering or terrorist financing is not the same as suspecting money laundering or terrorist financing. For example, cash-based businesses or complex overseas trust and company structures may be capable of being used to launder money, but this capability in itself is not considered to constitute "reasonable grounds". Existence of higher than normal risk factors require increased attention to gathering and evaluation of "know-your-client" information, and heightened awareness of the risk of money laundering or terrorist financing in performing professional work, but do not of themselves require a report of suspicion to be made.

4.141.13 In order for a suspicion to be acted upon, there must be a reasonable basis in fact, so that the person concerned can show that the suspicion that money laundering or terrorist financing has occurred is honestly held and arrived at in good faith. Therefore, for reasonable grounds to suspect to come into existence, there needs to be sufficient information to advance beyond speculation that it is possible that someone is laundering money or financing terrorism, or a generalised assumption that low levels of crime (e.g. not declaring all cash takings) are endemic in particular sectors.

4.151.14 The following three points may be of assistance in determining whether there are reasonable grounds for knowledge or suspicion that someone is committing a money laundering offence:

- (a) Does the conduct under scrutiny fall within that which is potentially criminal?
- (b) If so, is the person or entity in question suspected of having been involved in that conduct or arrangement?
- (c) What factors and information have led to the formation of knowledge or suspicion, i.e. how will the grounds for the report be described to authorities?

4.161.15 In considering factors which may put professional accountants on notice that there is a risk that money laundering or terrorist financing may be occurring, two situations can be distinguished:

- (a) *The entity is involved knowingly and/or actively:* Professional accountants consider the effect of such factors, where they exist, on their assessment of risk for the purposes of determining the work necessary for the services they provide. For example, factors indicating an increased risk of money laundering occurring are often similar to those indicating an increased risk of fraud; and
- (b) *The entity is inadvertently involved:* Such involvement may occur in one of two ways. The entity's directors or management may realise that an unusual transaction is taking place but have no evidence to suggest that the unusual transaction involves money laundering or terrorist financing. Alternatively, the directors or management may not even suspect that anything unusual is happening. Factors indicating an increased risk of such "third party" money laundering or terrorist financing are likely to be more difficult to distinguish from routine innocent transactions, particularly if the amounts concerned are comparatively small in the context of the entity's financial statements.

4.171.16 An illustrative list of indicators which may give rise to suspicious transaction is set out in Appendix **EB**. Such indicators may not come to the attention of professional accountants where they are not significant or material in the context of the financial statements of the entity, nor is the existence of an individual indicator necessarily sufficient of itself to give rise to suspicion: legitimate reasons arising in the ordinary course of business may give rise to many of the circumstances listed.

4.181.17 Money laundering or terrorist financing activity may first be identified in relation to comparatively small amounts. However, a continuous use of apparently immaterial transactions may be used to give apparent legitimacy to significant amounts of criminal proceeds. Professional accountants shall be alert to circumstances in which a combination of indicators may give rise to suspicion and, when suspicion arises, to determine whether the matter ought to be reported to the STRO.

4.191.18 Professional accountants shall also bear in mind that they may not be able to identify the source of the funds, and therefore may not be able to ascertain whether the funds relate to one of the predicate serious crimes (including terrorist financing) and drug ~~trafficking-dealing~~ offences. In case of doubt, professional accountants may wish to take-obtain legal advice and, subject to that advice, to report the matter to the STRO.

Procedures When Possible Money Laundering or Terrorist Financing is Discovered or Suspected

Suspicious Transactions Reporting – Considerations for the Professional Accountant

4.201.19 When professional accountants become aware of a possible breach of law or regulations, the professional accountants usually discuss the matter with appropriate members of management and the board of directors. However, this step shall not be taken if the professional accountants have concluded that they no longer have confidence in the integrity of the directors. Indications that the directors are aware of or involved in the criminal activity would be grounds for this conclusion. In addition, professional accountants shall be aware that they are under a statutory obligation not to disclose related information to the directors (or other parties) if doing so is likely to fall within the definition of tipping-off. Hence to avoid any risk of tipping-off it is important that the professional accountants only go so far as to establish to their own satisfaction whether there is a suspected case of money laundering or terrorist financing involving the directors and to consider the consequences for the professional services they provide.

4.211.20 Similarly, where the entity or its customers, suppliers or other business associates are suspected of being involved in the criminal activity, professional accountants undertake their assessment of the circumstances with care so as not to alert the entity's management or anyone else to these suspicions in case tipping-off occurs. Consequently, professional accountants shall exercise caution in determining with whom, amongst the management and directors, the suspicions can be discussed and they may conclude that none would be suitable. In cases of doubt, legal advice would normally be sought.

~~4.221.21~~ Preliminary enquiries to verify the precise nature of a transaction will not give rise to a tipping-off offence unless professional accountants know or suspect that an investigation is underway or is proposed and that the enquiries by the professional accountants are likely to prejudice that investigation. Where it is known or suspected that a report has already been made or is being made to the STRO, great care is necessary to ensure that the perpetrator does not become aware that the matter has been brought to the attention of the law enforcement agencies. When the professional accountants conclude that further enquiries are necessary as part of their work, they shall consider obtaining legal advice as to the extent and possible effect of those enquiries before undertaking further work.

~~4.231.22~~ The actions taken when considering whether to report suspicions of money laundering or terrorist financing will have a different emphasis depending on whether the entity is actively or passively involved in money laundering or terrorist financing, though this may be a difficult decision to make. In cases of doubt, it may be prudent to assume the entity is actively involved. If the entity appears to be actively involved, great care shall be taken not to alert it to the entity's suspicions. If the entity appears to be only passively involved, the entity's directors need to take appropriate steps to prevent further involvement; in addition, depending upon the size and complexity of the entity, its control procedures might have been expected to prevent the event occurring and so the directors need to be alerted to any weakness in the systems. However, great care shall still be taken in case some of the entity's staff are involved or the entity alerts the third party.

Confidentiality, Statutory Immunity and Legal Privilege

~~4.241.23~~ A professional accountant's duty of confidentiality under the *ISCA Code of Professional Conduct and Ethics* (Ethics Code) imposes an obligation on the professional accountant to refrain from disclosing confidential information acquired as a result of professional and business relationships. However, in certain circumstances, that duty of confidentiality is overridden by statute, law or by courts of law. When professional accountants become aware of a suspected or actual non-compliance with law and regulations which give rise to a statutory duty to report, they shall make a report to the appropriate authority without undue delay.

~~4.251.24~~ Statutory immunity is granted from any legal action, criminal or civil, for breach of confidence arising from having reported suspicions of money laundering and terrorist financing to the STRO, provided the report is made in good faith⁸. It also means that professional accountants, acting in good faith, are able to report suspicious transactions to the STRO without the threat of subsequent legal action even if, on further investigation, it were found that there had been no offence. Statutory immunity is similarly granted to the professional accountant who reports any knowledge or suspicion of money laundering or terrorist financing to an appropriate partner of the professional firm through its internal reporting channel.

~~4.261.25~~ ~~2.26-~~ Legal privilege can provide a defence for a professional legal adviser to a charge of failing to report suspicions of money laundering. This only applies under privileged and restricted circumstances. There may be situations where a professional accountant comes into possession of legally privileged information, such as where it has been instructed by a lawyer on behalf of the entity in respect of legal proceedings. If a suspicious transaction report required under law would result in the disclosure of that information, the professional accountant shall on a case-by-case basis obtain legal advice to ascertain whether the information and the professional accountant, under the specific circumstances, qualifies for protection for non-disclosure on grounds of legal privilege, or whether a suspicious transaction report has to be made.

⁸ The protection generally relates to reporting knowledge or suspicion of the crime, and may not extend more widely, for example to disclosure of audit working papers to an investigating officer. Professional accountants shall consider legal advice in order to avoid a breach of confidentiality where such further disclosure is requested without a court order made under the relevant law.

SECTION 3-2 – SYSTEMS AND CONTROLS

All professional firms shall have in place systems and controls to address money laundering and terrorist financing concerns.

The professional accountants in public practice who own or control the professional firm shall take reasonable efforts to ensure that the firm has the necessary AML and CFT systems and controls as set out in this Section.

A professional accountant in public practice shall comply with the policies, procedures and controls implemented by his/her professional firm.

Establishing Policies, Procedures and Controls

2.1 All professional firms shall develop and implement internal policies, procedures and controls to address money laundering and terrorist financing concerns and communicate these to its employees. The policies, procedures and controls shall include the following:

- (a) Risk assessment and management (i.e. a risk-based approach);
- (b) Group policy (if a group exists);
- (c) Customer due diligence (CDD);
- (d) Records keeping;
- (e) Reporting procedures;
- (f) Ongoing training;
- (g) Compliance management and appointment of compliance officer;
- (h) Hiring; and
- (i) Independent audit function.

2.2 The type and extent of the measures taken in each of the area described in paragraph 32.1 shall be appropriate having regard to the risk of money laundering and terrorist financing and the size and nature of the business. Some of the factors to be considered include:

- (a) The nature, scale and complexity of the professional firm's business;
- (b) The diversity of a professional firm's operations, including geographical diversity;
- (c) The professional firm's customer, product and activity profile;
- (d) The volume and size of the transactions;
- (e) The degree of risk associated with each area of the professional firm's operations; and
- (f) The extent to which the professional firm is dealing directly with the customer or is dealing through intermediaries, third parties, correspondents, or non-face to face access.

Risk-Based Approach

- 2.3 The risk-based approach is a general and underlying principle of all AML/CFT systems. The general principle of a risk-based approach is that, where there are higher risks, professional firms shall take enhanced measures to manage and mitigate those risks; and that, correspondingly, where the risks are lower, simplified measures may be permitted.
- 2.4 The risk-based approach is an effective way to combat money laundering and terrorist financing. By adopting a risk-based approach, professional firms would be able to ensure that measures to prevent or mitigate money laundering and terrorist financing are commensurate with the risks identified, and would enable them to make decisions on how to allocate their own resources in the most effective way.
- 2.5 In implementing a risk-based approach, professional firms shall have in place processes to identify, assess, monitor, manage and mitigate money laundering and terrorist financing risks.
- 2.6 Professional firms shall:
- (a) Take appropriate steps to identify and assess their risks (for clients, countries or geographic areas; and products, services, transactions or delivery channels);
 - (b) Document the risk assessments in order to be able to demonstrate their basis;
 - (c) Keep these assessments up to date; and
 - (d) Have appropriate mechanisms to provide risk assessment information to relevant authorities.
- The nature and extent of any assessment of the risks shall be appropriate to the nature and size of the business.
- 2.7 When assessing risk, professional firms shall consider all the relevant risk factors before determining what is the level of overall risk and the appropriate level of mitigation to be applied. Professional firms may differentiate the extent of measures, depending on the type and level of risk for the various risk factors (e.g. in a particular situation, normal CDD could be applied for client acceptance measures, but enhanced CDD for ongoing monitoring, or vice versa).
- 2.8 Enhanced CDD shall be applied to clients from higher risk countries for which this is called for by the FATF.
- 2.9 Professional firms shall:
- (a) Have policies, controls and procedures that enable them to manage and mitigate effectively the risks that have been identified;
 - (b) Monitor the implementation of those controls and enhance them, if necessary;
 - (c) Ensure that the policies, controls and procedures are approved by senior management; and
 - (d) Ensure that the measures taken to manage and mitigate the risks are consistent with relevant laws and regulations and this Pronouncement.
- 2.10 Professional firms may refer to the Singapore National Money Laundering and Terrorist Financing Risk Assessment Report issued by the Ministry of Home Affairs, Ministry of Finance and the Monetary Authority of Singapore (MAS) to understand the money laundering and terrorist financing risks in Singapore for professional accountants, as well as other sectors that the professional accountants have dealings with. This helps professional firms better assess

the adequacy of their internal AML and CFT systems and controls in mitigating the risks identified, and to strengthen these controls where necessary.

Group Policy

~~3.11 — This sub-section on group policy applies when a professional firm has branches and/or subsidiaries, i.e. where the professional firm exercises control over another entity and/or establish a branch, including foreign entities and branches. This is contrasted with a network scenario, where an entity within a network do not exercise control over another entity/entities within the network but is a larger structure aimed at co-operation. The requirements in this sub-section do not apply to a professional firm which does not have branches and/or subsidiaries but is part of a network firm.~~

~~3.12 — Where a professional firm has branches and/or subsidiaries, the professional firm shall develop and implement group-wide programmes on AML and CFT, including policies and procedures for sharing information within the group required for the purposes of CDD and money laundering and terrorist financing risk management. Adequate safeguards on the confidentiality and use of information exchanged shall be in place.~~

~~3.13 — Where a professional firm has a branch or subsidiary in a country or jurisdiction known to have inadequate AML/CFT measures (as determined by the professional firm for itself, those notified and required of the professional firm by any relevant authority, or those called for by the FATF), the professional firm shall ensure that the group policy on AML/CFT is strictly observed by the management of that branch or subsidiary.~~

~~3.14 — Where the minimum AML/CFT requirements of the country of the branch/subsidiary are less strict than those in Singapore, professional firms shall ensure that their branch/subsidiary implements the requirements of Singapore, to the extent that host country laws and regulations permit. If the country of the branch/subsidiary does not permit the proper implementation of the AML/CFT measures, professional firms shall apply appropriate additional measures to manage the money laundering and terrorist financing risks.~~

[Sections 4 and 5, Appendices B to D, Appendix F of extant EP 200 are removed.]

[Appendices A and E, and Supplement B of extant EP 200 remain unchanged.]

SUPPLEMENT A

FOR AUDITORS

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Customer Due Diligence

Know Your Client (KYC)

11. Reference shall be made to SSA 315 (Revised [2021](#))¹⁹, which requires the auditor to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels, ~~through understanding the entity and its environment, including the entity's internal control,~~ thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement.
12. Prior to acceptance of appointment, auditors consider the requirements and guidance of SSA 315 (Revised [2021](#)) to obtain a preliminary knowledge of the entity and its environment, including the structure of the entity, the nature of its business, the industry, ownership and any related parties, and perceived integrity of directors and management. Following appointment, auditors perform procedures designed to identify significant changes to these matters. The requirements and guidance of SSA 315 (Revised [2021](#)) shall, in particular, be applied in conjunction with the requirements and guidance provided in SSA 240 and SSA 250 ([Revised](#)).
13. Reference shall also be made to Singapore Standard on Quality ~~Control-Management~~ (SSQMC) ²⁰. ~~SSQMC 1 requires the professional firm to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements. obtain reasonable assurance that it will only undertake or continue relationships and engagements where it has considered the integrity of the client and does not have information that would lead it to conclude that the client lacks integrity. With regard to the integrity of a client, matters that the professional firm considers include, for example:~~

Conduct of the Audit

Planning and Performing the Audit

14. When assessing the risks of material misstatement of the financial statements, auditors consider whether they may place reliance upon aspects of the internal control system. Where the auditors intend to place reliance upon the entity's internal control systems, sufficient evidence of the operating effectiveness of the internal control will be needed. However, an audit performed in order to express an opinion on the financial statements may not be regarded as providing assurance on the effectiveness of an entity's systems or on the actual incidence of fraud or breaches of law and regulations, including money laundering and terrorist financing. As directors are responsible for the prevention and detection of money laundering or terrorist financing activities, they may therefore wish to commission more detailed investigations in particular instances of concern. However, auditors shall take the possibility of money laundering and terrorist financing into account in the course of carrying out procedures relating to fraud and compliance with laws and regulations.

¹⁹ SSA 315 (Revised [2021](#)), "Identifying and Assessing the Risks of Material Misstatement ~~through Understanding the Entity and Its Environment~~".

²⁰ SSQMC 1, "Quality ~~Control-Management~~ for Firms that Perform Audits ~~and/or~~ Reviews of Financial Statements, ~~and/or~~ Other Assurance and Related Services Engagements".

15. Specific requirements and guidance on detecting material misstatements caused by fraud and breaches of laws and regulations are set out in SSA 240 and SSA 250 [\(Revised\)](#).

Fraud

16. SSA 240 requires auditors to identify and assess the risks of material misstatement of the financial statements due to fraud; and for those assessed risks, to obtain sufficient appropriate audit evidence through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit²¹. The auditors shall maintain an attitude of professional skepticism recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience with the entity about the honesty and integrity of management and those charged with governance. Discussion on the susceptibility of the entity's financial statements to material misstatement due to fraud is also required to be carried out with appropriate members of the engagement team. Factors which may increase the risk of fraud occurring are noted in Appendix 1 to SSA 240.
17. A close connection exists between the indicators giving rise to an increased risk of fraud and those indicating money laundering: an illustrative list of indicators which may be indicative of suspicious transaction is given in Appendix [E-B](#) to the Pronouncement. Consequently, where the auditors identify such circumstances, they assess the possibility of a breach of law relating to money laundering as well as that of fraud.

Laws and Regulations

18. SSA 250 [\(Revised\)](#) requires auditors to plan and perform the audit with an attitude of professional skepticism and requires auditors to carry out specified steps to help identify instances of non-compliance with laws and regulations that may have a material effect on financial statements. These steps consist of:
- (a) Obtaining a general understanding of the legal and regulatory framework applicable to the entity and the industry or sector and how the entity is complying with that framework;
 - (b) Obtaining sufficient appropriate audit evidence regarding compliance with the provisions of laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements;
 - (c) Inquiring of management and, where appropriate, those charged with governance, as to whether the entity is in compliance with laws and regulations;
 - (d) Inspecting correspondence, if any, with relevant licensing or regulatory authorities; and
 - (e) Obtaining written representations that management has disclosed to the auditor all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects shall be considered when preparing financial statements²².
19. As explained in SSA 250 [\(Revised\)](#), whether an act constitutes non-compliance with law or regulations is a legal determination that is ordinarily beyond the auditor's professional competence. However, auditors' training, experience and understanding of the entity and its industry may enable them to recognise that some acts coming to their attention may constitute money laundering or terrorist financing.
20. Auditors shall be alert for all breaches of laws and regulations which come to their attention in the course of their work and to take steps to determine the appropriate response²³. Auditors of all entities shall therefore be sufficiently aware of the main provisions of the AML and CFT

²¹ SSA 240, paragraph 10.

²² SSA 250 [\(Revised\)](#), paragraphs [813](#), [4214](#), [4415](#) and [4617](#).

²³ SSA 250 [\(Revised\)](#), paragraph [4516](#).

legislations in order to make a careful assessment of any factors encountered in the course of their work which lead them to suspect that crime is taking place, so as to obtain sufficient information to assess the effect on the financial statements and the implications for other aspects of their audit.

Additional Considerations for Audits of Financial Institutions

21. In general, AML and CFT laws and regulations are fundamental to financial institutions. Financial institutions are subject to regulation by the MAS and are required to comply with the requirements of the MAS.
22. When auditing the financial statements of such entities, auditors shall consider SSA 250 [\(Revised\)](#) and carry out specified steps to help identify instances of non-compliance with requirements of the MAS that may have a material effect on financial statements. The auditor shall, if considered appropriate in accordance with SSA 580²⁴, also obtain a written representation from management on the steps taken, and procedures in place, to ensure compliance with the applicable requirements issued by the MAS. As set out in paragraph 2(a) of this Supplement, the auditors shall report to the MAS of any weakness in internal controls and non-compliance with legislations that come to their attention.

Reporting and Tipping-off

23. When auditing the financial statements of a regulated entity (for example, a bank), auditors have a statutory duty to report to the regulator matters of material significance to its function, or other specified matters, which come to the auditor's attention in the course of their work. Any knowledge or suspicions of involvement of the entity or the entity's management in money laundering or terrorist financing, or of failure to comply with an applicable requirement of the MAS, would normally be regarded as being of material significance to a regulator and so give rise to a statutory duty to report to the regulator. In normal circumstances, auditors can assume that reporting to a regulator does not open them to a charge of tipping-off.

Procedures When Possible Money Laundering or Terrorist Financing is Discovered or Suspected

24. SSA 250 [\(Revised\)](#) requires auditors who become aware of a possible breach of law or regulations to obtain an understanding of the nature of the act and the circumstances in which it has occurred, and sufficient further information so as to evaluate the possible effect on the financial statements and its implications for other aspects of the audit²⁵.
25. SSQMC 1, SSA 240 and SSA 250 [\(Revised\)](#) set out requirements and guidance on withdrawal from the engagement, communication with client and responding to enquiry from the proposed in-coming auditor. Where such disclosure may amount to tipping-off, auditors shall consider obtaining legal advice.

The Auditor's Report on Financial Statements

26. Misstatements in financial statements may be caused by fraud or breaches of law and regulations: money laundering (which may also be connected with fraudulent activity) and terrorist financing involves a breach of law.
27. If it is known or suspected that money laundering or terrorist financing has occurred, the auditor shall consider the specific circumstances, including materiality, to assess whether the auditor's

²⁴ SSA 580, "Written Representations".

²⁵ SSA 250 [\(Revised\)](#), paragraph 4819.

report shall be modified²⁶. If auditors failed to pursue their suspicions or take other appropriate action, it might be argued that the issue of an opinion on the entity's financial statements, without the opinion being modified when the specific circumstances warrant this, enables it to present an appearance of legitimacy with the consequence that the criminal act can continue. This inference is more likely if the auditors knew that the person is or had been engaged in the crime. However, the auditor shall also consider the necessity of asking the STRO whether disclosure in the auditor's report on the financial statements, either through modifying the opinion or referring to fundamental uncertainty, could constitute tipping-off. If this is the case, auditors would be in a difficult position and are likely to require legal advice as to how their responsibility to the shareholders of the entity may be discharged. Timing may be the crucial factor.

²⁶ SSA 250 [\(Revised\)](#), paragraphs 20, 25, 26 and 27.

GLOSSARY

For purposes of this Pronouncement, the following terms have the meanings attributed below:

<u>Professional accountant</u>	<u>An individual who is a member of the Institute of Singapore Chartered Accountants (ISCA).</u>
<u>Professional accountant in business</u>	<u>A professional accountant employed or engaged in an executive or non-executive capacity in such areas as commerce, industry, service, the public sector, education, the not-for-profit sector, regulatory bodies or professional bodies, or a professional accountant contracted by such entities.</u>
<u>Professional accountant in public practice</u>	<u>A professional accountant irrespective of functional classification (for example, audit, tax or consulting) in a professional firm.</u>
<u>Professional firm</u>	<u>A professional firm is:</u> <u>(i) An accounting corporation, an accounting firm or an accounting LLP approved under the Accountants Act; or</u> <u>(ii) An entity, other than those in (i) above, owned or controlled by a professional accountant or professional accountants, that provide professional services.</u>
<u>Professional services</u>	<u>Services requiring accountancy or related skills performed by a professional accountant including accounting, auditing, taxation, management consulting and financial management services. These include the services described in paragraph 4 of the scope to EP 200.</u>