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Convention Series

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Sharing of EP 200 Inspection Findings

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Agenda

1. Introduction
2. Sharing of EP 200 Inspection Findings
3. Frequently asked questions

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Introduction

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Introduction

- Key dates on EP 200

| | Effective dates |
|---|--|
| Ethics Pronouncement 200 (EP 200) first issued by ISCA on 29 October 2014 |  |
| -Sections 3, 4 and 5 shall be implemented by 1 May 2015 | |
| 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)

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Introduction

- Scope of EP 200

| Section/Category of Professional Accountants | 2 Reporting and tipping-off | 3 Systems and controls | 4 CDD and records keeping | 5 Reporting, training, compliance, hiring and audit |
|--|--------------------------------|---------------------------|------------------------------|--|
| Professional accountants in public practice and professional firms, providing services other than those stated in para 1.5 of EP 200 | Mandatory | Mandatory | Good guidance | Good guidance |
| Professional accountants in public practice and professional firms, providing any services described in para 1.5 of EP 200 | Mandatory | Mandatory | Mandatory | Good guidance |

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Introduction

- Extract of para 1.5 of EP 200

“When professional accountants in public practice and professional firms which prepare for or carry out transactions for their clients concerning the following situations:

- (a) Buying and selling of real estates;*
- (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;*
- (e) Creation, operation or management of legal persons or arrangements, and buying and selling of business entities.”*

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Introduction

- Guidance issued on EP 200

Are the expectations set by ACRA in this APB higher than EP 200's requirements?

Under Section 3 of the EP 200 (which is mandatory for professional accountants in public practice and professional firms), firms are required to establish IPPC on areas including CDD and records keeping which are further elaborated under Section 4 and 5. The type and extent of the measures taken in each of the areas shall take into consideration the risk of ML and TF and the size and nature of the firms' business

Audit Practice Bulletin ("APB") No. 2 of 2017 Compliance with Ethics Pronouncements on Anti-Money Laundering and Countering the Financing of Terrorism

Issued on 13 December 2017

Provides guidance to firms on implementation of internal policies, procedures and controls ("IPPC") to address money laundering ("ML") and terrorist financing ("TF") concerns

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Sharing of EP 200 Inspection Findings

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Sharing of EP 200 Inspection Findings

- Implementation of firm's internal policies, procedures and controls ("IPPC") on EP 200

| Observations by ACRA | EP 200 requirements | ACRA's expectation as stated in APB No. 2 of 2017 |
|--|---|---|
| <ul style="list-style-type: none">• No IPPC at all• IPPC not comprehensive• Late implementation of IPPC• Policies implemented but not effective as procedures not carried out | Firms shall develop and implement IPPC to address ML and TF concerns and communicate these to its employees (<i>para 3.1 of EP 200</i>) | Professional firms are expected to set up their own IPPC, taking into account the risks of ML and TF and the size and nature of their business, and implement the IPPC diligently into practice (<i>para 10 of APB</i>) |

Sharing of EP 200 Inspection Findings

- Completion of Customers Due Diligence (“CDD”) Procedures

| Observations by ACRA | EP 200 requirements | ACRA’s expectation as stated in APB No. 2 of 2017 |
|--|--|--|
| <ul style="list-style-type: none"> • CDD form not completed prior to acceptance of new clients • Late completion of CDD form <ul style="list-style-type: none"> ○ E.g. CDD form completed only after client’s acceptance • No formalization of what is a reasonable timeframe to complete CDD | <ul style="list-style-type: none"> • Firms shall verify the identity of the client and beneficial owners (“BO”) before or during the course of establishing a business relationship (<i>para 4.7 of EP200</i>) • Firms’ IPPC should establish when the verification of the identity of the client and BO should be completed (<i>para 4.7 of EP 200</i>) | <p>Annex 1 of APB</p> <ul style="list-style-type: none"> • Section 2 (i) <ul style="list-style-type: none"> ○ (a), (b), (c) - Firms’ CDD measures should cover the identification of client including BO ○ (h) - Having timeframe to complete the CDD • Section 2 (iii) - Timeliness of completion of CDD |

Sharing of EP 200 Inspection Findings

- Identification and verification of beneficial owners (“BO”)

| Observations by ACRA | EP 200 requirements | ACRA’s expectation as stated in APB No. 2 of 2017 |
|---|--|---|
| <ul style="list-style-type: none">• BO not identified and verified for:<ul style="list-style-type: none">○ new clients○ existing clients in the first year of implementation of EP 200 | <ul style="list-style-type: none">• CDD measures apply to all new clients• Firms shall apply the CDD measures to existing clients on the basis of risk, and shall conduct due diligence on such existing relationships at appropriate times, taking into account whether and when CDD measures have previously been undertaken and the adequacy of data obtained <i>(para 4.6 of EP 200)</i> | <p>Annex 1 of APB</p> <ul style="list-style-type: none">• Section 2 (i)<ul style="list-style-type: none">○ (a), (b), (c) - Firms’ CDD measures should cover the identification of client including BO○ (d) - Firms to perform verification using reliable and independent sources and take reasonable measures to verify the identity of those mentioned above |

Sharing of EP 200 Inspection Findings

- Identification and verification of beneficial owners (“BO”)

| Observations by ACRA | EP 200 requirements | ACRA’s expectation as stated in APB No. 2 of 2017 |
|---|--|---|
| <ul style="list-style-type: none">• “BO” identified is not a natural person• BO provided by client is not verified via reliable search tools | <ul style="list-style-type: none">• Take reasonable measures to verify the identity of the BO• Verify the identity of the BO using reliable, independent sources <i>(para 4.12 of EP 200)</i> | Annex 1 of APB <ul style="list-style-type: none">• Section 2 (i)<ul style="list-style-type: none">○ (d) - Firms to perform verification using reliable and independent sources and take reasonable measures to verify the identity of those mentioned above |

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Sharing of EP 200 Inspection Findings

- Identification and proper discharge of politically exposed persons (“PEP”)

| Observations by ACRA | EP 200 requirements | ACRA’s expectation as stated in APB No. 2 of 2017 |
|---|---|--|
| <ul style="list-style-type: none">• No action taken to clear the “hits” arising from searches performed• No independent work performed to identify PEP E.g. only relied on client’s representation | <ul style="list-style-type: none">• Firms should also have an <u>appropriate risk management system</u> in place to determine whether clients or BO are foreign PEPs (para 4.29 of EP 200)• Verify the identity of the clients or BO using reliable, independent sources (para 4.12 of EP 200) | Annex 1 of APB <ul style="list-style-type: none">• Section 2 (i) - CDD |

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Sharing of EP 200 Inspection Findings

- Identification and proper discharge of politically exposed persons (“PEP”)

| Observations by ACRA | EP 200 requirements | ACRA’s expectation as stated in APB No. 2 of 2017 |
|--|--|---|
| <ul style="list-style-type: none">Where PEP was identified, no documentation to justify why enhanced CDD was not performed | <ul style="list-style-type: none">In cases of foreign PEPs or high risk business relationship with domestic PEPs, international organisation PEPs, or PEPs who have stepped down from their prominent public functions, firms shall perform enhanced CDD measures (<i>para 4.32 of EP 200</i>) | Annex 1 of APB <ul style="list-style-type: none">Section 2 (i)<ul style="list-style-type: none">(g) - Cover having policies on when to perform enhanced CDD |

Sharing of EP 200 Inspection Findings

- Identification and proper discharge of politically exposed persons (“PEP”)

| Observations by ACRA | EP 200 requirements | ACRA’s expectation as stated in APB No. 2 of 2017 |
|--|--|---|
| <ul style="list-style-type: none">Where PEP was identified, no documentation to justify why enhanced CDD was not performed (<i>cont’d</i>) | <ul style="list-style-type: none">In cases of lower risk business relationship with domestic PEPs, firms may adopt a risk-based approach in determining whether to perform enhanced CDD or the extent of enhanced CDD to perform (<i>para 4.34 of EP 200</i>) | Annex 1 of APB <ul style="list-style-type: none">Section 2 (i)<ul style="list-style-type: none">(g) - Cover having policies on when to perform enhanced CDD |

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Sharing of EP 200 Inspection Findings

- Trainings on EP 200

| Observations by ACRA | EP 200 requirements | ACRA's expectation as stated in APB No. 2 of 2017 |
|---|--|--|
| <ul style="list-style-type: none">No training conducted on EP 200 | <ul style="list-style-type: none">Firms should establish an on-going training programme and take appropriate steps to ensure all levels of professional staff have undergone such training (<i>para 5.5 of EP 200</i>)Firms should also consider those staff who deal with the firm's finances and procurement for training (<i>para 5.7 of EP 200</i>) | <p>Annex 1 of APB</p> <ul style="list-style-type: none">Section 5 - Firms to establish an on-going training programme and take appropriate steps to ensure that all level of professional staff and staff who deal with the firms' finance or procurement have undergone such training programmes. |

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Sharing of EP 200 Inspection Findings

- Trainings on EP 200

| Observations by ACRA | EP 200 requirements | ACRA's expectation as stated in APB No. 2 of 2017 |
|---|---|---|
| <ul style="list-style-type: none">Staff attendance of EP 200 training not monitored | To ensure effectiveness of training, firms should monitor attendance and take appropriate follow-up action <i>(para 5.8 of EP 200)</i> | Not applicable |

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Sharing of EP 200 Inspection Findings

- Documentation and evidence of work performed

| Observations by ACRA | EP 200 requirements | ACRA's expectation as stated in APB No. 2 of 2017 |
|--|---|---|
| <ul style="list-style-type: none">• Results of identification and verification of BO not retained• Verification of whether BO is PEP not retained | Firms shall <u>prepare, maintain and retain documentation</u> on all its business relations with, and transactions for its clients <i>(para 4.47 of EP 200)</i> | Annex 1 of APB <ul style="list-style-type: none">• Section 2 (i)<ul style="list-style-type: none">○ (d) - The evidence of verification and search should be retained in the file• Section 3 – Firms to keep records for at least 5 years following termination of business relations |

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Frequently asked questions

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Frequently asked questions

- Scope of EP 200

Question : The expectations set by ACRA in the APB 2/2017 seem higher than EP 200's requirements. For example, regardless of whether the public accounting firms provide any services as described in paragraph 1.5 of EP 200, ACRA expects that these firms set up and implement IPPC with regards to measures on CDD and records keeping which are mandatory under Section 4 of EP 200 for professional firms providing services as described in paragraph 1.5

Response: Under Section 3 of the EP 200 (which is mandatory for professional accountants in public practice and professional firms), firms are required to establish IPPC on areas including CDD and records keeping which are further elaborated under Section 4 and 5. The type and extent of the measures taken in each of the areas shall take into consideration the risk of ML and TF and the size and nature of the firm's business

Frequently asked questions

- Suspicious Transactions Reporting (“STR”)

Question : How do we identify suspicious transactions?

Response: Frequently observed signs of suspicions (Refer to Appendix E in EP 200):

- a) Transactions that appear inconsistent with a client's known legitimate (business or personal) activities or means; unusual deviations from normal account and transaction;
- b) Situations where personal identity is difficult to determine;
- c) Unauthorised or improperly recorded transactions; inadequate audit trails;
- d) Unconventionally large currency transactions, particularly in exchange for negotiable instruments or for the direct purchase of funds transfer services;
- e) Apparent structuring of transactions to avoid dealing with identification requirements or regulatory record-keeping and reporting thresholds;
- f) Transactions passed through intermediaries for no apparent business reason; and
- g) Introduction of a client by an overseas associate or financial institution based in a country or jurisdiction known for drug trafficking and production, other financial crimes and “bank secrecy”

Frequently asked questions

- Suspicious Transactions Reporting (“STR”)

Question : Who to and when to report on suspicious transactions? What are the information required to file a suspicious transaction?

Response:

Any suspicion of ML should be reported to Suspicious Transactions Reporting Office (“STRO”) directly or through the firms’ ML Reporting Officer, who will determine whether a report to the STRO is necessary without undue delay.

For the information required to file a STR, please refer to Appendix F in EP 200 or the Commercial Affairs Department’s STR website below:

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

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Frequently asked questions

- On CDD

Question : Are the CDD measures included in Annex 1 APB 2/2017 only applicable when rendering audit services only or are these measures also applicable when rendering other services (excluding those mentioned in paragraph 1.5) which are of low risks of ML/TF?

Response: Section 3.1 in EP 200 requires all professional firms to develop and implement IPPC to address ML and TF concerns which includes CDD. The type and extent of the CDD measures taken shall take into consideration the risk of ML and TF, and also the size and nature of the business

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Frequently asked questions

- On CDD

Question : It was highlighted in APB 2/2017 that firm's CDD measures covers identification of client, beneficial owner and persons with executive authority. Should the firm's CDD measures also covers "persons acting on behalf of client" and "directors"?

Response: Yes, CDD measures should also cover "persons acting on behalf of client" and "connected party" which include directors and persons with executive authority

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Frequently asked questions

- On CDD

Question : When should enhanced CDD be performed?

Response: Enhanced CDD should be performed for:

- higher risk clients in terms of ML or TF;
- business relationship with domestic Politically Exposed Persons (PEPs), international organisation PEPs, or PEPs who have stepped down from their prominent public functions, taking into consideration the level of influence such persons may continue to exercise after stepping down from their prominent public functions (whether as client or beneficial owner) unless being risk rated by firms as low risk; or
- cases involving foreign PEPs

Frequently asked questions

- On CDD

Question : Is it necessary to perform CDD procedures and document the BO details when most of my clients are family business or small business where I already know the directors and shareholders for >10 years?

Response: For first year implementation of EP 200, ACRA's expectation is to apply CDD measures to all new and existing clients. For subsequent years, firms would need to apply risk-based approach in determining the scope of CDD procedures

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Frequently asked questions

- On CDD

Question : “Is there any recommended way to establish the source of wealth and funds when a domestic PEP is involved without offending the client?”

Response: Depending on the firm’s risk assessment, the firm would need to determine if enhanced CDD is required. Enhanced CDD may include obtaining additional information on the client through the internet or obtaining information on the source of funds or source of wealth of the client etc (EP 200 para 4.37 (c)).

Depending on who is the domestic PEP, information may be easily available on the internet. If after all attempts and the firm is still unable to establish the source of wealth and funds of the PEP, the firm should try to ask the information from the PEP himself. If the PEP is reluctant to provide the information requested, the firm should consider whether to continue this business relation (in the event that the business relation is assessed to be high risk)

Frequently asked questions

- On CDD

Question : ACRA does not appear to focus on the nature of services provided by firms and seem to expect “standard” CDD procedures to be performed, i.e. verification of BOs

Response: This statement is not factual as in line with the EP200 requirements, firms should make their own risk assessment and perform the CDD procedures based on the firms’ risk assessment, taking into account the factors such as who are the clients, where are the clients from and type of services to be provided

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Frequently asked questions

- On documentation and evidence of work performed

Question : Upon completion of screening procedures and when no adverse news was noted, is it sufficient if we only document down the names of individuals who were screened, the source of website used and that there was no adverse news on these individuals?

Response: This is not adequate as the evidence of verification and search (such as print screens of the results and the screening results) should be retained in the file.

EP 200 para 4.47 (c) requires firms to prepare, maintain and retain documentation on all its business relations with, and transactions for, its clients such that the relevant authorities in Singapore are able to review the professional firms' business relations, transactions, records and CDD information and assess the level of compliance with relevant laws and compliance with EP 200.

Frequently asked questions

- On hiring of employees

Question : In hiring of professional staff and staff who deal with the firm's finances or procurement, the firm should consider if the individual:

- i. has been convicted in Singapore of any offence involving fraud; or
- ii. is an undischarged bankrupt in Singapore.

Is declaration by staff sufficient?

Response: It would be sufficient if the firm obtain declaration from the job applicant on the following :

- i. if the job applicant has been convicted in Singapore of any offence involving fraud or dishonesty punishable with imprisonment for three months or more; and
- ii. if the same individual is an undischarged bankrupt in Singapore

By including the above questions in the job application form (as part of their hiring procedures), this would demonstrate that it has adequate screening procedures in place to ensure high standards when hiring employees

Thank you

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