

# Sharing of Key Observations for EP 200 Inspections

Quality Assurance Seminar  
22 May 2017

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# Agenda




- 1 Introduction
- 2 Sharing of key observations
- 3 Sharing of good practices
- 4 Practical challenges faced by professional accountants
- 5 Frequently asked questions
- 6 New changes on EP 200

# Introduction



# Introduction

## - Key dates to note on EP 200

	Effective dates
Ethics Pronouncement 200 (EP 200) first issued by ISCA on 29 October 2014	
Amended Accountants Act, Cap.2 to include EP 200	
Updated EP 200 issued on 28 March 2017	

- Applies to professional accountants\* in:
  - Business
  - Public practice and professional firms

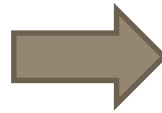
\* Professional accountants refer to an individual who is a member of the Institute of Singapore Chartered Accountants (ISCA)

# Introduction

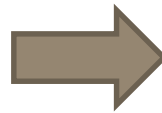
## - Commencement of EP 200 inspections by ACRA



Firms that audit  
listed entities (PIEs)



Firms that audit non-  
listed entities (non-PIEs)




- EP 200 inspections for non-PIEs are conducted by ISCA inspectors with ACRA's oversight

# Introduction

## - Inspections carried out since date of implementation

	Number of EP 200 inspections performed (as at 30 April 2017)
Firms that audit PIEs	16
Firms that audit non-PIEs	26
Total	42



# Sharing of key observations



# Sharing of key observations

## - Areas where key EP 200 observations are noted

1. Implementation of firm's internal policies, procedures and controls (IPPC)
2. Completion of Customers Due Diligence (CDD)
3. Identification and verification of Beneficial Owners (BO)
4. Identification and proper discharge of Political Exposed Persons (PEP)
5. Training
6. Documentation and evidence of work performed



# Sharing of key observations

## - Implementation of firm's IPPC on EP 200

EP 200 requirements that are effective from	Observations by ACRA
1 Nov 2014 – Section 2 of EP 200 1 May 2015 – Section 3 of EP 200	No IPPC at all
1 May 2015	Late implementation; i.e. after 1 May 2015
FY after 1 May 2015 (ACRA's expectation)	Policies implemented but not effective as procedures were not carried out



# Sharing of key observations

## - Completion of CDD

EP 200 requirements	Observations by ACRA
<p>Firms shall verify the identity of the client and BO before or during the course of establishing a business relationship.</p> <p>Firm's IPPC should establish when the verification of the identity of the client and BO should be completed (para 4.7)</p>	<ul style="list-style-type: none"><li>• CDD form not completed prior to acceptance of new clients</li><li>• Late completion of CDD form<ul style="list-style-type: none"><li>- E.g. CDD form only completed 3 months after appointment date for new clients</li></ul></li><li>• No formalization of what is a reasonable timeframe to complete CDD</li></ul>



# Sharing of key observations

## - Identification and verification of BO

EP 200 requirements	Observations by ACRA
<ul style="list-style-type: none"> <li>CDD measures apply to all new clients</li> <li>For existing clients, to consider whether CDD measures have <u>previously</u> been undertaken</li> </ul>	BO not identified and verified for: <ul style="list-style-type: none"> <li>- new clients</li> <li>- existing clients in the first year of implementation of EP 200</li> </ul>
Take reasonable measures to verify the identity of the BO	BO identified is not a natural person
Verify the client's identity using reliable, independent sources	BO provided by client is not verified via reliable search tools



# Sharing of key observations

## - Identification and proper discharge of PEP

EP 200 requirements	Observations by ACRA
Firms should also have an <i>appropriate risk management system</i> in place to determine whether clients or BO are foreign PEPs	No action taken to verify the unresolved matches identified
<i>In situations where PEPs may be involved... professional firms shall take enhanced CDD measures</i>	Where PEP was identified, no documentation to address whether enhanced CDD is required



# Sharing of key observations

## - Trainings on EP 200

EP 200 requirements	Observations by ACRA
<p>Firms should establish an on-going training programme and take appropriate steps to ensure all levels of professional staff have undergone such training</p>	<p>No training conducted on EP 200 to:</p> <ul style="list-style-type: none"> <li>- Partners</li> <li>- All existing staff</li> <li>- New staff (including mid-joiners)</li> </ul>
<p>To ensure effectiveness of training, firms should monitor attendance and take appropriate follow-up action</p>	<p>Staff attendance of EP 200 training not monitored</p>
<p>Staff should be reminded of their responsibilities and be informed of new developments on EP 200</p>	<p>Training conducted late; i.e. done after implementation date of 1 May 2015</p>



# Sharing of key observations

## - Documentation and evidence of work performed

EP 200 requirements	Observations by ACRA
<p>Firms shall <u>prepare, maintain and retain documentation</u> on all its business relations with, and transactions for its clients</p>	<ul style="list-style-type: none"><li>• Results of identification and verification of BO not retained</li><li>• Verification of whether BO is PEP not retained</li></ul>





# Sharing of good practices




# Good practices observed by ACRA

- For firms with more than one PA, someone with sufficient seniority is appointed as a single reference point:
  - for staff to consult
  - to ensure timely reporting of suspicious transactions
- Has a central monitoring team to:
  - ensure firm's IPPC and training materials are updated
  - monitor firm's compliance
  - monitor that all partners and staff (including mid-joiners) are trained
- Outsourcing of CDD procedures to offshore office/ a central team in the firm to perform the CDD procedures



Senior Partner/  
Senior Manager?





# Practical challenges faced by professional accountants

# Practical challenges faced by professional accountants

Lack of resources to implement and monitoring EP 200

Identification of ultimate BO for companies incorporated in tax haven countries (e.g. BVI, Cayman Islands)

Too costly to send staff for EP 200 training

Should STR be filed in the midst of audit?

EP 200 increases compliance cost; have to invest in search tools that cover PEP

# Frequently Asked Questions



# Frequently asked questions

## - Scope of EP 200

### Question:

*"Does EP 200 cover those clients where I provide compilation services, accounting services, internal accounting services, taxation and payroll services?"*

### Response:

EP 200 applies to professional accountants who provide services to their clients. Such services are not restricted to just provision of audit services.

# Frequently asked questions

## - On PEPs

### Question:

*"What should I do when there are "hits" on the PEP for a BO?"*

### Response:

Firm will need to determine whether these are real "hits" or false negatives. If it is a perfect match, firm will need to perform enhanced CDD procedures to address the risk.

# Frequently asked questions

## - Verification of BOs (1/5)

### Question:

*"Where there is only one corporate shareholder and it is a BVI company where the ultimate BO is not disclosed, is it adequate to stop CDD procedures at the corporate shareholder?"*

### Response:

No, CDD procedures should not stop at the corporate shareholder level. This is because a BO refers to the natural person who ultimately owns or controls a client. It also includes those persons who exercise ultimate effective control over a legal person or arrangement.

# Frequently asked questions

## - Verification of BOs (2/5)

### Question:

*"If my client's holding corporation is a BVI company, what are the recommended ways to identify and verify the BO?"*

### Response:

Firms may try the following to identify the BO:

- Inquire with the client.
- Check if information on BO is obtainable using search tools.
- If after all attempts, still cannot identify, firms to assess whether to continue or accept this business relation with client.



# Frequently asked questions

## - Verification of BOs (3/5)

### Question:

*"My client referred me to obtain the BO information from his CSP, however, the CSP refused to give me the BO details claiming that auditors are not entitled to have access to the register under Section 9.1 of the Registers of registrable controllers of companies. What should I do?"*

### Response:

The auditor needs to obtain the information directly from the client for information relating to the BO. As auditors are not entitled to have access to the Registers of registrable controllers.

Alternatively, client can authorized the CSP to share the BO information under the RFA guidelines (which is a separate records from the Registers of registrable controllers).

# Frequently asked questions

## - Verification of BOs (4/5)

### Question:

*"Is there any recommended way to establish the source of wealth and funds for a BO who is a domestic PEP without offending the client?"*

### Response:

Depends on who is the domestic PEP, and how much you already may know about this PEP, information may be easily available on the internet. If after all attempts, one is still unable to establish the source of wealth and funds of the PEP, should try to ask from him/her. If the PEP is reluctant to provide the information requested, firm should consider whether to continue this business relation.

# Frequently asked questions

## - Verification of BOs (5/5)

### Question:

*"If we have obtained bizfile search to verify client's BO, is that sufficient? Do we still need to request for the CDD forms to be signed by the client?"*

### Response:

Information from Bizfile only assists firm to identify the shareholders and directors of the company. The ultimate BO may not be identified if the immediate shareholder is a corporate. A CDD form completed by client may identify the ultimate BO. Upon identification, firm is still required to verify whether the identified BO is a PEP.

# Frequently asked questions

## - Effect of NOCLAR on EP 200

### Question:

*“How should accountants look at EP 200 and Non-compliance with Laws and Regulations (NOCLAR)? Should we expect another requirement from the regulators?”*

### Response:

Singapore is still currently considering the adoption of NOCLAR. ISCA's Ethics Committee has set up a working group to carry out the relevant research on the application and implication to the profession as a result of adopting NOCLAR. It is unlikely that Singapore will implement this pronouncement based on IESBA's effective date, i.e. 15 July 2017.



# New Changes on EP 200

# Changes on EP 200 introduced on 28 March 2017

## - Effective from 1 June 2017

Key changes introduced include:

- a) Added definitions of "connected party"
- b) Provide clarity on "PEP" definition
- c) Provide clarity on identification and verification of BOs
- d) Removal of exemption for identification and verification of BO for government entities
- e) Disclosure of trustee status
- f) Extend screening requirements to cover the BO of the client, natural persons appointed to act on behalf of client and connected parties of the client
- g) Make existing Supplement A of EP 200 mandatory for auditors

Thank you



# Q & A Session







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