

SECOND READING SPEECH
BY MS INDRANEE RAJAH
SECOND MINISTER FOR FINANCE
ON THE ACCOUNTANTS (AMENDMENT) BILL

Mr Deputy Speaker, I beg to move, "That the Bill be now read a second time."

Introduction

2. Sir, the Accountants (Amendment) Bill makes four key sets of amendments to the Accountants Act, as well as several related amendments. These amendments aim to enhance our audit regulatory regime and introduce measures for better compliance with professional requirements and standards for both Public Accountants, ("PAs") and Accounting Entities ("AEs"). These amendments will also align Singapore's regulatory practices with those in other jurisdictions with established audit regulatory regimes.

3. The Ministry of Finance (“MOF”) and the Accounting and Corporate Regulatory Authority (“ACRA”) sought views from the public on the draft Bill last year, and have taken in the feedback where relevant and feasible. We thank the contributors for their inputs.

4. Let me now take Members through the four key sets of amendments.

Key Amendments Set 1: Quality Control Inspections (“QC Inspections”)

5. Today, ACRA is empowered under the Accountants Act to review individual PAs’ audit work for selected clients. I will refer to these as *engagement inspections*.

6. For these engagement inspections, ACRA evaluates whether a PA has complied with the prescribed requirements when auditing financial statements during the audit process.

7. The Public Accountants Oversight Committee (“PAOC”) adjudicates and decides on remedial actions and sanctions for PAs who fail the engagement inspections.

8. For AEs, ACRA has been conducting *quality control* (“QC”) *inspections* on AEs that audit public interest entities such as listed companies.

9. These QC inspections check if AEs have the internal processes and procedures relating to leadership responsibilities for quality, independence, ethics, client acceptance, human resources, performance and monitoring.

10. However, the QC inspections are currently not formalised under the Accountants Act.

11. This means that when QC lapses are found, ACRA is unable to mandate remediation or take actions against the AEs.

12. The first set of amendments therefore seeks to make QC inspections of AEs a statutory requirement under the Accountants Act.

13. The proposed amendments will allow ACRA to conduct inspections on all AEs and compel AEs to remediate lapses uncovered during the QC inspections, including imposing sanctions where necessary.

14. This will bring Singapore's regulatory regime in line with the practices of other audit regulators in the United States, the United Kingdom, Canada, and Australia.

15. QC inspections are useful because they check for adequate internal processes and procedures within the AEs, which should be applied consistently across all engagements. This ensures that AEs deliver consistently high-quality audit. If an issue is identified, AEs can make across-the-board improvements that would benefit all engagements.

16. Mandated QC inspections will complement the existing engagement inspections and make for a better regulatory regime for audit work.

17. This amendment is provided for in Clause 12 of the Bill.

Key Amendments Set 2: Anti-Money Laundering and Countering the Financing of Terrorism Inspections (“AML/CFT Inspections”)

18. I move this second key set of amendments, which aim to bring our regulatory regime into closer alignment with the international standards set by the Financial Action Task Force (“FATF”).

19. The FATF is an intergovernmental organisation that sets international standards to prevent global money laundering and terrorism financing. As a member of FATF, Singapore is required to meet the international standards set out by the task force.

20. FATF requires PAs and AEs to be subject to:

- a. Effective systems for monitoring their compliance with requirements on Anti-Money Laundering and Countering the Financing of Terrorism, or “AML/CFT” requirements; as well as
- b. Effective sanctions for failure to comply with these requirements.

21. The second set of amendments give ACRA powers to conduct inspections for compliance with AML/CFT requirements and to impose sanctions on PAs and AEs if they fail to comply with these requirements.

22. For avoidance of doubt, let me clarify that AML/CFT inspections only apply to PAs and AEs that carry out *FATF-designated activities*, which are assessed to have higher money laundering and terrorism financing risks. Such designated activities include, among others:

- a. Buying and selling of real estate;
- b. Managing of client money, securities or other assets;

- c. Organisation of contributions for the creation or management of companies; and
 - d. Buying and selling of business entities.
23. AML/CFT inspections will not apply to PAs and AEs that perform solely audit services.
24. This amendment is provided for in Clause 12 of the Bill.

Key Amendments Set 3: Tiered Assessment Framework

25. The third set of amendments, which seek to:
- a. Refine the assessment framework for ACRA's engagement inspections for individual PAs; and
 - b. Extend this assessment framework to QC inspections for AEs.

26. The current assessment framework for engagement inspections is binary. You either pass or fail. If a PA fails the engagement inspection, ACRA may impose remedial actions and/or sanctions.

27. However the current framework does not cater for situations where a PA's work may not fail outright, but at the same time, some aspects of his/her work may not be up to mark and needs improvement.

28. Over the years, ACRA has received feedback that such a binary pass-fail system is too blunt. A more granular indication of how well the PA or AE has complied with the requirements would provide more incentive for PAs and AEs to strive for a better assessment outcome.

29. The third amendment thus revises the assessment framework from a pass-fail regime to a tiered regime. The revised categories are:

- a. "Satisfactory";
- b. "Satisfactory but with Findings";
- c. "Partially Satisfactory"; and

d. “Not Satisfactory”.

30. The “Satisfactory” Outcome, whether with or without findings, gives due recognition to PAs and AEs who achieve good inspection results. This category will not be subject to sanctions or remedial actions.

31. For the “Partially Satisfactory” and “Not Satisfactory” outcomes, ACRA will impose specific remedial actions and/or sanctions on the PAs and AEs for the findings identified. The findings will indicate the areas of improvement that PAs and AEs should work on in preparation for their next assessment.

32. This amendment is provided for in Clauses 11 and 12 of the Bill.

Key Amendments Set 4: Disclosure of Inspection Findings to Audited Entity

33. Let me now deal with the final set of amendments.

34. Currently, PAs are not required to share the engagement inspection findings on their audit engagement with the entities that they audit.

35. There is public interest in maintaining trust in audited financial statements. If there are significant inspection findings on a PA's audit engagement, the audited entity should be informed. This will allow the audited entity to work with the PA to remediate findings, which may have implications for its audit and financial statements. It will also act as a powerful incentive to the PAs to remedy and improve their performance, and to the AEs to ensure high standards and internal quality control of the PAs they employ.

36. Under this amendment, the PAOC will be empowered to require a PA with a "Not Satisfactory" grading for that particular engagement-level inspection to disclose the inspection findings to the audited entity. If the PA fails to comply, the PAOC can share the inspection findings on the PAs' audit engagement with the audited entity directly.

37. ACRA will also ramp up its efforts to help audited entities interpret the inspection findings on PAs' audit engagements. If the PAs disclose the inspection findings on their audit engagements and the audited entities do not know what to do with the findings, we will not be able to raise audit quality. The two need to go together.

38. In short, this set of amendments aims to increase the transparency of inspection findings which will in turn, promote trust and confidence in the audited financial statements. The amendments also enhance the ability of audited entities to evaluate the quality and effectiveness of their PAs.

39. The disclosure of inspection findings on the PAs' audit engagements to the audited entity is in line with the requirements in Canada, Australia and Malaysia.

40. Clause 11 of the Bill provide for this amendment.

Related and Consequential Amendments

41. Besides the four key sets of amendments, the Bill also provides for related amendments, such as the prescription of fees, laying out processes relating to appeals and meting out of orders, as well as empowering the PAOC to prescribe professional standards for PAs and AEs.

42. Clause 23 of the Bill provides for consequential amendments to the Banking Act 1970 to align the terminologies used in both Acts.

Conclusion

43. In conclusion, Sir, the amendments in this Bill serve to enhance our audit regulatory regime and ensure that our audit and accounting professionals and firms comply with high standards and ethical requirements. This in turn will strengthen Singapore's pro-business and trusted regulatory environment.

44. But beyond laws and regulations, I also call upon all PAs and AEs – who have the responsibility to the public to uncover questionable

accounting practices and to bring to light potential deception or fraud – to uphold the highest professional standards and safeguard the integrity and independence of the audit process. This is crucial in engendering trust and confidence in the quality of audited financial statements, and ultimately in the PAs and AEs themselves.

45. Mr Deputy Speaker, I beg to move.