

**Ministry of Finance
Economic Programmes Directorate
100 High Street
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Singapore 179434**

(By email: MOF_Public_Consultation@mof.gov.sg)

30 November 2021

Dear Sir / Madam,

RESPONSE TO THE MINISTRY OF FINANCE (MOF)'S AND THE ACCOUNTING AND CORPORATE REGULATORY AUTHORITY (ACRA)'S PROPOSED CHANGES TO THE ACCOUNTANTS ACT

The Institute of Singapore Chartered Accountants (ISCA) appreciates the opportunity to comment on the above proposals issued by MOF and ACRA in October 2021. To solicit meaningful feedback for these important changes, ISCA organised two focus groups to seek views from accounting entities (AEs). The focus groups were attended by representatives from large, medium and small public accounting firms.

We would like to affirm our support to the regulator's efforts in elevating the level of audit quality in Singapore in order to ensure high standards of auditing are continuously maintained by public accountants (PAs) and AEs. We have included pertinent inputs which we believe will be helpful to MOF and ACRA in making the final amendments to the Accountants Act. This includes views raised from the aforementioned focus groups as well as feedback received by the Institute via other communication channels.

Holistic Approach to Upkeep Singapore's Reputation as a Global Accountancy Hub

The proposals seek to raise the bar for audit quality and maintain public trust in the work of the public accountancy profession, with the ultimate objective of providing trusted and reliable financial information to investors and other key stakeholders to upkeep Singapore's reputation as a global accountancy hub.

The responsibility for the financial reporting ecosystem lies with key stakeholders such as management, users, those charged with governance, regulators and auditors. It takes all stakeholders to play a part in ensuring an effective financial reporting and governance system, and to maintain trust and integrity of our capital markets. We therefore believe that efforts to produce trusted and reliable financial information should be comprehensive and relevant

measures should be rolled out to ensure all components of the financial reporting ecosystem are included, as the quality of financial reporting has a potential cascading impact on the quality of audit, and therefore should not be ignored.

Currently, there is an apparent lack of regulations on preparers of financial statements. They are the first line of defence of a robust financial reporting ecosystem. But yet, under the current regulatory regime, preparers of financial statements are primarily unregulated. We are of the view that being an important part of the financial reporting ecosystem, the preparers should also be subject to regulations, just like auditors and directors. For example, in a listed company, the Chief Financial Officer (CFO)'s role is to ensure that the financial statements are prepared in accordance with financial reporting standards. However, except for CFOs who are Chartered Accountants (CA) of Singapore, there are currently no regulations which stipulate that CFOs who are not CA (Singapore) have to undergo regular professional training to keep abreast with changes and updates in financial reporting standards.

We urge the regulators to adopt a more holistic approach on the review of the regulatory regime for all stakeholders of the financial reporting ecosystem.

Feedback on Proposed Amendments to Accountants Act

A. New 3-tier Assessment Framework

Reframing assessment outcomes more positively

ACRA's intention to reframe the assessment outcomes more positively, with the aim of encouraging remediation by PAs and AEs to improve compliance with professional standards, is commendable. However, based on the comments we have received, it is not clear whether the "Needs improvement" tier is considered a "Pass" or a "Fail". The common view is that it appears to be a "Fail" outcome. Specially, clause 11 [section 38(1)] of the Draft Accountants (Amendment) Bill (Annex B) states the following:

"Where the Oversight Committee, after considering the report and recommendations of the Practice Monitoring Sub-committee under section 37(2), is satisfied that the public accountant has not complied with any of the professional standards and that the extent of such non-compliance needs improvement under the Oversight Committee's professional standards assessment framework, the Oversight Committee may make one or more of the following orders."

The use of the term "non-compliance" in section 38(1) and the fact that the "Needs improvement" tier will be subject to a range of orders, allude to the perception of a "Fail" outcome. In contrast, when compared with the current regime of a binary outcome, a PA who "passes" the Practice Monitoring Programme (with or without comments) is not subject to any further orders from the Public Accountants Oversight Committee (PAOC). Consequently, the proposed 3-tier assessment framework has been perceived as a more stringent framework, with two out of the three tiers being regarded as a "Fail" outcome.

Furthermore, in layman terms, “Needs improvement” may carry a negative connotation and be perceived unfavourably by stakeholders such as prospective clients of the PA. There could be disproportionate reactions by stakeholders who do not understand the inspection regime and will misinterpret the gravity of the inspection results.

In view of the above, ACRA’s intention to reframe the assessment outcomes more positively may not have been achieved. We would like to propose amending the names of the three tiers to give it a more positive connotation and which are easily understood by stakeholders as follows:

- Satisfactory
- Satisfactory, with improvements required
- Unsatisfactory, with significant improvements required

In addition, another implication of not having sufficient clarity in the assessment outcomes is that during the tender process (such as tender for government projects under GeBiz), PAs are required to declare whether they have passed or failed their inspections. With our above proposed changes to the tiered assessment framework, this should resolve the concern as “Satisfactory” and “Satisfactory, with improvements required” will be inferred as a “Pass”.

Alternatively, if further differentiation of the extent of improvements required is needed, ACRA may wish to consider a 4-tiered assessment framework, similar to that of the United Kingdom (UK), where the first two tiers akin to a “Pass” outcome and a “Pass with comments” outcome, and the remaining two tiers akin to a “Fail” outcome of different severity in the extent of non-compliance.

Encouraging remediation to improve compliance

Given that ACRA’s aim is to encourage remediation by PAs and AEs to improve compliance with professional standards, we suggest that alternative actions, of a more educational and remedial in nature, could be considered for those under the “Satisfactory, with improvements required” tier, instead of adopting a punitive approach (i.e. imposition of orders) for this group. The imposition of orders would appear harsh and carry with it an element of non-compliance, which can be viewed as very serious by stakeholders. There should also be clarity that this tier should be interpreted as a “Pass” outcome.

B. Composition of PAOC for Quality Control (QC) and Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Inspections

While we understand the rationale to exclude members who are PAs from the PAOC when deciding the outcome of QC and AML/CFT inspections so that PAs do not have access to commercially sensitive firm-level information, this also raises the perception that the PAOC (excluding PAs) may not be able to arrive at informed decisions over the adequacy of firm-

level controls as the other members may not have the industry knowledge or practical experience of running an audit practice.

We suggest that PAs should not be excluded from the PAOC when deciding the outcome of QC and AML/CFT inspections. Instead, measures should be in place to ensure the confidentiality of commercially sensitive firm-level information. For example, all PAOC members could be required to sign a non-disclosure agreement or all confidential information could be redacted when presented at PAOC or Practice Monitoring Sub-Committee (PMSC) meetings. ACRA could also consider having recently retired PAs with the relevant experience to be represented on the PAOC.

C. Sanctions / Orders

The feedback surrounding the sanctions framework include:

(a) Clarity of orders

There should be clear definitions / descriptions for each of the orders and examples of such orders. For instance, it is not clear what a remedial order or an improvement order entails. There is a lack of clarity of what are the differences between the two orders. The inclusion of “other order” is also ambiguous as it does not provide transparency as to the nature and reasonableness of such a possible order.

It would also be useful to clarify if less severe orders will be imposed for an initial visit vis-a-vis a revisit. This would be consistent with the objective of encouraging remediation by PAs and AEs to improve compliance with professional standards.

(b) Orders with severe consequences to be imposed on the most serious cases

There were also views that punitive orders which are severe, including cancellation order / revocation order, suspension order, refuse renewal order and send order (which has an element of regulatory shaming), should only be imposed on the most serious cases, where there is a harm to public interest. On this note, the extant section 38(1)(b), which links such orders to situations when there is a contrary to the public interest or the interest of the profession of public accountancy for the PA to continue in practice, has been removed in the draft Accountants (Amendment) Bill. It would be useful to clarify the reason for the deletion and whether the proposed severe orders will still be linked to public interest.

Notwithstanding orders with severe consequences may have been imposed, PAs should be given the opportunity to improve. Having shown adequate improvements in subsequent inspections, they should be allowed to start on a clean slate. As such, prior publication in the public domain of the names of PAs who have failed inspections (e.g. on ACRA's website) should be removed once the PAs have proven that they have made improvements.

(c) Financial penalty

It would be helpful to understand how the \$250,000 cap is derived, as there was feedback that the amount appears high.

D. Disclosure of Inspection Outcomes to Audited Entity

There are strong concerns raised on this proposal.

(a) Comparison with other jurisdictions

While other jurisdictions may have some form of disclosure, for example, the UK publishes firm-level inspection results of major firms and US publishes inspection findings if a firm does not address the potential defects in the firm's system of quality control within 12 months after the issuance of inspection report, it is not the same as that proposed by ACRA. Further clarification of the intent and purpose behind the introduction of this requirement would be helpful. It might also be useful to understand the experiences of these jurisdictions which have implemented some form of disclosure, including their considerations for scoping the type of firms and extent of disclosures, and whether this has achieved the desired outcome of enhanced audit quality.

(b) Misinterpretation of inspection outcome (order) by audited entity

There are questions over whether the audited entity (preparers of financial statements and directors) would understand the contents and context of the PAOC's orders. The inspection findings would generally relate to deficiencies with respect to compliance with the auditing standards and the audited entity may not be familiar with the requirements of the auditing standards to understand and appreciate the nature of the findings. Moreover, audited entities do not have full context of the inspection outcome (including the facts and details leading to the inspection results and findings) and would likely view this inspection outcome negatively.

(c) Implications to PAs and AEs, including potential litigation risk

Another concern surrounding this proposal is the potential risk of litigation faced by PAs. The audited entity might prematurely conclude that the PA had been negligent or did not carry out the audit dutifully.

In addition, based on the current proposed amendments, there is nothing to stop the audited entity from sharing the send order with other entities, including the existing clients of the PA. This creates the unintended consequence of further potential litigation risk which the PA may be exposed to.

The negative perception surrounding the send order can also have adverse reputational impact on the AE. This can result in potential loss of clients. Consequently, it would be

challenging for the PA (or even the AE) to continue the provision of public accountancy services after the suspension order or restriction order expires, given the reputational damage that may have already been caused.

Given the above feedback, we strongly urge ACRA to reconsider the merits of having a send order as one of the sanctions.

E. AML/CFT Inspections

Encouraging improvement prior to punitive sanctions

According to the proposal, there are only two possible outcomes from AML/CFT inspections (i.e. complied or has not complied with AML/CFT requirements). This appears to signal that there is little tolerance or opportunity for PAs and AEs to show improvement before being penalised.

Based on feedback received, PAs hope that ACRA would consider giving PAs and AEs an opportunity to improve before imposing heavier sanctions. In general, PAs and AEs (in the performance of audit services) are less likely to be used as conduit for money laundering or terrorist financing, and hence are of a lower risk. By the time the auditors get to audit the financial statements, the related money laundering or terrorist financing transaction would have already occurred. This is in contrast with financial institutions where the flow of funds presents a significant money laundering or terrorist financing risk.

Operationalising inspections

ACRA may wish to consider performing the three different forms of inspections (engagement-level inspections, QC inspections and AML/CFT inspections) together, where possible. This will help facilitate greater efficiency in the process and alleviate “inspection fatigue”.

F. Transparency

Transparency in the regulatory process is highly desirable as it promotes stakeholders’ trust, including that of the audit profession. There are calls for transparency and clarity, especially in the following areas:

- (a) Definition and description of the different tiers. Please refer to section A “New 3-tier Assessment Framework” above.
- (b) Assessment framework, criteria and process in determining both engagement-level and QC inspection outcome, including differentiation of what would constitute a “Needs improvement” outcome vis-à-vis a “Not satisfactory” outcome (if ACRA's eventual decision is still to keep these outcomes). Having clear and transparent assessment

criteria would also be helpful in ensuring consistency in application by different inspection teams and avoiding contentious situations between the PAOC and the PA.

In addition, the transparency of the assessment process may be enhanced if the PA is given an opportunity to share his opinion on the assessment outcome, especially if it is “Needs improvement” or “Not satisfactory”. One suggestion is to allow the PA to comment on the PMSC’s recommendation before it is submitted to the PAOC. This would ensure that the views of both sides are properly considered and deliberated before the inspection outcome is determined.

- (c) Assessment framework, criteria and process in determining outcome of AML/CFT inspections, e.g., will one non-compliance point lead to a “has not complied” outcome for the PA / AE?
- (d) Factors PAOC will take into account in deciding the order(s), given the variety of orders that can be imposed.
- (e) Comparison of Singapore’s approach with the regimes of other jurisdictions which have established independent audit regulation (in the proposals, it was highlighted that the proposed amendments are aligned with the practices of other audit regulators in Australia, Canada, the UK and US).

G. Effective Date

AEs would understandably be focusing their efforts in 2022 on the implementation of quality management system as required under the Singapore Standards on Quality Management (SSQMs). Given that SSQMs are new standards which would see a significant shift in how AEs manage internal quality policies, procedures and controls, ACRA may wish to consider deferring the effective date of the amendments to the Accountants Act or commencement of QC inspections to such a time when the audit profession is more mature in terms of the adoption of SSQMs.

An Educative Approach vis-à-vis a Punitive Approach

Increasingly, we hear concerns that interest in joining the audit profession has been declining over the years. The sector is also facing severe issues with talent retention and manpower shortage. While the members of the profession recognise the need for emphasis on quality, they also hope that the challenges they faced are recognised by ACRA and that the inspection framework could adopt a more educative approach, rather than a punitive one. Having said that, we believe that punitive sanctions are necessary but should be reserved for the most serious cases.

ISCA is happy to work closely with ACRA on remedial measures for cases where improvements are necessary, as well as preventive actions such as education and training.

Ongoing Communication

Given the significant implications of the proposed amendments on the audit profession, it is important to hold dialogue sessions with the audit profession to communicate the rationale for the changes, share ACRA's deliberations of the feedback received on the proposals and provide clarity on some of the issues highlighted above. This would serve as an invaluable platform for key concerns to be discussed with the profession before the Accountants Act is amended.

The above could be followed up with efforts by ACRA to educate other stakeholder groups (such as Audit Committee members, investors, business owners, etc) to understand in a clear and concise manner what each outcome means and how they could be interpreted.

Going forward, it will be in the interest of both ACRA and the profession to have regular dialogues to exchange views on regulatory and inspection matters. This will be a good opportunity for ACRA to communicate expectations, clarify policy positions and correct misconceptions. At the same time, the profession could also share challenges faced to provide direct ground sentiments which may be useful for ACRA to be aware of. This will go a long way towards fostering a mutually beneficial regulatory regime. ISCA is happy to provide and facilitate the engagement platform between ACRA and the profession.

Should you require any further clarification, please feel free to contact Mr Kang Wai Geat, Director, Professional Standards, or Ms Fua Qiu Lin, Deputy Director, Members and Stakeholders Engagement at ISCA via email at waigeat.kang@isca.org.sg or qiulin.fua@isca.org.sg respectively.

Yours faithfully,



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