



**CONSULTATION ON THE
ACCOUNTANTS ACT REVIEW**

May 2012

The Accounting and Corporate Regulatory Authority (ACRA) is the national regulator of business entities and public accountants in Singapore. ACRA also plays the role of a facilitator for the development of business entities and the public accountancy profession. The mission of ACRA is to provide a responsive and trusted regulatory environment for businesses and public accountants.

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TERMS AND ACRONYMS

Terms	
Accounting Entity and Audit Firm	The Accountants Act provides for the registration of Accounting Firms (i.e. a sole proprietorship or partnership), Corporations and Limited Liability Partnerships (LLPs), which in this paper are collectively referred to either as ‘accounting entities’ (in the context of statutory requirements), or audit firms (in a general context).
Audit	In this document, audit means an external audit of financial statements or financial information.
Auditor	In this document, auditor/s means public accountant/s, unless the context determines otherwise.
Public Interest Entity Engagement	An audit or review of the financial statements or financial information of a Public Interest Entity (PIE) or an entity to which the PIE requirements apply.
Review	In this document, review means a review of financial statements or financial information, including an examination of prospective financial information.

Acronyms			
ACRA	Accounting and Corporate Regulatory Authority	PIE	Public Interest Entity
CDAS	Committee to Develop the Accountancy Sector	PMP	Practice Monitoring Programme
ISQC1	International Standard on Quality Control 1	SSA	Singapore Standards on Auditing
PAOC	Public Accountants Oversight Committee	SSQC1	Singapore Standard on Quality Control 1

1. ACRA's Objectives and Approach to Regulating Public Accountancy

1. This paper invites views on proposed amendments to the Accountants Act, Cap. 2 (the Act) in support of ACRA's regulation of public accountancy.
2. ACRA regulates public accountancy to give the market a stronger basis for confidence in audited financial information, which is a foundation of a trusted business environment. Many factors affect the robustness, credibility and value of audit, such as the quality of people in audit firms, the regulatory framework including audit standards and an auditor's duties to clients and investors, and the presence of good corporate governance. The proposals in this paper should be viewed in the wider context of these factors and ACRA's overall efforts, regulatory and non-regulatory, to promote audit quality.
3. ACRA contributes to audit quality chiefly by:
 - a. Ensuring that public accountants have the ability to provide quality audits;
 - b. Supervising these services on behalf of investors and other stakeholders, through the Practice Monitoring Programme (PMP) and complaints and discipline process;
 - c. Putting in place standards that set out the requirements for quality audits;
 - d. Educating the public about ACRA's regulation and audit quality, so that stakeholders such as audit committees and investors can influence audit quality and have confidence in ACRA's audit regulation;
 - e. Facilitating the profession's development, especially to address broader issues identified through ACRA's monitoring; and
 - f. Ensuring that Singapore's audit regulation is internationally reputable to promote international confidence in Singapore's public accountants.
4. Singapore's audit profession varies, from audit firms that audit complex listed companies to small audit firms that audit small enterprises. While all audit firms must uphold professional standards, the different segments work in different ways and so ACRA recognises that 'prescriptive' or 'one size fits all' rules are not always the best approach. Thus ACRA's audit regulation is risk-based and tailored so that it is relevant to audit firms and stakeholders in each segment. In this review, ACRA has emphasized the core principles that support audit quality, such as the importance of upholding a public accountant's responsibility as an engagement partner, and the significance of firm-wide quality controls and policies, which if upheld, would reduce the need for more prescriptive rules.
5. ACRA has developed internationally reputed regulation since its formation in 2004. For example, Singapore's audit regulation was amongst the first ten countries to be recognised by the European Union (EU) as being equivalent to its own, in 2011.
6. During the same period, the public accountancy profession has risen to various challenges such as new auditing and quality control standards, rising public expectations and market turbulence. ACRA encouraged and supported this response.
7. ACRA has consulted stakeholders closely when developing its regulation, through platforms such as the annual Public Accountants Conference and consultation papers.

ACRA works closely with professional accountancy bodies and draws on the expertise of senior business people and public accountants who are members of ACRA's Board and PAOC.

8. Each year, ACRA publishes the progress and outcomes of its regulation in its annual Practice Monitoring Programme (PMP) Public Report. These reports have shown that, overall, the profession has stood up well through these changes, and that in Singapore audit quality is generally satisfactory. However, over the years, the reports identified key audit areas and systemic concerns for the profession to address.

International Developments

9. It has been important for ACRA to keep in step with international developments and to engage with its peer regulators overseas. 2006 saw the inception of the International Forum of Independent Audit Regulators (IFIAR), with ACRA as a founding member. Since then, IFIAR has grown to 43 members and is a key platform for engagement with the international community including global audit firm leaders. In April 2011, IFIAR adopted a set of principles for audit regulation, which ACRA broadly meets.
10. Cross-border regulatory issues are increasingly important. Singapore audit firms that audit financial statements/information used in other markets need to meet the standards of the regulators in those markets. For example, ACRA has worked with regulators such as the US Public Company Accounting Oversight Board (PCAOB) to facilitate its inspections of Singapore firms that audit financial statements/information used in the US capital market. Likewise, global network audit firms are more integrated. Through IFIAR, audit regulators have collectively engaged with international network leaders about global audit quality issues.
11. The profession itself retains a key role in ensuring that the profession delivers quality audits and upholds the public interest, whether through efforts by audit firms, professional bodies or the International Federation of Accountants¹ (IFAC).

2. Overview of Consultation Process and Proposed Amendments

12. The developments in Singapore and overseas have led to a need to update the Act accordingly, so as to enable further progress. The amendments aim to:
 - a. **Clarify the scope of ACRA's regulation of audits and reviews:** ACRA's scope will be clarified to include all audits and reviews of financial statements/information.
 - b. **Reinforce ACRA's monitoring of firm-wide quality controls and policies, given their increasing importance to audit quality.** This is in line with the holistic approach to help ensure that Singapore's audit firms are committed to audit quality, and involves two key proposals:

¹ IFAC is the international accountancy body that develops professional standards including international standards for auditing, and education standards.

- i. **Conditions of approval for accounting entities that conduct PIE engagements.**
 - ii. **Firm-level inspections for accounting entities that conduct PIE engagements.**
- c. **Enhance ACRA's ability to respond swiftly to protect the public interest in audited financial statements/information and uphold public confidence:**
- i. A purpose-built special investigation function to strengthen ACRA's ability to investigate suspected non-compliance with audit and review requirements.
 - ii. Improve the complaints and discipline process and strengthen ACRA's focus on matters of public interest.
- d. **Enhance the requirements for registration as a public accountant to better prepare those who take on this public responsibility:** Simplify the practical experience requirements and focus them on a public accountant's core responsibilities. Future applicants to be a public accountant will need to have experience at a higher level and to have competently performed certain key audit functions.
- e. **Streamline the registration and renewal process:** The proposed new registration and renewal process will be more streamlined and business-friendly.
- f. **Clarify public practice requirements:** The proposals will clarify the requirements and obligations of public practice for public accountants and accounting entities. The Act will state that only a public accountant can act as an engagement partner under the SSA, and several amendments are proposed in relation to the conditions of practice for public accountants and accounting entities.

Other Developments

13. Internationally, regulators have been reviewing audit regulation and the role of external auditors and audit reports. For example, Europe is considering reforms to strengthen the audit market and auditor independence. ACRA will monitor such developments to see what might benefit audit quality and stakeholders in Singapore. The revised Act will enable ACRA to consider adoption of some of these initiatives at a later stage so that it can remain in line with local business needs and international developments. ACRA will seek views on such areas at the appropriate juncture.

Process to Date

14. The recommendations in this paper have been developed after consultation with public accountants, audit firms, professional accountancy bodies and aspiring public accountants, as well as with key stakeholders such as universities, audit committee members and other relevant organisations. Throughout 2011, ACRA issued two consultation papers on various topics and conducted two rounds of focus groups with the different stakeholders to get feedback on its initial proposals. ACRA is very pleased and grateful for the constructive feedback it received and noted that overall, there was positive support for the proposals. As a result of this feedback, ACRA has

refined the original proposals, the results of which are reflected in this consultation document.

3. The Purpose and Scope of the Accountants Act

15. The proposed amendments to the Act's scope will ensure that ACRA can protect the integrity and quality of all audits and reviews of financial statements/information in Singapore.
16. Under the current Act, ACRA's regulation applies to 'public accountancy services', which means 'the audit and reporting on financial statements and the doing of such other acts that are required by any written law to be done by a public accountant'. Only public accountants can provide such services and ACRA may prescribe standards for such work and inspect it. Under the proposed amendments:
 - a. It will be clarified that ACRA's scope covers *all* audits of financial statements/information in Singapore, *whether statutory or voluntary*. Stakeholders should be entitled to expect a consistent standard of quality from an audit, regardless of whether the audit is required by law or by interested stakeholders.
 - b. ACRA's regulation will extend to *reviews* of financial statements/information. Reviews are similar to audits in that their purpose is to enhance third parties' confidence in financial statements/information and they require the application of similar professional skills and procedures etc. The key difference is that reviews provide 'limited assurance' (i.e. that nothing has come to the auditor's attention that would cast doubt on the financial statements/information) compared to an audit's 'reasonable assurance'. What constitutes a review under the legislation will be made clear by reference to the applicable review standards prescribed by the PAOC, which public accountants must adhere to.
 - c. ACRA would be able to prescribe other assurance services to be included in its scope in case it is necessary to regulate other assurance reports not currently included in this definition.
 - d. ACRA will have the right to inspect audits and reviews performed by a public accountant on a foreign entity raising funds in Singapore, i.e. even if the law does not require it to be done by an ACRA-registered public accountant. If a local public accountant audits a foreign issuer, for example one listed with SGX, then ACRA should be able to inspect such work in order to protect the integrity of Singapore's public accountancy profession.
 - e. With regard to audits of foreign companies by foreign non-ACRA registered auditors, while this is not covered in this review of the Act, it is an area that ACRA will be reviewing in due course. Currently, SGX plays the gatekeeper role as it ensures that foreign issuers appoint appropriate auditors whom must be under the oversight of an independent audit regulator or otherwise enter a joint audit arrangement with an ACRA registered accounting entity. This helps ensure that such foreign auditors also follow international audit standards and

are subject to independent audit oversight just as Singapore's public accountants are.

17. Registration would continue to be unnecessary for accounting services that do not involve providing a report or opinion intended to be relied on by third parties other than those who commission the report, such as compilations or agreed-upon procedures directed by the intended recipient, for example, a regulatory authority or company management. Such work generally does not require independent oversight by a regulatory authority, because the persons relying on the report are informed parties and in charge of the service.

Other Work Required by Law to be done by a Public Accountant

18. ACRA will maintain the status quo for other services required by written law to be done by a public accountant. Currently, 'public accountancy services' includes acts required by written law to be done by a public accountant. For example, some regulations require entities to appoint public accountants to undertake reports to authorities that an entity has met regulatory requirements. The regulation of these activities is under the purview of the respective administrators of the legislation. However, under the amended legislation, ACRA would commence disciplinary action in relation to such duties only if the authority over those regulations finds that the public accountant has failed in that duty *and* demonstrates that it would be in the public interest for ACRA to take further action. For example, a matter of public interest would be an act so grave that it might damage confidence in the profession, or may damage the interests of many stakeholders.

- Q1. Do you have any comment on the proposed coverage of ACRA's regulation in relation to audit and review engagements?**
- Q2. Are there audits or reviews of financial statements/information that should not need to be performed by a public accountant registered with ACRA, for example because other than those who commissioned the report, no other third parties would be relying on the audit or review?**
- Q3. Are there other activities undertaken by public accountants in relation to financial statements/information relied upon by third parties that ACRA should have jurisdiction over, which might not be already covered under the proposed scope?**

4. Accounting Entities that Conduct PIE Engagements

19. Audits and reviews of the financial statements/information of PIEs such as listed entities, financial institutions and other entities with many stakeholders have a greater public significance and so ACRA has a stronger focus on these entities.
20. An audit firm's quality controls and policies have an especially significant impact on audit quality with respect to PIE engagements. Thus, since 2004, ACRA has

strengthened its focus on firm-wide issues through initiatives such as the development of firm-level inspection. Additionally, ACRA has set clear expectations about the standards and commitments required of audit firms that audit PIEs, especially on the importance of meeting the principles in the SSQC1, which is equivalent to the international standard ISQC1.

21. The next steps in this effort are the proposed process for making an accounting entity's right to audit or review public interest entities conditional on demonstrating certain qualities such as compliance with SSQC1, and to introduce a specific statutory firm-level inspection for such accounting entities. These two initiatives will help ensure that firms have the necessary measures in place to support audits and reviews of PIE engagements.
22. This focus on the firm is in line with international practice under which audit regulators license and supervise audit *firms* in the capital markets. Audit firms may perform such audits only after the regulator has assessed their quality controls and other areas.
23. The following three sections outline the proposed definition of PIE and the new approval and firm-level inspection requirements for auditors of PIEs.

A. Definition of Public Interest Entity

24. ACRA's view is that, for the purpose of audit regulation, the definition of PIE should include:
 - Any entity that is listed on the SGX or is in the process of issuing its debt or equity instruments for trading on the SGX; and
 - Financial Institutions [As set out in Appendix A].

Audit firms that audit large charities and large Institutions of Public Character (IPC) (as defined under the Charities Act, i.e. with gross annual receipts in each financial year of not less than \$10 million in the 2 financial years immediately preceding the current financial year of the charity) would be subject to the same requirements as those that audit PIEs.

Q4. Do you agree with the entities identified above for inclusion as PIEs in this context? Are there other entities that you might want to suggest?

Q5. Do you agree that audit firms that audit large charities and large IPC should be subject to the same requirements as those that audit PIEs?

B. Conditions of Approval for Accounting Entities that Conduct PIE Engagements

25. ACRA intends to apply conditions of approval to accounting entities that conduct PIE engagements. This process will act as a checkpoint to ensure that audit firms have established an appropriate framework to audit or review PIE engagements, including

sufficient quality controls under SSQC1, and will set the requirements on such firms. It will also enable ACRA to target regulations that are more relevant to PIE engagements at audit firms that have taken on this greater public interest role, rather than apply them uniformly across all audit firms.

26. The new conditions of approval would enhance the existing safeguards in place to ensure that PIEs appoint appropriate auditors on behalf of investors. For example, audit standards and the code of ethics require public accountants to only accept work that they are competent to perform. Similarly, directors or those charged with governance have a responsibility to appoint auditors that are appropriate to their entity's needs. Notwithstanding the new process, it will remain the entity's responsibility to appoint auditors that are appropriate to the needs of the entity.

Current Approach to Registration of Accounting Entities

27. Currently, ACRA approves accounting entities if they meet basic criteria such as the requirement for at least two thirds of the directors or partners to be public accountants. ACRA does not assess factors like whether the entity has in place quality controls that comply with SSQC1. An accounting entity's approval is permanent and unconditional.

Additional Conditions for Accounting Entities that Conduct PIE Engagements

28. **ACRA is proposing amendments to the effect that:**
 - a. ACRA may approve accounting entities subject to conditions or impose new conditions on already approved accounting entities.
 - b. It will be a condition that an accounting entity may only perform audit or review of financial statements/information for PIEs if, in ACRA's opinion, it fulfils certain obligations and criteria and continues to meet such conditions.
 - c. A public accountant may only conduct a PIE engagement through an accounting entity that meets such conditions.
 - d. An accounting entity intending to conduct PIE engagements must accede to requests for information for the purpose of demonstrating to ACRA that it meets the conditions for conducting PIE engagements, and will need to comply with subsequent requests for information to ensure that it continuously fulfils such conditions and to assist ACRA with its monitoring.
 - e. The accounting entity must pay such annual fee as may be prescribed.
29. ACRA believes that the following conditions would be relevant to an audit firm's capacity and preparedness to conduct a PIE engagement:
 - i. The audit firm must have quality controls in place which comply with SSQC1 and must submit these for ACRA's review.

- ii. The audit firm must tell ACRA the number of, and years of experience of, the public accountants that are in the firm to help ACRA understand the audit firm's capacity and capabilities.
 - iii. The audit firm must give ACRA details of how it intends to comply with key requirements such as the auditor rotation requirements for PIE audits.
 - iv. ACRA may consider the PMP and disciplinary record of the public accountants that will be responsible for PIE engagements.
30. ACRA may impose additional conditions on a particular firm as a result of information supplied through the application process or based on the findings from the firm-level inspection.
31. ACRA acknowledges that it is important for the process to be transparent and to make clear what an audit firm would need to do to meet the conditions of approval.
32. The conditions may also include other pre-requisites for conducting PIE engagements that may be developed in the future, such as governance and public reporting requirements.

Transitional Requirements

33. ACRA intends to implement the requirements one year after the amendments are enacted. Firms that do not comply with the new requirements but have existing PIE engagements will have time to complete and exit those PIE engagements.
34. The new conditions would apply to audit firms that intend to or already have PIE clients. To facilitate the process, ACRA will draw on its existing information gained from the PMP process, so as to not require all firms to undergo a separate full assessment.

- Q6. Do you have any comments on the proposed approach to imposing additional conditions on accounting entities that conduct PIE engagements?**
- Q7. Do you have comments on the areas that are proposed to be assessed as part of the process? Are there areas which should not be taken into account or areas not listed which should be taken into account?**
- Q8. Are there additional transitional arrangements that would need to be introduced to facilitate the implementation of the proposed process? For example is the one year transition period sufficient?**

C. Firm-Level Inspections for Entities that Conduct PIE Engagements

35. The purpose of ACRA's current PMP is to inspect whether individual public accountants have complied with the SSA and other prescribed requirements.

36. Because of the importance of an audit firm's quality controls, policies and procedures to audit quality, ACRA has developed a firm-level inspection programme alongside the PMP, which inspects firms against SSQC1, as well as other matters that support audit quality. After the firm-level inspection, ACRA gives the firm a report about its firm-wide quality controls and areas that it should improve, with reference to SSQC1 and industry benchmarks.
37. This firm-level inspection is similar to how audit regulators inspect audit firms in other jurisdictions such as the US, the UK and Australia, which inspect the quality controls and processes of audit firms, in addition to inspecting individual audit engagements.
38. Given the critical importance of the firm-wide quality controls, ACRA intends to formalise the firm-level inspection into a specific statutory process, which will apply primarily to accounting entities that conduct PIE engagements.
39. This consultation paper sets out the objectives and scope of the statutory firm-level inspection, ACRA's inspection powers and processes, and the possible outcomes of such inspections.

Objectives, Scope and Functions of the Firm-Level Inspection

40. The purpose of a firm-level inspection is to assess how the firm environment supports compliance, in policy and practice, with audit standards, and other factors that support quality audit. A key aspect of a firm-level inspection is how a firm is able to meet the objectives of SSQC1, which covers six elements relating to firm-wide quality controls:
 - Leadership responsibilities for quality within the firm
 - Relevant ethical requirements
 - Acceptance and continuance of client relationships and specific engagements
 - Human resources
 - Engagement performance
 - Monitoring
41. During the firm-level inspection, ACRA would require firms to demonstrate how they meet the objectives of quality control standards and would assess any area and information relevant to such objectives. ACRA would make observations and require improvements in relation to areas found wanting. ACRA would only impose sanctions in cases involving non-compliance with prescribed standards.
42. Based on these objectives, in formalising the firm-level inspection, ACRA is taking the firm-level inspection's objectives to be:

To protect the public interest in audit and review reports and promote audit quality, including:

- **Assessing whether accounting entities have complied and are complying with audit and review and quality control standards, and other**

requirements prescribed by ACRA, in the performance of audit and review engagements and other services as may be prescribed;

- **Assessing the effectiveness of an accounting entity's quality controls, policies, systems, and resources, in promoting compliance with audit standards and audit quality, having regard to the audit and quality control standards and other factors that ACRA considers may have a significant impact on audit quality and risk; and**
- **Promoting improvements in accounting entities to raise audit quality.**

Q9. Do you have any comments on the objectives of the firm-level inspection?

Firm-Level Inspection Functions and Subjects

43. In accounting entities that conduct PIE engagements, the starting point will be an inspection of the firm's policies, controls and engagement performance. Having regard to this assessment, the inspector will plan the inspection of engagements under the PMP for public accountants. Even with the focus on the firm, enforcing compliance with standards by public accountants will still be critical given the importance of public accountants being accountable for upholding of the auditing standards.
44. The firm-level inspection will assess audit quality taking into account the principles and objectives of the prescribed quality control and audit standards, and will include an assessment of engagement performance; that is, whether individual engagements are conducted in accordance with the firm's quality controls and policies etc.
45. The inspection may take into account the quality and quantity of resources available to support compliance with audit and quality control standards. As the standards are principles-based and can be proportionately applied depending on the size of the firm as well as size and complexity of the engagement, it would not be possible for ACRA to prescribe general requirements for compliance. However, ACRA would at the end of each firm-level inspection discuss areas of deficiencies in its reports and direct firms to improve as appropriate.
46. The firm-level and PMP inspection may include any audit or review of financial statements/information by public accountants, whether under SSA, or for example, International Standards on Auditing or US Generally Accepted Auditing Standards. This will enable effective inspections of audits involving international engagements. ACRA would have the ability to examine compliance with other jurisdiction's auditing requirements, on behalf of another audit regulator, in the event that Singapore enters into a co-operative agreement with another jurisdiction.

Inspecting Audit Firms that Do Not Conduct PIE Engagements

47. In firms that do not conduct PIE engagements, the main focus will continue to be the inspection of a public accountant's engagement files, however as SSQC1 applies to all

accounting entities, ACRA retains the right to assess compliance with the principles of SSQC1 for all accounting entities. ACRA has received feedback that smaller audit firms would appreciate more guidance on how to best meet the principles of SSQC1 in their context and ACRA will be working in collaboration with the various professional accountancy bodies on this.

Q10. Do you have any comments on the proposed coverage of the firm-level inspection?

Powers Required for the Firm-Level Inspection

48. The current Act gives PMP inspectors the broad powers of inspection necessary for an effective process. This process is performed under strict conditions of confidentiality.
49. ACRA's inspection powers will be extended to include documents and information required for the firm-level inspection. Like the existing PMP powers, information gained under the firm-level inspection will be held in strict confidentiality and will not override the confidentiality provisions in other legislation such as the securities and banking laws. Information collected under the firm-level inspection will not be discoverable from ACRA in legal proceedings. ACRA will be able to share information with other local regulators. Sharing of information with foreign regulators will be considered under a separate review.
50. ACRA will be able to request information that it reasonably deems to relate to the objectives of the firm-level inspection, which, for example, may include:
 - Information arising from the audit firm's own quality review processes.
 - Firm-level information that firms may need to retrieve from its related entities or international networks, including the network firm's internal quality review of particular audit or review engagement files, and other information from network firms.
 - Information relating to human resources, particularly audit staff.
 - Reports and correspondence with other regulators and authorities such as securities regulators, tax authorities and foreign regulators (subject to the necessary permissions and requirements of such regulators).
51. ACRA already collects much of this information from audit firms as part of its monitoring activity and appreciates the time and resources required to assemble such information. ACRA will continue to work with audit firms to make the collection of such information as efficient as possible.

Q11. Do you have any comments on the proposed firm-level inspection powers?

Firm-Level Inspection – Outcomes and Actions to be taken by ACRA and Audit Firms

52. Currently, ACRA issues firms with a report after the firm-level inspection. The report highlights areas that the audit firm should improve and where it has shortcomings compared to industry benchmarks. This is similar to standard practice amongst audit regulators internationally, though the various jurisdictions differ in how they undertake follow-up actions, according to their national regulatory environments. In Singapore, the conclusions in ACRA's report influence the timing and coverage of further PMP inspections at the firm, and in the next firm-level inspection, ACRA checks the firm's progress in addressing the weaknesses highlighted in the previous inspection. However, unlike the PMP on individual public accountants, and firm-level inspection in other jurisdictions, the Act does not place any statutory obligation on the firm to follow up on such recommendations.
53. Under the new firm-level inspection, the firm report will still be the firm-level inspection's main output. However under the amended Act, ACRA will be able to require a firm to improve identified areas of risk or weakness. If a firm fails to satisfactorily address those areas ACRA may take further action, such as publishing details of the shortcomings, or placing restrictions on the firm's ability to undertake PIE engagements to protect the public interest.
54. The onus will be on the audit firm to show how it plans to improve and subsequently show how they have sufficiently addressed the deficiency. This is because the audit firm will be in the best position to decide how it can meet the principles and objectives of the quality control standards. For example, ACRA may require an audit firm to provide a remediation plan and at the following inspection, show ACRA that it has met this plan.
55. In addition to remediation, in cases of serious breaches of standards and requirements, ACRA may impose sanctions on an audit firm, such as public censure and financial penalties. If ACRA discovers serious deficiencies in the audit firm, it would consider whether restrictions should be placed on its ability to undertake PIE engagements, or whether other undertakings should be required. This is important because ACRA has a duty to protect the public interest in audit reports. This practice is similar, for example, to the UK, where the Financial Reporting Council's (FRC) Audit Inspection Unit (AIU) refers all firm inspection reports to the Audit Registration Committee of the professional body that the firm is registered with, which then, based on the firm report, considers whether the report should affect the audit firm's registration.
56. In terms of the process for producing and finalising firm reports, the amended Act will:
 - **Provide for a robust and fair process for the finalisation of the report's contents and conclusions, whereby the firm would be given an opportunity to comment on the draft.**
 - **State the conditions for communication of the report or portions of the report, by ACRA or the audit firm, to third parties such as audit clients and regulators (see section on publication below).**

- **Provide a way for ACRA to ensure that firms respond to requirements to improve on the noted deficiencies in the report. Where a firm does not achieve progress on areas identified in previous inspections, and ACRA considers it necessary, ACRA may take further action such as publication of findings or through placing restrictions on an audit firm (for example so that the firm is unable to undertake PIE engagements).**
- **Provide that where significant deficiencies have been identified and a firm has failed to address these, the firm's practice may be restricted or made conditional on undertaking specific steps or achieving a satisfactory result in a firm-level inspection within a certain time period.**

Q12. Do you have any comments on the proposed Firm Report and the remedial process that would apply in relation to notified deficiencies?

Publishing of Firm Reports and Other Information

57. Currently, ACRA issues public reports about significant and common inspection findings without identifying specific audit firms. Reporting on inspections guides the public accountancy profession, gives useful information to the investing public about audit quality, and informs audit committees about what they should be aware of when appointing and working with auditors. Public reporting also enhances ACRA's accountability as a regulator and helps promote market confidence in audit reports.
58. In some jurisdictions, audit regulators publish portions of individual firm reports, either after each inspection or as a result of a firm failing to address certain weaknesses. Some regulators also require audit firms to share reports with stakeholders such as securities regulators and audit committees of companies whose audits were the subject of an audit inspection. International practice differs across jurisdictions. The examples of the US, UK and Canada provide examples of different models:
- In the US, after each inspection, the PCAOB must provide portions of the report to the US Securities Commission and other appropriate authorities, together with any letter of response by the public accounting firm; and must publish the report in appropriate detail (for example without disclosing details about the audit client). The report would not, however, include criticisms of the firm's quality control systems, which are only published if the audit firm fails to satisfactorily address the criticisms within 12 months.
 - In the UK, the FRC's AIU issues public reports on individual firms that are based on detailed private reports. Whether findings are included in public reports depends on the AIU's judgement, taking into account the finding's relative significance in relation to audit quality, both in the context of the individual inspection and in relation to the AIU's overall focus. The AIU also issues reports on the individual audit engagements inspection during an inspection, which are addressed to the relevant audit engagement partner and the POB expects firms to provide copies of the reports to the audit committees of the relevant clients.

- In Canada, the Canadian Public Accountability Board (CPAB) issues reports to the inspected audit firms and may provide the reports to any professional regulatory authorities with jurisdiction over the audit firm. The audit firms may give the report to the relevant audit committees. Firms are also required to notify the relevant securities regulators of any restrictions placed on them by the CPAB.
59. The benefits of publishing inspection findings about specific firms need to be considered in light of the main objective of firm-level inspections which is to have a constructive process leading to continuous improvement in audit quality. The prospect of publication of the inspection findings might not always contribute to this objective, as it might discourage open communication during the inspection. However, in some cases, it would contribute to greater accountability and public confidence, and give audit firms an impetus to improve.
60. For such specific publishing to be effective, it would be important for stakeholders to have a good appreciation of audit quality and the context in which findings are made and reported, so that the reports have the intended effect and are not misinterpreted or used beyond their purpose. ACRA has been working to promote stakeholder understanding of audit quality, and the auditor oversight process, especially amongst audit committees.
61. At this stage, ACRA does not intend to publish reports on individual firms as a standard practice after every inspection. However, ACRA believes that there may be situations when it is in the public interest to publish findings pertaining to individual firms to protect public stakeholders. The potential for publication may also serve as incentive for audit firms to follow up appropriately on agreed remediation plans. ACRA will consult further on this issue after the statutory firm-level inspection programme has developed further and when the market has a greater appreciation of audit quality and the firm-level inspection.
62. **However, at a minimum, ACRA thinks it should have discretion to publish all or portions of a firm report if it is in the public interest to do so, and to be able to:**
- **Provide all or portions of a firm report to relevant (local) regulators such as the Monetary Authority of Singapore (MAS); and to SGX;**
 - **If an audit firm fails to make sufficient progress under a remediation plan, make non-publication of certain matters conditional on the firm making improvements within certain time periods. This will be an effective and proportionate incentive on firms to make improvements in identified risk areas.**
63. Such publication is consistent with ACRA's duties to protect the public interest in audited financial statements/information, especially when ACRA has identified risks to audit quality, while keeping the *initial* inspection as a 'closed door' inspection in which the audit firm can speak more freely about its practice.

- Q13. Do you have any comments on the proposal that ACRA may share firm reports with other relevant (local) regulators?**
- Q14. Do you agree that if an audit firm fails to make sufficient progress under a remediation plan, ACRA should be able to make non-publication of certain matters conditional on the firm making improvements within certain time periods?**
- Q15. Are there other circumstances when ACRA should publish portions of a firm-level inspection report or information stemming from a firm-level or PMP inspection?**

5. Special Investigation and the Complaints and Disciplinary Process

64. ACRA intends to introduce a special investigation (SI) process to improve its ability to deal with public interest cases of potential non-compliance with audit and review standards and related requirements. Public interest cases would, for example, include non-compliance with audit requirements for financial statements/information of listed companies, in cases that might have harmed investors or damaged confidence in public accountants.
65. Currently, ACRA deals with such cases either through the PMP or, if a complaint is received, the Complaints and Disciplinary process. A specific SI process will enable ACRA to investigate audit matters and protect the public interest more consistently and effectively than under the two existing processes. The PMP, while focused on audit, is a quality review programme and its main objective is to promote ongoing improvement to audit quality. The Complaints and Disciplinary process is set up mainly to consider professional misconduct rather than non-compliance with professional standards.
66. The new SI process will have the necessary independence, expertise and processes to enable ACRA to protect the public interest and public confidence, to the benefit of the public accountancy profession and its stakeholders such as investors and companies.
67. The introduction of the SI process will mean that all audit and review matters would be treated consistently under the PAOC. Whether ACRA would deal with a matter through the PMP or the SI would depend on the gravity and the public interest involved. The SI would investigate serious cases that have an adverse impact on the public interest, while the PMP would continue to monitor quality and compliance. Matters not specifically related to audit or review, such as conduct that casts disrepute on the profession, would continue to go through the Complaints and Disciplinary process.
68. As with the PMP, the PAOC will be the authority for SI cases, and will be assisted by a Special Investigation Panel, or 'SI Panel'. The SI process will have some key differences to the PMP due to the different purposes, and the SI Panel will differ from the Practice Monitoring Sub-Committee (PMSC), which assists the PAOC with the

PMP. The table below sets out the key elements of the SI process in the sequence that they would occur.

Key Elements of the SI Process

Step	Details
Informal enquiry	As with the current disciplinary system, ACRA would be able to make informal enquiries after becoming aware of potential non-compliance, through for example, public information, complaints or the PMP programme.
Investigation	If ACRA considers the matter to be potentially serious and a matter affecting public interest, it may commence a formal special investigation, conducted by ACRA officers. ACRA may also appoint experts for this purpose.
Announcement of Investigation	ACRA will have the discretion to publish the fact that it is looking into a matter, if it is in the public interest to do so. This will not happen in every case but is important so that ACRA can assure the public that it is looking into a matter, especially if it is already in the public domain.
Investigation Powers	The investigation powers will be similar to the existing powers under the disciplinary process and the powers that will be available under the firm-level inspection. In addition to those powers, ACRA's investigators will be able to obtain information from an audit client or other person or entity relevant to the matter. ACRA will have the power to search premises and seize documents to protect the integrity of evidence.
	Where ACRA uncovers evidence of criminal or fraudulent activity, it will be able to refer such information to the appropriate government authority. ACRA may also share other certain information about the investigation with relevant (local) regulatory authorities and SGX, for example, information about who is under investigation, the name of the audit client, and the subject matter of the auditing standard to which the investigation relates. Apart from this, all information obtained during the investigation will be confidential.
Settlement	A person under investigation may at any point propose a written offer of settlement, for example to refrain from providing certain auditing services or to undertake certain actions, subject to the PAOC's agreement, and which may be published.
Special Investigation Panel Hearings	After special investigation, if a settlement is not made, and if the PAOC decides that the matter should proceed to a hearing, the PAOC may appoint a SI Panel to conduct a hearing with the respondent and make an initial decision on the case.
	At SI Hearings, ACRA will present the case and the respondent may appear and respond at the hearing.

Step	Details
	The SI Panel will need to meet the standards of independence expected of independent auditor oversight. The SI Panel will be made up from a pool of former public accountants, and non-practitioners, including lawyers. As with the current PAOC and the PMSC, the SI Panel will be chaired by a non-practitioner. This composition is different from the PMSC which, other than the chair and two other members, comprises practising public accountants, who consider the reports of PMP inspectors and report to the PAOC, without conducting hearings.
Decision by SI Panel	The SI Panel will reach an initial decision and the respondent will have a certain period to accept the decision or appeal to the PAOC. After this period, if there is no appeal, the order will become final.
	The orders and sanctions under the SI process will include those currently available under the PMP and Complaints and Disciplinary process, and will include restrictions on practice, censure, written undertakings, financial penalties, suspension and cancellation.
The PAOC will hear Appeals	The PAOC would act as a first level of appeal. For such purpose, the PAOC may conduct a hearing to hear submissions from the respondent and ACRA's investigators.
Final Appeal may be made to the High Court	Appeals in relation to PAOC decisions may be made to the High Court.

Q16. Do you have any comments on any of the key steps in the intended process for Special Investigations?

Complaints and Disciplinary Process

69. In line with ACRA's focus on the public interest, ACRA is proposing a public interest threshold to determine whether ACRA or a professional body should handle a complaint, (i.e. which does not involve audit or review, and so come under the SI or PMP).
70. Currently, ACRA must appoint a Complaints Committee to consider any complaint against a public accountant unless it is frivolous, vexatious, misconceived, without merits or unsubstantiated. This includes complaints which do not relate to ACRA's objectives nor affect the public interest or confidence in the profession. Complaints not within this public interest category could be dealt with just as well by professional bodies.
71. ACRA is considering a public interest threshold similar to the scope of the UK FRC's Accountancy and Actuarial Disciplinary Board, which in deciding if a matter raises important issues affecting the public interest may consider whether a complaint if it *"appears to give rise to serious public concern or to damage public confidence in the*

accountancy profession...and shall also be entitled to consider all the circumstances of the matter including, but not limited to, its nature, extent, scale and gravity.”

Q17. Do you agree that ACRA’s Complaints and Disciplinary Process should consider only public interest cases, and that professional bodies should consider the remainder?

Composition of Complaints and Disciplinary Committees

72. Currently each Complaints Committee and Disciplinary Committee includes one layperson. Laypersons contribute key qualities such as expertise (like legal knowledge); user perspectives; and independence, which promote public confidence in the process.
73. ACRA is proposing to allow Complaints or Disciplinary Committees to have up to two instead of one layperson, to give the committees additional expertise and perspectives. To ensure that public accountants are in the majority, Complaints Committees would have one additional member while Disciplinary Committees would have the same number overall:

	Complaints Committees		Disciplinary Committees	
	Current	Proposed	Current	Proposed
Public Accountants	3	3	4	3
Lay Members	1	2	1	2
Total	4	5	5	5

Q18. What are your views on allowing the appointment of up to two laypersons to a Complaints or Disciplinary Committee?

6. Practical Experience Requirements for Registration as a Public Accountant

74. The requirements for public accountant registration have remained essentially the same since ACRA’s formation². The main changes to date were new prescribed qualifications, recognition of foreign practical experience, and the requirement to complete a new Public Practice Programme prior to application of registration.

² To register as a public accountant a person must:

- Be at least 21 years old,
- Hold a prescribed qualification,
- Have the prescribed practical experience,
- Be a member of a prescribed professional body,
- Have completed a prescribed course relating to ethics and public practice, and
- Have completed the prescribed amount of Continuing Professional Education in the previous year.

75. However, ACRA has discussed with the profession the criteria that aspiring public accountants should meet, including via ACRA's 2007/2008 consultation exercise on the '*Path to Becoming a Public Accountant*'. ACRA also supported the CDAS in its formulation of recommendations to develop high quality people for Singapore's accountancy profession.
76. The quality of the profession's people – their knowledge, skills and values - is without doubt a crucial factor in promoting high audit quality. However, the development of these qualities depends on the collective efforts of many parties, such as universities, professional bodies and audit firms. ACRA's role is to set benchmarks and facilitate achievement of these benchmarks and thus entry to the profession. Audit firms have a particularly key role in providing the necessary practical experience.
77. The practical experience requirement is critical to the aim of preparing applicants for the responsibilities of taking charge of audits of financial statements/information relied on by the public. It helps to ensure that applicants have sufficient experience to exercise professional judgement and acumen etc, on top of the academic training specified in the qualification requirement.
78. In light of this aim, the proposals will simplify the practical experience requirements while focusing more on a public accountant's core responsibilities.
79. Currently, applicants need three years of experience, most of which should be in audit.³ Applicants can apply through three routes (See Table 1). The requirements do not specify the specific nature or level of audit experience that an applicant should have.
80. While in practice most applicants do have sufficient higher level experience, ACRA's view is that it should set a clear expectation for applicants to have experience in areas that are crucial to a public accountant's responsibilities, for example in planning and forming conclusions based on sufficient audit evidence. ACRA needs to know that applicants have such important experience before allowing them to be public accountants and thus entitled to practice in their own right and be responsible for signing audit opinions relied upon by the public.

³ The requirements are prescribed in the Accountants Act and Accountants (Public Accountants) Rules.

Table 1

A: Local Experience: 3 Years according to (a) or (b)		B. Foreign Experience: 3 Years
(a)	(b)	
At least 1 year of structured PE acquired before passing the final exam; and	At least 2 years of structured PE acquired after passing the final exam; and	Qualifying foreign experience; and
At least 1 year of structured PE acquired after passing the final exam; and		
At least 1 year of structured or unstructured PE after passing the final exam.	At least 1 year of structured or unstructured PE acquired after passing the final exam.	At least 1 year of Singapore PE, obtained before or after passing the final exam, structured or unstructured, but no more than 12 months of unstructured PE.
C. Other experience: 6 Years		
At least 6 years (in aggregate) of Singapore PE, whether structured or unstructured, and whether obtained before or after passing the final exam, provided the PAOC is satisfied that the practical experience: <ul style="list-style-type: none"> • Is of sufficient breadth and depth; and • Includes practical experience that is sufficiently recent 		

Glossary

PE: Practical experience.

Structured PE: Acquired in Singapore under an Approved Principal in the Accounting Service, the Auditing Service, the Inland Revenue Service, in a public accountant’s office or other PAOC recognised organisation.

Unstructured PE: Acquired in Singapore, other than structured PE.

1 year of PE: 1600 hours of work related to: auditing (at least 1280 hrs), accounting and taxation.

Final exam: Final exam specified in the Second Schedule of the Accountants (Public Accountants) Rules.

Qualifying foreign experience: Acquired from a country that adheres to auditing standards that the PAOC considers to be equivalent to Singapore’s; and the PAOC considers the PE to be of good quality.

Singapore PE: Acquired from a public accountant’s office in Singapore.

81. Thus, ACRA is proposing to focus the practical experience requirements on the top end of an applicant’s audit work to ensure that it is relevant to the responsibilities of a public accountant. Instead of three years of general audit experience, ACRA will require two years of higher level audit experience in an audit management role.
82. This is in line with feedback from ACRA’s *‘Path to Becoming a Public Accountant’* consultation, which concluded that ACRA could promote high quality auditing by “strengthening the depth of...practical experience..., rather than focusing on the length.” Thus ACRA said it would look at prescribing experience in a supervisory capacity.
83. The proposal to focus on higher level audit experience is also in line with International Education Standards (IES) set by IFAC. These standards state that to become an audit professional (i.e. an audit staff) and subsequently an engagement partner, a professional accountant should gain a higher level of experience than is required to become a professional accountant. ACRA agrees with the standards’ position that before taking on the role of an engagement partner, a person should have experience in audit leadership areas (albeit under the supervision of the engagement partner or other senior supervisor). The IFAC standards on practical experience for auditors are outlined in Appendix B.
84. The proposed focus on higher level audit experience is generally in line with international practice, although there is no one common benchmark shared by independent regulators or professional bodies. In general, regulators and professional bodies usually require registered auditors to have at least three years of practical experience, including a significant period of audit work. Some jurisdictions require the applicant to have experience in audit supervision, or expect that the experience should involve a higher level of complexity and responsibility (See examples in Appendix C).

ACRA’s Principles for Recognition of Practical Experience

85. Based on the above considerations and benchmarks, ACRA has formed the following principles to guide the specific practical experience requirements:

1	A public accountant holds the highest responsibilities of public practice, i.e. those which will allow him to practice in his own right and sign audit reports. Applicants should thus undergo further professional development on top of their academic and professional qualifications.
2	The most important experience is that which prepares an applicant for the responsibilities of an engagement partner and so ACRA’s primary concern should be whether an applicant has experience at this level, though the amount of experience remains important. If an applicant has audit management experience, then how the applicant reached that level is less material; (the assumption being that an applicant would need to have gained prior experience and would not be assigned responsibility without good reason by the firm). Thus, ACRA should only need to focus on the higher level experience and not need to examine the prior experience or whether it was gained before or after passing the final examination.

3	The applicant should have recent experience as this will indicate up-to-date knowledge of technical requirements and the business environment.
4	The experience should be verifiable, and supervised in an environment with, at the minimum, engagement level quality control procedures that give reasonable assurance that (a) an audit complies with professional standards and applicable legal and regulatory requirements and (b) that the audit reports issued were appropriate in the circumstances.
5	ACRA's practical experience requirements should be clear so as to set clear expectations on aspiring public accountants. It is the responsibility of aspiring public accountants to understand and plan to meet these requirements before submitting an application to register as a public accountant.
6	A public accountant who signs off on an applicant's experience as an audit training principal is giving an opinion that the applicant has worked at the required level for the required amount of time and has gained experience in the necessary areas. ACRA should be able to rely on such an opinion by a public accountant without needing to verify the claims independently. ACRA will have powers to take action against a public accountant who undermines the integrity of the system and also to revoke the registration which was previously approved on the basis of reliable information.

Q19. What are your views on the guiding principles for the practical experience requirements for registration as a public accountant?

Specific Proposed Changes to the Practical Experience Requirements

86. Based on the above principles, ACRA is proposing to simplify the practical experience requirements and focus them on the experience most important to audit quality and a public accountant's responsibilities. Table 2 sets out the proposed requirements.

Table 2

A.	<p>A. Applicants must have obtained, within 5 years of the application:</p> <ul style="list-style-type: none"> i. 2500 hours of verifiable <u>qualifying audit experience</u> under an audit training principal [ATP, currently known as an Approved Principal]. Qualifying audit experience means experience in an <u>audit management role</u>, audit quality review or senior audit technical role, such that the applicant should have performed the key audit functions as set out in [B]. ii. A declaration from one or more ATPs that the applicant has completed the 2500 hours and has competently performed the <u>key audit functions</u> [as set out in B] under the oversight of the relevant ATP. It is not necessary for the ATP to <i>directly</i> supervise the applicant's qualifying audit experience provided the accounting entity has quality controls that comply with SSQC1 and which can thus provide the ATP with sufficient evidence that the applicant has competently performed the key audit roles.
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	<p>A maximum of 1250 hours may be qualifying foreign experience, which must also be in an audit management, audit quality review or senior audit technical role.</p> <p>If an applicant knowingly makes a material false declaration in their application, ACRA will not accept any further application from the applicant for a certain period, or revoke the registration if it has taken effect. Disciplinary action would be taken against an ATP (i.e. a public accountant) whom knowingly makes a material false declaration.</p>
B.	<p>Audit management role means work in which the applicant performs on the engagement, either directly or by assisting the engagement partner, the key audit functions.</p> <p>The key audit functions are:</p> <p>Planning</p> <ul style="list-style-type: none"> i. Reviewing and forming conclusions on acceptance and continuation of client relationships and compliance with independence requirements. ii. Developing the scope and objective of the audit. iii. Evaluating the client’s profile and risk and the implications for the audit engagement. iv. Reviewing and approving the planned audit approach prior to the start of audit fieldwork. v. Ensuring that staffing and resources are adequate, taking into account the required competencies and capabilities. <p>Leading the Engagement</p> <ul style="list-style-type: none"> vi. Directing and monitoring the engagement progress, in compliance with professional standards and regulatory and legal requirements; and against timelines and budget. vii. Supervising and mentoring the other professional staff on the engagement. viii. Communicating and consulting with the engagement partner and members of the engagement team about issues that need attention, and resolving audit issues. ix. Liaising and communicating with the client, for example, about the scope of the audit, timelines, and audit results and issues. <p>Forming and reporting conclusions and opinions</p> <ul style="list-style-type: none"> x. Reviewing engagement working papers and performing sufficient review of the audit work to ensure that the procedures performed are adequate and in compliance with standards. xi. Forming opinions based on sufficient audit evidence and in accordance with the applicable standards. xii. Communicating and discussing the audit findings with the audit client. xiii. Preparing or supervising the preparation of audit reports and audit deliverables to client management.

Key Changes and Explanations of the Proposed Requirements

ACRA will specify the required experience in hours instead of years

87. Specifying the requirements in hours is clearer and more flexible. For example, it will be easier to calculate experience gained part time. Currently the requirements are specified in years but applicants generally need to record their experience in hours in a log book.

The proposed required amount of hours will be 2500 hours

88. The most important requirement will be for an applicant to competently perform the key audit functions. However, the applicant will also need to have sufficient hours or experience overall. Currently, applicants must have three years of practical experience. The *Log Book* defines one year as equal to working for 1600 hours, of which 1280 hours must be in auditing. Thus, over at least three years the applicants should have at least 3840 hours of experience in auditing.
89. Because the proposed new requirements will focus on audit management experience, ACRA feels it should only need to look at the top end of an applicant's experience. This does not mean that applicants will need less experience; they will of course need to gain sufficient audit experience before moving on to get audit management experience.
90. ACRA considers that about two years of experience in an audit management role would be sufficient. This would allow applicants to experience at least two full audit cycles in an audit management role. ACRA estimates that accumulating 2500 hours of experience would take around two years of uninterrupted full time work, based on data from ACRA's monitoring programmes.

All of the experience must have been obtained within five years of the application

91. Currently, an applicant must have gained all of the required practical experience within seven years of the application, including one year gained within the last three years.
92. Given the focus on experience in audit management, ACRA considers that the experience should be more recent and so is proposing a five-year period. As this is a shorter timeframe, it is not considered necessary to retain the additional 'one year within the last three years' requirement, especially as the Continuing Professional Education (CPE) requirement will help ensure that applicants have up-to-date technical knowledge.

No distinction between pre- and post-qualification experience

93. The difference between pre- and post-qualification experience will be less material given that the experience must be obtained in an audit management role. This approach has the additional benefit of helping to simplify the requirements into one calculation, instead of the current three (i.e. different combinations of structured and

unstructured; and pre- and post-qualification experience; or other experience of at least six years).

No minimum requirement of experience supervised by the same ATP

94. Currently, applicants must have at least 12 continuous months of experience under the same approved principal. ACRA considered whether to retain this and considered that while ideally the experience should include experience gained substantially under one ATP or in one audit firm so that the applicant benefits from continuity in monitoring and mentorship, the other changes to the practical experience framework mean that it is not as important to prescribe a minimum amount of experience that should be gained under one ATP.

No alternative discretionary category

95. There will be no discretionary category for applicants with at least six years experience. ACRA introduced this category in 2009 as an alternative for when the applicant's experience did not fit within the existing calculations but was otherwise considered to be of sufficient depth and breadth. The simplified requirements and focus on audit management experience make this alternative unnecessary. However, there will be exemptions where there are specific merits for granting them.

All experience must be verifiable and obtained under the supervision of an ATP (i.e. all experience must be 'structured' as defined in the current requirements)

96. All experience, rather than the current two out of three years, will need to be obtained under an ATP and must be verifiable (in order for the ATP to provide sign off that the applicant has met the requirements). This means that there will be no distinction between structured (i.e. supervised and recorded) and unstructured experience.

The ATP's role and Recording of Experience

97. Aspiring public accountants are responsible for their own professional development and for exploring opportunities to gain experience in increasingly complex roles, and for tracking this experience. Hence, the onus will be on applicants to maintain sufficient records of this experience to enable the ATP to fulfil his or her role. The type of record might depend on the firm processes. ACRA will provide guidance and optional templates. It is not intended that the applicant should record the hours spent on the specific key audit functions in each engagement, such as the hours spent on planning but to instead have sufficient documentation of the supervised areas of the practical experience gained.
98. ATPs will have an important role under the new framework because they will need to sign a declaration that the record accurately reflects the experience gained under their supervision and that the applicant has competently performed the key audit functions. As is currently the case, ACRA will rely on the ATP's sign off without verifying the supporting records of practical experience, but will retain the right to audit the application if necessary. ACRA will provide guidance to ATPs on their roles and responsibilities under the new practical experience framework.

99. In a firm with quality controls in place, the ATP need not directly supervise the applicant, but will still need to be satisfied that the applicant has obtained the required experience. An audit firm that meets the conditions for auditing PIEs would be deemed to have such quality controls in place but ATPs in other firms would need to provide evidence of such controls if they did not directly supervised the work.
100. If more than one ATP is involved, the applicant will need to provide declarations from all the relevant ATPs to ACRA, and the onus will be on the applicant to ensure that his submissions meet the total qualifying audit experience requirement.
101. Given the ATP's responsibility, it will be important for the applicant to get the ATP's agreement from the beginning of the period that will be counted towards the application.
102. To ensure that an applicant gains the practical experience under suitable supervision and obtains it in an environment that supports compliance with the required standards, the PAOC will set certain requirements for ATPs. Currently, an approved principal must have at least five years' post-qualifying experience in public practice or in any other organisation recognised by the PAOC. This will continue to be the case.
103. An ATP who has been restricted from providing public accountancy services due to failure of a PMP inspection or any other PAOC order (such as resulting from an SI) will be unable to act as an ATP until they pass the subsequent PMP inspection or have fulfilled the PAOC order. This will not affect the experience gained by an applicant prior to the PMP outcome or PAOC order.

International Experience

104. ACRA will revise the requirements applicable to foreign practical experience in line with the proposed amendments to the practical experience requirements. Currently, the PAOC may recognise foreign experience as qualifying experience if it was obtained under standards equivalent to those applied in Singapore and is considered to be quality experience according to the criteria set out in the requirements. Applicants with foreign experience will still need at least one year of experience in Singapore.
105. Under the new proposal, ACRA will recognise up to 1250 hours of qualifying foreign experience, which must be qualifying audit experience. The applicant will need to provide sufficient evidence that the experience gained overseas would satisfy the requirements and is qualifying audit experience.
106. Applicants will still need to obtain at least 1250 hours of qualifying audit experience in Singapore, so that they can be sufficient conversant with Singapore's business and risk environment, and will need the sign-off of an ATP that they have competently performed the key audit functions. In exceptional circumstances, very experienced auditors may be exempted from some or all of the local experience requirements, subject to any appropriate conditions, for example for the purpose of specific specialised audits and provided they have sufficient local support. Currently, ACRA's Board may make such exemptions.

Recognition of Other Frameworks

107. ACRA will be able to recognise other competency based frameworks in the future so as to facilitate different routes into public accountancy.

International Comparison

108. The requirements and time periods from other jurisdictions are not easily comparable because they have different frameworks. The key way in which ACRA's proposed requirements differ from other jurisdictions is that while ACRA would assess a shorter period of experience, it would be more rigorous about the competencies that an applicant must cover during that period. Thus, the proposed requirements are more akin to the competency based frameworks adopted by some professional bodies. However, the jurisdictions are generally consistent in requiring the experience to involve progressively more complex work. So even in jurisdictions that do not specify the required competencies to be covered in the period of audit experience, it is likely that applicants would work in these areas before they apply to be a registered auditor. Appendix C sets out some examples of other jurisdictions.

- Q20. What are your views on ACRA's proposed changes to the practical experience requirements, specifically:**
- a. The overall framework;**
 - b. The definition of qualifying audit experience;**
 - c. The definition of key audit functions;**
 - d. The requirement for applicants to have 2500 hours of such experience;**
 - e. The requirement for the experience to be gained within the five years prior to an application;**
 - f. That ACRA will not distinguish between pre and post-qualification experience, given that the focus will already be on experience in a higher level role;**
 - g. That the practical experience should be obtained under the supervision of an audit training principle;**
 - h. The role and duties of the ATP;**
 - i. That there will be no minimum amount of experience required to be gained under one ATP or in one accounting entity;**
 - j. That the discretionary criteria available to applicants with more than six years experience should be discontinued under the new proposals and that all applicants should be required to meet the main criteria, unless specific exemptions are granted for particular reasons;**
 - k. The proposed approach to aligning the recognition of foreign practical experience with the main proposed changes to the practical experience requirements; and**
 - l. Any other comments on the proposals relating to practical experience.**

Re-Registration Requirements for Former Public Accountants

109. The current Act treats former public accountants as new applicants. In most cases, this is not a problem as former public accountants would usually be able to meet the

requirements. But there may be difficulties if, for example, the requirements have changed since the former public accountant was first registered.

110. To facilitate re-entry into the profession, ACRA is proposing to assess former public accountants' applications based on their recent practical experience and CPE. Former public accountants will need to have qualifying audit experience (as defined under the registration criteria) within the previous three years or they will be registered with conditions such as a requirement for peer review or to practice in a firm with quality controls in place.
111. The re-registration requirements will also take into account any PMP inspections that were completed at the time the applicant cancelled his registration, or any relevant record of professional conduct (see paras 124-127 on cancellation after notification of a PMP).

Q21. What are your views on assessing former public accountants based on their recent practical experience and the potential imposition of conditions to applicants without sufficiently recent experience?

7. Registration and Renewal Process for Public Accountants

112. ACRA is proposing to simplify the registration and renewal process and to amend the conditions under which public accountants may cancel their registration.
113. Currently, applicants submit their applications to the PAOC. If the PAOC approves the application, the Registrar of Public Accountants (Registrar) gives the new public accountant a certificate of registration. The certificate of registration is valid until 31 December of each year and so all public accountants must renew their certificate of registration annually.
114. If a public accountant fails to renew the certificate of registration by 31 December, then two steps follow:
 - i. For one month after the certificate has expired, the public accountant remains on the Register and therefore remains entitled to practice and sign audit reports. During this one month, the public accountant can apply for late renewal, and may apply for exemptions (the PAOC grants exemptions in rare circumstances, e.g. if prolonged illness has prevented the gaining of required hours of CPE).
 - ii. After one month, the Registrar can de-register the public accountant if he has still failed to renew his certificate of registration without reasonable excuse. After the public accountant is de-registered, he then has 21 days to apply for reinstatement to the register, which will be granted if he has met the requirements and upon payment of the prescribed fee.

115. ACRA considers the above process to be too unclear and lengthy and so is proposing amendments to streamline the registration and renewal process, as summarised below:

Applications to Register as a Public Accountant will be made to the Registrar

116. Applications to register as a public accountant will be made to the Registrar instead of the PAOC. This is because most applications are straight forward and do not need to be assessed at the high level of the PAOC. The PAOC will then consider appeals against the Registrar's decisions.

Q22. Do you agree that the Registrar should approve applications to be a public accountant instead of the PAOC?

Conditions May be Imposed on Registrations

117. The amendments will clarify the situations under which ACRA can place conditions on registration. Currently, the PAOC may approve registration subject to such conditions as it thinks fit but the Act is not clear about the circumstances under which it should do so. Hence, the amendments will clarify when and how conditions may be placed on registration. This will give ACRA more flexibility to respond to different situations.
118. The conditions may include universal conditions applying to all public accountants, or to an individual's registration, at the point of registration or renewal or at any time throughout the year as appropriate, for example if the PMP or other regulatory audit has identified areas of concern or non-compliance. If ACRA finds that a condition is not being met it may revoke the registration or take other appropriate action. Public accountants must declare that they have met the conditions to renew their registration.

Q23. What are your views on the imposition of conditions on registration?

Renewal of Registration rather than Renewal of Certificates of Registration

119. ACRA is proposing to make clear the relationship between registration and the certificate of registration and to streamline the process in the event of non-renewal, which can currently stretch out by up to two months.
120. It is proposed that a public accountant's registration rather than his certificate of registration will expire and need to be renewed annually. The certificate itself would then serve only as evidence of registration. Thus, if a public accountant does not renew his registration by 31 December his right to practice under the Accountants Act will cease immediately, however:
- If a public accountant submits an application for renewal prior to the expiry date, the registration will remain valid until ACRA makes a final decision.

- If a public accountant fails to apply for renewal before the expiry date, but at the expiry date had met the renewal requirements, then he will have until 31 January to apply and pay for reinstatement, which will be granted with effect from the original expiry date of 31 December. Reinstatement would come with an additional cost on top of the renewal fee.
 - If a public accountant fails to apply for renewal by the expiry date and as at 31 December did not meet the requirements, he will be ineligible for reinstatement and will need to apply for re-registration. To re-register, the public accountant would need to meet the re-registration requirements and pay a re-registration fee which will be more than the renewal fee.
 - If a public accountant has a legitimate reason as to why he has not met the requirements for renewing his registration, he must apply for and obtain an exemption from the requirement before the renewal application (as is currently the case, exemptions will only be granted in rare cases).
 - To facilitate monitoring, public accountants will continue to need to provide information at the time of renewal, and this will be in the form of an annual return with detail, for example, about client portfolios and movements, and adherence to conditions of registration.
121. Under the proposed amendments, a public accountant who fails to renew his registration by 31 December will immediately cease to be a public accountant. However, the public accountant may apply to be reinstated during January if he met the renewal requirements as at 31 December. This differs from the current regime under which the person remains a public accountant for at least one month after failure to renew the certificate.
122. During the time in which the person is not a public accountant, he must not act as an auditor in order not to contravene the Accountants Act and section 10 of the Companies Act, Cap. 50. If it becomes apparent that he will not be able to be reinstated or re-register, the public accountant should resign his appointments as auditor. While on rare occasions this might cause inconvenience to audit clients, ACRA considers that under the proposed process there would be ample opportunity for public accountants to renew their registration on time. It is for the public accountant to be responsible and not inconvenience his audit clients.
123. Given that the registration will cease immediately upon non-renewal by 31 December, ACRA will extend the renewal period so that public accountants will have a longer period in which to apply, from one month to two months (i.e. starting from 1 November instead of 1 December currently).

Q24. What are your views on the proposal that a public accountant's registration should expire and be renewed annually, rather than the *certificate* of registration, so that if a public accountant does not renew his registration by 31 December his right to practise under the Accountants Act will cease immediately?

Q25. What is your view on the one month ‘reinstatement period,’ i.e. is it sufficient?

Q26. Do you have any other comments on the proposed amendments to the registration and renewal requirements?

Cancellation of Registration

124. Currently, a public accountant may not cancel his registration in certain situations.⁴ However, there are no restrictions on a public accountant’s ability to cancel his registration after being notified of an upcoming PMP inspection or during a PMP inspection.

125. As the PMP is a quality inspection rather than a disciplinary matter like a complaint, in most cases ACRA would not object if a public accountant decides to cancel his registration instead of undergoing a PMP inspection, for example if the public accountant does not intend to conduct audits in the future and would not benefit from the PMP.

126. However, to ensure that a public accountant is not able to use cancellation and re-registration as a way of avoiding PMP inspection, ACRA is proposing that if ACRA notifies a public accountant of an impending PMP inspection and the public accountant subsequently asks to cancel his registration:

- i. If the person applies to re-register as a public accountant within three years of the cancellation, ACRA may impose conditions on the registration such as a hot review; or
- ii. If ACRA gains information of non-compliance which raises issues of accountability, ACRA will have discretion over whether to cancel the public accountant’s registration or not to do so and proceed with a PMP inspection or SI.

127. The proposed SI function will be akin to the complaints and disciplinary process. Thus, any public accountant who has been notified of or is undergoing an SI against him or the accounting entity he is practising in, would not be approved to have his registration cancelled.

Q27. What are your comments on the proposals relating to cases where a public accountant asks to cancel his registration after he has been notified of or during an impending PMP inspection or SI?

⁴ As set out in section 15 (3) of the Accountants Act, if the Registrar has received any complaint or information against the public accountant or if disciplinary proceedings are pending against the public accountant.

8. Requirements for Public Practice

128. The Accountants Act and its subsidiary legislation include rules about how public accountants should practise and maintain their competence. The rules cover the kinds of entity public accountants may practise in, who can manage the audit practice, and what professional indemnity insurance accounting entities should have. These rules promote the upholding of public accountants' responsibilities, and protect the interests of those who rely on audit reports and to whom public accountants owe a duty of care. Additionally, the SSA set out some of the conditions under which auditors should perform an audit.
129. ACRA is proposing to amend the public practice requirements to ensure that they are clear, relevant and targeted at promoting the public interest in public accountancy.

A. Making Clear the Responsibility for the Performance of an Audit

130. The Act provides that only a registered public accountant can practise as a public accountant or in respect of an entity, only an approved accounting firm, corporation or LLP can provide public accountancy services. However, the Act does not define what providing public accountancy services means or the responsibilities this involves, in particular with respect to performing audits and signing audit opinions. ACRA considers it important to make such responsibilities clearer.
131. An audit opinion cannot be separated from the work undertaken to support it. Such work involves judgement and the gathering of evidence, which must be done in compliance with the audit standards, with professional knowledge and skill. Thus, ACRA considers it important to emphasize a public accountant's responsibility to ensure that the audit is done according to the required standards and that there is sufficient appropriate evidence to support the audit opinion (as required in the SSA, specifically SSA 220).⁵
132. There is also a need to clarify what a non-public accountant, including a suspended public accountant, can and cannot do – i.e. to clarify that it is not just the act of signing that is restricted to a public accountant, but it is acting for all intents and purposes as the responsible person throughout the audit in the absence of a person who will ultimately be responsible for the duties of an engagement partner.

⁵ Relevant SSA 220 extracts:

Para 8. The engagement partner shall take responsibility for the overall quality on each audit engagement to which that partner is assigned...

Para 15. The engagement partner shall take responsibility for: (a) The direction, supervision and performance of the audit engagement in compliance with professional standards and applicable legal and regulatory requirements; and (b) The auditor's report being appropriate in the circumstances...

Para 16. The engagement partner shall take responsibility for reviews being performed in accordance with the firm's review policies and procedures...

Para 17. On or before the date of the auditor's report, the engagement partner shall, through a review of the audit documentation and discussion with the engagement team, be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued...

133. Thus, ACRA is considering whether to make these responsibilities clear in the Act by reference to the standards, i.e. by stating that only a public accountant should perform the duties of an engagement partner under the SSA. This has the advantage of ensuring the legislation is aligned with industry standards and allows the standard to be updated more easily. It will be an offence for a non-public accountant to undertake an engagement partner's role in the absence of a public accountant who is responsible for the duties of an engagement partner under the SSA.
134. Enforcement relating to a public accountant's performance of the responsibilities of an engagement partner will remain under the PMP, or if there is an impact on the 'public interest', the new SI process.

Q28. What are your views on whether the Act should prescribe that only a public accountant may perform the duties of an engagement partner as prescribed in the SSA?

Q29. What are your views on making it an offence for a non-public accountant to undertake an engagement partner's role in the absence of a public accountant who is responsible for the duties of an engagement partner under the SSA?

B. Public Practice Requirements

135. The public practice requirements are mainly set out in Rule 5 of the Accountants (Public Accountants) Rules, pertaining to registration, which requires that the applicant should be:
- Carrying on or about to carry on the public practice of accountancy in Singapore by placing his services as a public accountant at the disposal of the community, but not entirely at the disposal of any one individual, firm or corporation. [Rule 5 (b)]
 - Maintaining or about to maintain an office or place at which his services may be engaged. [Rule 5 (c)]
 - Available or about to make himself available to undertake work on behalf of a member of the public. [Rule 5 (d)]
136. Apart from having to meet the requirements in Rule 5 when they register, other applicable practice requirements are contained in the audit standards and the Code of Professional Conduct and Ethics.

Conditions of practice outside of an accounting entity

137. Currently, the Act allows a public accountant to practise on his own account, or through an accounting firm, corporation or LLP (collectively referred to as accounting entities). It is considered appropriate, under certain conditions, to allow a public accountant to practise outside of an entity, because a public accountant is already subject to regulation, and there is little difference between practising on one's own

account and for example, practising in an accounting firm. However, there are currently no conditions on a public accountant's ability to practise on his own account. ACRA considers that the conditions under which a public accountant practises outside of an entity should be:

- a. **The public accountant must practice in his or her own name; and**
- b. **The public accountant must have sufficient professional indemnity insurance.**

Q30. What are your views on continuing to allow a public accountant to practise on his own account, without setting up an accounting entity, provided certain conditions are met?

Q31. In your view, what are the circumstances under which a public accountant should be required to practise in an accounting entity instead of on his own account?

Professional Indemnity Insurance for all Public Accountants in Accounting Firms

138. Currently, the Act requires accounting corporations and LLPs to hold professional indemnity insurance. This is because such entities have limited liability. There is no insurance requirement for public accountants practicing on their own account or in an accounting firm, whether as a sole proprietor or partnership. Although accounting firms do not have limited liability and the partners are personally liable, it cannot be assumed that the partners would have sufficient equity to protect the interests of those who may have a claim against the public accountant.
139. Other professions in Singapore require individual practitioners to have insurance. Architects, engineers and lawyers must have professional indemnity insurance if they are not practicing in an entity with such insurance. In Australia, registered auditors who are not officers or employees of an authorised audit entity (i.e. with insurance) must maintain an insurance policy as a condition of registration.
140. ACRA is proposing that public accountants other than those practising within an accounting corporation or LLP should have professional liability insurance while practising and that this should be a condition of registration.
141. The levels would be pegged to the current requirements for each public accountant in an accounting corporation and LLP.

Q32. What are your views on requiring all public accountants should have professional indemnity insurance while practicing, i.e. apply the same requirement to accounting firms as applies to accounting corporations and LLPs?

Public accountant employees

142. Currently, a public accountant may be an employee of an accounting corporation or LLP (as a ‘corporate practitioner’), but not of an accounting firm. ACRA’s interest is in whether a person has the required competencies for taking charge of an audit and for providing an audit opinion; it is for the audit firm to decide whether a public accountant should be an employee or a director or partner of the firm. ACRA sees no reason to prevent this. Allowing an employee in a firm to be a public accountant would also be consistent with the treatment of accounting corporations and LLPs. Thus, ACRA is proposing to clarify that a public accountant may be an employee of a firm.

Q33. What are your views on allowing a public accountant to practise as an employee in an accounting firm?

Q34. If there are concerns about allowing public accountants to practise as an employee in an accounting firm, could these concerns be addressed through other safeguards or conditions, rather than prohibiting the situation?

C. Obligations to Maintain Competence: Audit Experience

143. Currently, a public accountant’s ability to renew the certificate of registration may depend on fulfilment of the CPE requirements, the result of PMP inspections conducted since the last renewal, and having otherwise met the required standards of conduct⁶.

144. ACRA is proposing to add to these competency requirements by requiring a public accountant to have performed a certain amount of auditing within a recent period, to renew the registration. The reasons for this are that:

- i. Public accountants should have up-to-date professional knowledge and experience in current business conditions, and an important way to achieve this is through having recent audit experience, and
- ii. Performing audits is the main purpose of public accountant registration and so ACRA expects that a public accountant should be engaged in auditing while on the register.

145. ACRA previously consulted on whether to require public accountants to perform a minimum amount of audit in order to remain registered, in the *Path to Becoming a Public Accountant* consultation paper. Those who responded generally did not support this proposal. Some of these respondents said that the CPE requirements and internal controls in audit firms sufficiently ensured that public accountants maintained their competency.

146. ACRA recognises that public accountants are professionals and are responsible enough to bring themselves up to date before performing work that they have not

⁶ See Section 13 of the Accountants Act and Rule 8 of the Accountants (Public Accountants) Rules

done for some time. However, ACRA also considers it important to have safeguards in place to ensure that a person offering services to the public as a public accountant is up-to-date. Taking both views into account, ACRA considers that a requirement for ongoing experience would be beneficial but that the requirement should not be too rigid.

147. Internationally, some jurisdictions require registered company auditors to have performed audits in recent years to retain their audit licence, but they do this in different ways. For example:

- In Australia, if a registered company auditor has not performed any (or any significant) audit work for five years, and as a result has ceased to have the necessary practical experience, it will be dealt with as a conduct matter by the Company Auditors and Liquidators Disciplinary Board⁷. This could lead to de-registration (In Australia the practical experience required for registration must have been obtained within five years of the application).
- In South Africa, if it has been more than three years since a registered auditor had performed the attest function (i.e. signing audit opinions), then to return to that function, the registered auditor must submit a professional Curricular Vitae, Continuing Professional Development records and a letter about why he needs to take up the attest function. The registered auditor may also be required to undergo a proficiency assessment.

148. ACRA considers that a reasonable approach would be to impose conditions on a public accountant's registration if he has not performed any 'qualifying audit experience' type of work (i.e. as defined in the registration criteria) for three years preceding the date of renewal. Such conditions would also take into account the environment that the public accountant would be working in upon resumption of the audit role, i.e. whether there are robust quality controls and monitoring in place. Thus, ACRA is proposing that:

If within three years before the date of proposed renewal, the public accountant has not performed any 'qualifying audit experience' type of work, then the public accountant may still renew his registration on the condition that if he is appointed as an auditor or engagement partner, he must either:

- i. Provide ACRA with a declaration from his audit firm or audit partner that he is able to perform the key audit functions and which explains how appropriate quality controls will be in place; or**
- ii. Provide ACRA with an undertaking that he will subject his first three audits to a peer review (which will be done under the same scope of the peer review currently required for those who fail the PMP inspection and as stipulated in the practice direction on this).**

⁷ Companies Auditors and Liquidators Disciplinary Board, Manual of Practice and Procedure Conduct Matters January 2011 Edition, [http://www.caldb.gov.au/caldb/caldbweb.nsf/Attbyfilename/Manual%20of%20Practice%20and%20Procedure-Conduct%20\(January%202011\).pdf/\\$file/Manual%20of%20Practice%20and%20Procedure-Conduct%20\(January%202011\).pdf](http://www.caldb.gov.au/caldb/caldbweb.nsf/Attbyfilename/Manual%20of%20Practice%20and%20Procedure-Conduct%20(January%202011).pdf/$file/Manual%20of%20Practice%20and%20Procedure-Conduct%20(January%202011).pdf)

Q35. What are your views on the proposal to impose conditions on a public accountant’s registration if he has not performed auditing for a certain period, for example the proposed three years?

Q36. What are your views on the proposed conditions?

9. Requirements for Accounting Entities

149. The Act and its subsidiary legislation include requirements for the approval of accounting entities. These requirements help ensure that accounting entities operate in a way that upholds audit quality and to protect the interests of those relying on the audit report and to whom the accounting entity owes a duty of care.

150. Internationally, various organisations have been reviewing the general area of ownership and management of accounting firms, especially in the context of finding ways to strengthen the industry and alleviate the risks of concentration in the audit market.⁸

151. In this present review, ACRA is looking at the basic requirements that should apply to all accounting entities. ACRA may consider the more holistic issues relating to governance of accounting entities, and accounting entities that conduct PIE engagements, under a separate review.

152. The existing requirements are set out in the following table.

	Requirements for all Accounting Entities
i.	The name must be approved (and meet the requirements for this in section 19 of the Act).
ii.	A primary objective of the entity must be to provide public accountancy services.
iii.	Not less than two-thirds (or other prescribed proportion) of an accounting entity’s partners or directors (as applicable) must be public accountants. Or if there are only one or two directors/partners, at least one must be a public accountant.
iv.	The business of the entity so far as it relates to the provision of public accountancy services in Singapore, must be under the control and management of one or more directors/partners who are public accountants ordinarily resident in Singapore.

⁸ For example, studies have been conducted by IOSCO and the US Advisory Committee on the Auditing Profession. The UK FRC and ICAEW have jointly produced a non-statutory Code of Governance for Audit firms that audit listed companies.

	Requirements for Accounting Corporations and LLPs
v.	The share capital or capital that is paid up or is to be paid up is not less than \$50,000 or such other sum as may be prescribed.
vi.	Accounting Corporations and LLPs must have professional indemnity insurance.
	Requirements for Accounting Corporations
vii.	Not less than two thirds of the voting shares (or other such prescribed proportion) of the company shall be owned by corporate practitioners (i.e. public accountants).
viii.	Only natural persons may own shares in the accounting corporation.
ix.	Further general requirements relating to the shares of accounting corporations and the holding of those shares (set out in section 27).
x.	Only members of an accounting corporation may be appointed as directors of an accounting corporation (i.e. no external directors).
xi.	Accounting corporations are deemed to be exempt private companies under the Companies Act (Note: This provision would need to be amended in line with proposed amendments to the Companies Act which may replace the concept of exempt private company. ACRA will consider the implications of this at an appropriate juncture).

153. ACRA is proposing amendments in the following areas:

- Proportion of Partners or Directors
- Corporate Partnership of LLPs
- Capital Requirement

Proportion of partners or directors

154. The CDAS Final Report recommended that the required proportion of partners or directors who must be public accountants should be reduced from two thirds to more than half. The aim is to facilitate growth through multi-disciplinary practice.

155. ACRA intends to amend the Act as ACRA considers that ensuring that public accountants form more than half of the governing members of accounting entities, together with having the audit function under the control of public accountants, is sufficient for the purpose of protecting audit quality.

Corporate partnership of accounting LLPs

156. The Act specifies that only natural persons can own shares in an accounting corporation but is silent on this with respect to accounting LLPs. In a non-accounting

LLP, the partners of an LLP may be a local company, a foreign company or another LLP.

157. Internationally, there are different practices. In Australia, only natural persons can own shares in authorised audit companies, whereas in the EU, licensed audit firms can have ownership stakes in other audit firms.
158. ACRA also notes that in Singapore's legal profession, only a solicitor with a practising certificate may be a partner in a limited liability law partnership. While in the engineering profession, partners of LLPs may be limited or unlimited corporations with licences issued under the Professional Engineers Act, the Architects Act or the Land Surveyors Act; or limited liability partnerships with licences issued under the Professional Engineers Act or the Architects Act.
159. ACRA considers that the same requirements should apply to accounting corporations and LLPs in this area and as such proposes to clarify the Act so that only natural persons can be partners of an accounting LLP. While there may be some situations in which an accounting LLP may wish to operate with a corporate partner, ACRA does not see the benefits of this as outweighing the importance of having accountable natural persons governing the practice.

Q37. What are your views on only allowing natural persons to be a partner of an accounting LLP?

Capital requirement

160. Accounting corporations and LLPs, to be approved, are required to have share capital (for accounting corporations) or capital (for LLPs) that is, or is to be, at least \$50,000. Accounting corporations must maintain at least this level of share capital at all times. This is to provide a financial safeguard for parties that deal with accounting entities and to ensure that there is sufficient long term commitment behind the accounting entity.
161. Of the main jurisdictions surveyed, Singapore appears to be the only jurisdiction to set a minimum capital requirement. Of the other professions in Singapore, it appears that only engineering LLPs are required to have minimum capital upon establishment, which is \$500,000. Law firms do not however have a minimum start-up capital requirement.
162. The capital requirement may be unnecessary. The requirement of \$50,000 is unlikely to provide meaningful protection to stakeholders, especially considering that the capital does not necessarily indicate the firm's ability to satisfy its financial commitments. On the other hand, raising the level to make it a meaningful protection measure might create too much of a burden on those wanting to establish a practice, compared to the benefit it provides, especially given that accounting corporations and LLPs are required to have professional indemnity insurance. Other factors encourage public accountants to commit enough capital, for example to gain the confidence of

clients. Thus, ACRA proposes to remove the minimum start-up capital requirement for accounting corporations and LLPs.

Q38. What comments do you have on removing the minimum capital requirement for accounting corporations and LLPs?

Q39. Do you have any further comments on the requirements for Accounting Entities?

10. How to Respond

163. To help facilitate a productive and focused consultation process, you are encouraged to:

- Indicate your name and organisation (if any);
- Focus on the questions for feedback; and
- Give your comments clearly and concisely.

164. Please note that the feedback received may be made public unless confidentiality is specifically requested for all or part of the submission.

Period of Consultation

165. The consultation exercise ends on 4 July 2012:

Feedback Channel

166. Please send your feedback by e-mail to: ACRA_Consultation@acra.gov.sg. Please indicate 'Public Consultation on Review of the Accountants Act' in the subject line.

Table of Consultation Questions

167. The full list of questions is set out below.

Table of Consultation Questions

No.	Questions
1	Do you have any comment on the proposed coverage of ACRA's regulation in relation to audit and review engagements?
2	Are there audits or reviews of financial statements/information that should not need to be performed by a public accountant registered with ACRA, for example

	because other than those who commissioned the report, no other third parties would be relying on the audit or review?
3	Are there other activities undertaken by public accountants in relation to financial statements/information relied upon by third parties that ACRA should have jurisdiction over, which might not be already covered under the proposed scope?
4	Do you agree with the entities identified above for inclusion as PIEs in this context? Are there other entities that you might want to suggest?
5	Do you agree that audit firms that audit large charities and large IPC should be subject to the same requirements as those that audit PIEs?
6	Do you have any comments on the proposed approach to imposing additional conditions on accounting entities that conduct PIE engagements?
7	Do you have comments on the areas that are proposed to be assessed as part of the process? Are there areas which should not be taken into account or areas not listed which should be taken into account?
8	Are there additional transitional arrangements that would need to be introduced to facilitate the implementation of the proposed process? For example is the one year transition period sufficient?
9	Do you have any comments on the objectives of the firm-level inspection?
10	Do you have any comments on the proposed coverage of the firm-level inspection?
11	Do you have any comments on the proposed firm-level inspection powers?
12	Do you have any comments on the proposed Firm Report and the remedial process that would apply in relation to notified deficiencies?
13	Do you have any comments on the proposal that ACRA may share firm reports with other relevant (local) regulators?
14	Do you agree that if an audit firm fails to make sufficient progress under a remediation plan, ACRA should be able to make non-publication of certain matters conditional on the firm making improvements within certain time periods?
15	Are there other circumstances when ACRA should publish portions of a firm-level inspection report or information stemming from a firm-level or PMP inspection?
16	Do you have any comments on any of the key steps in the intended process for Special Investigations?

17	Do you agree that ACRA’s Complaints and Disciplinary Process should consider only public interest cases, and that professional bodies should consider the remainder?
18	What are your views on allowing the appointment of up to two laypersons to a Complaints or Disciplinary Committee?
19	What are your views on the guiding principles for the practical experience requirements for registration as a public accountant?
20	<p>What are your views on ACRA’s proposed changes to the practical experience requirements, specifically:</p> <ol style="list-style-type: none"> a. The overall framework; b. The definition of qualifying audit experience; c. The definition of key audit functions; d. The requirement for applicants to have 2500 hours of such experience; e. The requirement for the experience to be gained within the five years prior to an application; f. That ACRA will not distinguish between pre and post-qualification experience, given that the focus will already be on experience in a higher level role; g. That the practical experience should be obtained under the supervision of an audit training principle; h. The role and duties of the ATP; i. That there will be no minimum amount of experience required to be gained under one ATP or in one accounting entity; j. That the discretionary criteria available to applicants with more than six years experience should be discontinued under the new proposals and that all applicants should be required to meet the main criteria, unless specific exemptions are granted for particular reasons; k. The proposed approach to aligning the recognition of foreign practical experience with the main proposed changes to the practical experience requirements; and l. Any other comments on the proposals relating to practical experience.
21	What are your views on assessing former public accountants based on their recent practical experience and the potential imposition of conditions to applicants without sufficiently recent experience?
22	Do you agree that the Registrar should approve applications to be a public accountant instead of the PAOC?
23	What are your views on the imposition of conditions on registration?
24	What are your views on the proposal that a public accountant’s registration should expire and be renewed annually, rather than the <i>certificate</i> of registration, so that if a public accountant does not renew his registration by 31 December his right to practise under the Accountants Act will cease immediately?

25	What is your view on the one month ‘reinstatement period,’ i.e. is it sufficient?
26	Do you have any other comments on the proposed amendments to the registration and renewal requirements?
27	What are your comments on the proposals relating to cases where a public accountant asks to cancel his registration after he has been notified of or during an impending PMP inspection or SI?
28	What are your views on whether the Act should prescribe that only a public accountant may perform the duties of an engagement partner as prescribed in the SSA?
29	What are your views on making it an offence for a non-public accountant to undertake an engagement partner’s role in the absence of a public accountant who is responsible for the duties of an engagement partner under the SSA?
30	What are your views on continuing to allow a public accountant to practise on his own account, without setting up an accounting entity, provided certain conditions are met?
31	In your view, what are the circumstances under which a public accountant should be required to practise in an accounting entity instead of on his own account?
32	What are your views on requiring all public accountants should have professional indemnity insurance while practicing, i.e. apply the same requirement to accounting firms as applies to accounting corporations and LLPs?
33	What are your views on allowing a public accountant to practise as an employee in an accounting firm?
34	If there are concerns about allowing public accountants to practise as an employee in an accounting firm, could these concerns be addressed through other safeguards or conditions, rather than prohibiting the situation?
35	What are your views on the proposal to impose conditions on a public accountant’s registration if he has not performed auditing for a certain period, for example the proposed three years?
36	What are your views on the proposed conditions?
37	What are your views on only allowing natural persons to be a partner of an accounting LLP?
38	What comments do you have on removing the minimum capital requirement for accounting corporations and LLPs?
39	Do you have any further comments on the requirements for Accounting Entities?

APPENDIX A PROPOSED DEFINITION OF FINANCIAL INSTITUTIONS

Financial Institutions:

- a. Entities that are part of the banking and payment systems (i.e. banks, financial institutions approved under s28 of the MAS Act, Cap. 186, operators of designated payments systems, holders of widely-accepted multi-purpose stored value facilities⁹, remittance agents and finance companies);
- b. Insurers and insurance brokers;
- c. Capital market infrastructure providers (i.e. approved holding companies under the Securities and Futures Act, approved exchanges, local market operators and designated clearing houses); and
- d. Capital markets intermediaries (i.e. holders of capital market services licence, licensed financial advisers, notified fund management companies, licensed trust companies and approved trustee for collective investment scheme).

APPENDIX B IFAC EDUCATION STANDARDS

1. *IES 5 Practical Experience Requirements* states that becoming a statutory auditor should involve more than the three years experience required to become a professional accountant.¹⁰ This additional experience is further detailed in *IES 8 Competence Requirements for Audit Professionals*, which sets out the competencies needed to become an audit professional,¹¹ and the further competencies required of an engagement partner¹². (i.e. the level of a public accountant). The most relevant paragraphs are set out here in full:

54. Professional accountants should complete a period of relevant practical experience before taking on the role of an audit professional. This period should be long enough and intensive enough to permit them to demonstrate that they have acquired the necessary professional knowledge; professional skills; and professional values, ethics, and attitudes. A substantial proportion of the period of practical experience should be in the area of audit of historical financial information.

57. The period of practical experience relevant to an audit professional may come during or after qualification as a professional accountant...

58. A period of practical experience relevant to an audit professional would normally be not less than three years, of which at least two years should normally be spent in

⁹ These include all holders of multi-purpose stored value facilities in excess of \$30 million, whether approved or exempted.

¹⁰ For example see IES 5, paragraphs 3 and 11.

¹¹ Under *IES 8*, a professional accountant is one who has responsibility, or has been delegated responsibility, for significant judgements in an audit of historical financial information.

¹² *IES 8* defines engagement partner as ‘the partner or other person ...who is responsible for the engagement and its performance, and for the audit report that is issued on behalf of the firm, and who...has the appropriate authority from a professional, legal or regulatory body.’

the area of audit of historical financial information under the guidance of an engagement partner...

2. IES 8 goes on to require that before taking on the responsibility of an engagement partner, audit professionals should gain additional experience:

Para 69: It is expected that audit professionals permitted to sign statutory audit reports will acquire practical audit experience beyond what this IES prescribes. All audit professionals have a professional and ethical obligation to develop and maintain competence appropriate to their professional responsibilities.

Para 71: To assume the greater responsibilities of the engagement partner will require the development of additional professional knowledge; professional skills; and professional values, ethics and attitudes. An engagement partner would be expected to demonstrate a comprehensive understanding of the audit process and an ability to communicate a wide range of matters to a broad range of parties.

Para 72: As audit professionals progress into positions such as engagement partners, they will need to demonstrate competence in the following areas:

- (a) *Leadership responsibility for the quality of audits;*
- (b) *Formation of conclusions on compliance with applicable independence requirements;*
- (c) *Acceptance and continuation of client relationships and specific audit engagements;*
- (d) *Assignment of engagement teams, ensuring the collective capabilities and competence to perform the engagement and issue an audit report;*
- (e) *Direction, supervision and performance of the audit engagement in compliance with professional standards and regulatory and legal requirements;*
- (f) *Consultation, review and discussion of work performed; and*
- (g) *Development of the audit report that is appropriate and supported by sufficient appropriate audit evidence.*

APPENDIX C PRACTICAL EXPERIENCE IN OTHER JURISDICTIONS

1. In Australia, the Australian Securities and Investments Commission requires applicants to have done at least 3000 hours of auditing work within five years of the application, including 750 hours of audit supervision.
2. In South Africa, the Independent Regulatory Board for Auditors requires applicants to have at least two years of professional experience, on top of experience gained during a 'training period'. The professional experience must include at least 1500 billable hours in audit and assurance services, and involve increasingly complex work and increasing responsibility¹³.
3. In the United Kingdom, the UK Companies Act requires licensed auditors to have at least three years' practical training of which a substantial part must be in statutory

¹³ *The professional experience period*, issued 10 August 2011 by the IRBA

audit¹⁴. For example, to meet the Companies Act requirements, the Institute of Chartered Accountants in England and Wales requires its members to complete at least 144 weeks of general training and work experience, of which:

- 96 weeks must be with a firm of statutory auditors under the supervision of appropriately qualified individuals; and
- 48 weeks must be audit work experience. The practical experience training must increase in depth and scope as it progresses.

¹⁴ UK Companies Act 2006, Schedule 11



Accounting and Corporate Regulatory Authority

10 Anson Road

#05-01/15, International Plaza

Singapore 079903

Website: www.acra.gov.sg