

AUDIT PRACTICE BULLETIN NO. 2 OF 2017

COMPLIANCE WITH ETHICS PRONOUNCEMENTS ON ANTI-MONEY LAUNDERING AND COUNTERING THE FINANCING OF TERRORISM

INTRODUCTION

- 1 The Ethics Pronouncement (EP) 200 - *Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) – Requirements and Guidelines for Professional Accountants in Singapore* which came into effect from 1 November 2014 is part of the larger regulatory efforts to further strengthen Singapore's reputation as a trusted international financial and business centre.
- 2 EP 200 is part of the Code of professional conduct and ethics of public accountants and accounting entities. Every public accountant and accounting entity (i.e., audit firm) must comply with EP 200 and compliance is regulated by the Accounting and Corporate Regulatory Authority (ACRA). A breach of EP 200 constitutes grounds for disciplinary proceedings under the Accountants Act.
- 3 Currently, ACRA conducts EP 200 inspections on all audit firms, including those which audit non-listed entities. The inspection includes the review of compliance with the following requirements:
 - (a) that firms have put in place internal policies, procedures and controls (IPPC) to address money laundering and terrorist financing concerns; and
 - (b) that in practice, there is timely implementation and proper execution and compliance of these policies, procedures and controls.

ACRA'S EXPECTATIONS OF FIRMS' COMPLIANCE WITH EP 200

- 4 This bulletin provides guidance and sets out ACRA's expectations of the firms' implementation of their IPPCs to address money laundering and terrorist financing concerns depending on whether the firms provide services described in paragraph 1.5 of EP 200¹. The detailed guidance is provided at [Annex 1](#) of this bulletin.
- 5 The guidance in this bulletin is general in nature and that the responsibility lies with the firms to review if their measures are adequate for compliance with EP 200 as well as to constantly keep themselves updated of the latest threats and measures to deal with the threats. This guidance is not intended to be exhaustive and does not serve as a substitute for the relevant requirements under EP 200. It does not constitute legal

¹ Paragraph 1.5 of EP 200 states that "*When professional accountants in public practice and professional firms which prepare for or carry out transactions for their clients concerning the following situations, there are specific measures on customer due diligence and records keeping under the FATF Recommendations which they have to follow, which are set out in Section 4:*

- (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 creation, operation or management of companies;*
- (e) *Creation, operation or management of legal persons or arrangements, and buying and selling of business entities"*

advice and does not bind ACRA, its staff or its agents in any way. For complete and authoritative guidance, reference should be made to the relevant sections of the EP 200.

TIMELINE GIVEN TO FIRMS FOR COMPLIANCE

- 6 While audit firms are obliged to implement the EP 200 requirements by 1 May 2015², ACRA recognises that some small and medium practices (SMPs) might need more time to put in place the required systems and controls. As such, ACRA is giving audit firms up to **31 December 2017** to set up and implement their IPPCs.
- 7 In this regard, **ACRA will not take action on firms** unless there are findings of non-compliance with EP 200 requirements, relating to the period from 1 May 2015 to the date of the firms' implementation of EP 200 requirements (which should not be later than 31 December 2017) and the findings potentially involve criminal offences or result in investigations. For example, the failure by a firm to report a suspicious transaction which occurred after 1 May 2015, and before the firm had put in place the suspicious transaction reporting process, would be considered a finding where ACRA may take follow-up action which may include reporting serious lapses to the relevant authorities or initiating disciplinary action against the offender.

CONSEQUENCES OF NON-COMPLIANCE WITH EP 200

- 8 Firms should note that any non-compliance with EP 200 requirements may result in investigations through ACRA's Complaints and Disciplinary process. As such, firms should provide a comprehensive response to the inspection findings including all evidence to support the view that there has been no breach of the requirements.
- 9 Sanctions for non-compliance with the EP 200 may include the issuance of warnings, imposition of financial penalties, restriction orders on practice which do not allow a firm to accept new clients and suspension of firm from carrying out public accountancy services.

CONCLUSION

- 10 Professional firms are expected to set up their own IPPCs, taking into account the risks of money laundering and terrorist financing and the size and nature of their business, and implement the IPPCs diligently into practice. In the assessment of client acceptance and continuance processes, firms should carry out due diligence and document their basis for the decision to accept or continue providing the professional services to their clients. ACRA takes a serious view of any non-compliance with the EP 200 requirements and will not hesitate to take disciplinary action against firms for any breach of the EP 200 requirements.

² ISCA also issued the Implementation Guidance in November 2015 and public accountants were notified by ACRA in December 2016 that the EP 200 inspections would be extended to firms which audit non-public interest entities.

ACRA's expectations of public accounting firms'/public accountants' compliance with EP 200

ACRA's expectations are mainly on the firms' formulation and implementation of their IPPCs to address money laundering and terrorist financing (ML/TF) concerns.

Section 3.1 of EP 200 requires the firms' IPPCs to include the following areas: (a) risk assessment and management (i.e. a risk-based approach); (b) group policy (if a group exists); (c) customer due diligence; (d) records keeping; (e) reporting procedures; (f) ongoing training; (g) compliance management and appointment of compliance officer; (h) hiring; and (i) independent audit function.

In formulating the firms' IPPCs, ACRA expects firms to have set up and implemented policies, procedures and controls on the following, having regard to whether the firms provide services described in paragraph 1.5¹ of EP 200, the ML/TF risks and the size and nature of the business:

Table 1 – Applicable for firms which provide services described in paragraph 1.5 of EP 200 or where the ML/TF risks of the client is assessed to be high regardless of whether the service relates to paragraph 1.5 of EP 200

1	Suspicious Transactions Reporting (STR)
	<p><u>ACRA expects</u> at the minimum, the following areas to be covered in the firms' procedures:</p> <ul style="list-style-type: none"> a) How to identify suspicious transactions; b) Who to report suspicious transactions to; c) Information required to be in the STR; and d) When to report and file suspicious transactions.
2	Customer Due Diligence (CDD)
(i)	<p>Firms' CDD measures should cover the following:</p> <ul style="list-style-type: none"> a) Identifying the client; b) Identifying the beneficial owner (BO); c) Identifying those persons with executive authority; d) Verifying the identities of (a), (b) and (c) above using reliable, independent source documents, data or information and taking reasonable measures to verify the identities of (a), (b) and (c). <p>ACRA strongly encourages firms to use screening tools (e.g. Worldcheck, Factiva, Google) in addition to screening against either MAS/MHA sanction lists or Terrorist Alert list from ISCA. Google search is only acceptable if the firms carry out a thorough search using this tool, i.e., a detail "dive-in" search on the Google</p>

	<p>search results to trace to the source of information pertaining to (a), (b) and (c) above.</p> <p>The evidence of verification and search (such as print screens of the results and the screening results) should be retained in the file;</p> <p>e) Understanding and obtaining information on the purpose and intended nature of the business relationship;</p> <p>f) Conducting ongoing due diligence on any continuing business relationship;</p> <p>g) Having policies on when to perform enhanced CDD:</p> <p><u>ACRA expects</u> firms to, at a minimum, perform enhanced CDD for:</p> <p>(i) Higher risk clients in terms of money laundering or terrorist financing;</p> <p>(ii) The following Politically Exposed Persons (PEPs), unless risk rating is rated low by firms:</p> <ul style="list-style-type: none"> • Domestic PEPs • International organization PEPs or • PEP who have stepped down from their prominent functions); <p>h) Having timeframe to complete the CDD; and</p> <p>i) Setting up procedures for conducting on-going monitoring of business relationships with its existing clients.</p> <p>On-going monitoring procedures would include:</p> <p>(i) keeping the documents, data or information obtained under the CDD process (including simplified and enhanced customer due diligence measures and beneficial ownership information) up-to-date; and</p> <p>(ii) considering the need to update CDD information as soon as practicable, based on professional firm’s knowledge of the client and changes in its circumstances or the nature of the services provided by the professional firm.</p>
(ii)	<p>On firms’ identification of client/BO/persons with executive authority during client’s acceptance, <u>ACRA expects</u>, at a minimum, the identification to contain the following information:</p> <p>a) Full name, including any alias;</p> <p>b) Identity card number or birth certificate number or passport number (in case of individual), or the incorporation number or registration number (in the case of a customer that is a body corporate or unincorporated);</p> <p>c) Existing residential address or address of its place of business or registered office (as the case may be), and telephone number;</p> <p>d) The date of birth, incorporation or registration (as the case may be); and</p> <p>e) The nationality or place of incorporation or registration (as the case may be).</p>

(iii)	<p>On timeliness of completion of CDD, <u>ACRA expects</u>:</p> <p>a) Firms to verify the identity of their clients/BO/ persons with executive authority before establishing a business relationship. If money laundering and terrorist financing risks are effectively managed and if it is essential not to interrupt the normal conduct of business, the verification can be performed subsequent to establishing business relations with the client. However, the firms shall adopt internal risk management policies and procedures concerning the conditions under which such business relations may be established prior to verification and such verification shall be completed no later than 30 days after establishing of business relationships.</p> <p>b) In situations where CDD is not performed or completed within 30 days after the business relationship was established, the firms should have policies on the following actions to be taken:</p> <p>(i) suspension of business relations with the client and refrain from carrying out further transactions if CDD remains <u>uncompleted 30 days</u> after the establishment of business relations; and</p> <p>(ii) terminate business relations with the client if CDD remains <u>uncompleted 120 days</u> after the establishment of business relations.</p>
3	<p>Records keeping</p> <p><u>ACRA expects</u> firms to keep records for at least 5 years following the (a) termination of business relations and (b) completion of transaction. However, records pertaining to a matter under investigation for which a STR is filed will be required to be kept for such longer period as may be necessary in accordance with request/order from any relevant authority in Singapore.</p>
4	<p>Reporting procedures <i>[not applicable for firms which do not employ any staff]</i></p> <p><u>ACRA expects</u> firms to establish a single reference point [Money Laundering Reporting Officer] within the firms to whom all employees are instructed to promptly refer all transactions suspected of being connected with money laundering or terrorist financing for possible reporting to the Suspicious Transaction Reporting Office.</p>
5	<p>Ongoing training</p> <p><u>ACRA expects</u> firms to establish an on-going training programme and take appropriate steps to ensure that all levels of professional staff and staff who deal with the firm's finances or procurement ("required staff") have undergone such training programmes.</p> <p>For refresher training</p> <p>Refresher training should be held at least once every 2 years or more regularly where there have been significant developments or changes to the firm's IPPC.</p> <p><u>ACRA expects</u> firms to conduct refresher training for the required staff within 6 months after significant developments on EP 200 or changes to the firm's IPPC.</p>

6	<p>Compliance management <i>[not applicable for firms which do not employ any staff]</i></p> <p><u>ACRA expects</u> firms to develop appropriate compliance management arrangements to monitor the firms' compliance with its AML/CFT policy and procedures. This includes the appointment of a compliance officer at the management level who would report to senior management on compliance and address any identified deficiencies.</p>
7	<p>Hiring <i>[not applicable if the firm has no employees]</i></p> <p>Firms should have adequate screening procedures in place to ensure high standards when hiring employees.</p> <p><u>ACRA expects</u> the firms' procedures for the hiring of professional staff and staff who deal with the firms' finances or procurement, to consider the following factors:</p> <ul style="list-style-type: none"> a) if the individual has been convicted in Singapore of any offence involving fraud or dishonesty punishable with imprisonment for 3 months or more; and b) if the individual is an undischarged bankrupt in Singapore.
8	<p>Independent audit function <i>[applicable for firms which audit public interest entities³ (PIE)]</i></p> <p><u>ACRA expects</u> firms to have an audit function that is adequately resourced (staff with appropriate knowledge and seniority) and independent to regularly (at least once every three years) assess the effectiveness of the firms' IPPCs and compliance with AML/CFT requirements.</p>

³ PIE is defined under paragraph 290.25, SG290.25A and SG290.25B of the Fourth Schedule to the Accountants (Public Accountants) Rules (Cap.2,R1), as:

- (a) All listed entities; and
- (b) Any entity –
 - (i) Defined by regulation or legislation as a PIE; or
 - (ii) For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation may be promulgated by any relevant regulator, including an audit regulator.

For the purposes of paragraph (b)(i) above, a PIE means –

- (a) Any entity that is listed or is in the process of issuing its debt or equity instruments for trading on a securities exchange in Singapore;
- (b) Any entity that is incorporated in Singapore and the securities of which are listed on a securities exchange outside Singapore; or
- (c) Any financial institution.

For the purposes of paragraph (b)(ii) above, the audit of large charities and large institutions of a public character shall be conducted in compliance with the same independence requirements that apply to the audit of listed entities.

Table 2 - Applicable for firms which do not provide services described in paragraph 1.5 of EP 200 and where the ML/TF risks of the client is assessed to be low

1	Customer Due Diligence (CDD) ⁴
(i)	<p>Firms' CDD measures should cover the following:</p> <ul style="list-style-type: none"> a) Identifying the client; b) Identifying those persons with executive authority; c) Verifying the identities of (a) and (b) above using reliable, independent source documents, data or information and taking reasonable measures to verify the identities of (a) and (b). <p>Screening (a) and (b) above against either MAS/MHA sanction lists or Terrorist Alert list from ISCA.</p> <p>The evidence of verification and the screening results should be retained in the file;</p> <ul style="list-style-type: none"> d) Understanding and obtaining information on the purpose and intended nature of the business relationship; e) Conducting ongoing due diligence on any continuing business relationship; f) Having timeframe to complete the CDD; and g) Setting up procedures for conducting on-going monitoring of business relationships with its existing clients. <p>On-going monitoring procedures would include:</p> <ul style="list-style-type: none"> (i) keeping the documents, data or information obtained under the CDD process (including simplified and enhanced customer due diligence measures and beneficial ownership information) up-to-date; and (ii) considering the need to update CDD information as soon as practicable, based on professional firm's knowledge of the client and changes in its circumstances or the nature of the services provided by the professional firm.
(ii)	<p>On firms' identification of client/persons with executive authority during client's acceptance, <u>ACRA expects</u>, at a minimum, the identification to contain the following information:</p> <ul style="list-style-type: none"> a) Full name, including any alias; b) Identity card number or birth certificate number or passport number (in case of individual), or the incorporation number or registration number (in the case of a customer that is a body corporate or unincorporated);

⁴ The required CDD measures such as the identification, verification and screening of the clients are considered as basic Know Your Client procedures and should form part of any firm's client acceptance process in addressing ML/TF concerns. Without these procedures, the firm would not be able to assess the overall risk of the client and provide the appropriate risk assessment information to relevant authorities when required.

	<p>c) Existing residential address or address of its place of business or registered office (as the case may be), and telephone number;</p> <p>d) The date of birth, incorporation or registration (as the case may be); and</p> <p>e) The nationality or place of incorporation or registration (as the case may be).</p>
(iii)	<p>On timeliness of completion of CDD, <u>ACRA expects</u>:</p> <p>a) Firms to verify the identity of their clients/persons with executive authority before establishing a business relationship. If money laundering and terrorist financing risks are effectively managed and if it is essential not to interrupt the normal conduct of business, the verification can be performed subsequent to establishing business relations with the client. However, the firms shall adopt internal risk management policies and procedures concerning the conditions under which such business relations may be established prior to verification and such verification shall be completed as soon as is reasonably practicable.</p> <p>b) In situations where the firm is unable to perform or complete any CDD measure, the firms should have policies on the following actions to be taken:</p> <p>(i) suspension of business relations with the client and refrain from carrying out further transactions; and</p> <p>(ii) terminate business relations with the client.</p>
2	<p>Records keeping</p> <p><u>ACRA expects</u> firms to keep records for at least 5 years following the (a) termination of business relations and (b) completion of transaction. However, records pertaining to a matter under investigation for which a STR is filed will be required to be kept for such longer period as may be necessary in accordance with request/order from any relevant authority in Singapore.</p>