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ACCOUNTANTS ACT (CHAPTER 2)

ACCOUNTANTS (PUBLIC ACCOUNTANTS) (AMENDMENT NO. 2) RULES 2020

In exercise of the powers conferred by section 64 of the Accountants Act, the Accounting and Corporate Regulatory Authority, with the approval of the Minister for Finance, makes the following Rules:

Citation and commencement

1. These Rules are the Accountants (Public Accountants) (Amendment No. 2) Rules 2020 and come into operation on 1 April 2020.

Amendment of Fourth Schedule

2. The Fourth Schedule to the Accountants (Public Accountants) Rules (R 1) is amended —

(a) by inserting, immediately after the item relating to section 220 under the heading “CONTENTS”, the following item:

“225 Responding to Non-Compliance with Laws and Regulations”;

(b) by deleting the word “action” in paragraph 100.5(e) and substituting the word “conduct”;

(c) by deleting the words “Instances in which the public accountant may consider obtaining legal advice vary. For example, a public accountant may have encountered a fraud, the reporting of which could breach the public accountant’s responsibility to respect confidentiality. The

public accountant may consider obtaining legal advice in that instance to determine whether there is a requirement to report.” in paragraph 100.23;

- (d) by deleting the words “where possible” in paragraph 100.24 and substituting the words “unless prohibited by law”;
- (e) by inserting, immediately after paragraph 100.25, the following paragraph:

“100.26 In some cases, all of those charged with governance are involved in managing the entity, for example, a small business where a single owner manages the entity and no one else has a governance role. In these cases, if matters are communicated with person(s) with management responsibilities, and those person(s) also have governance responsibilities, the matters need not be communicated again with those same person(s) in their governance role. The public accountant or firm shall nonetheless be satisfied that communication with person(s) with management responsibilities adequately informs all of those with whom the public accountant or firm would otherwise communicate in their governance capacity.”;

- (f) by deleting the word “The” in paragraph 140.7 and substituting the words “As a fundamental principle, confidentiality serves the public interest because it facilitates the free flow of information from the public accountant’s client to the public accountant. Nevertheless, the”;
- (g) by deleting sub-paragraph (iv) of paragraph 140.7(c) and substituting the following sub-paragraph:

“(iv) To comply with technical and professional standards, including ethical requirements.”;

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- (h) by deleting the words “action that the public accountant knows or should know may discredit the profession. This includes actions” in paragraph 150.1 and substituting the words “conduct that the public accountant knows or should know may discredit the profession. This includes conduct”;
- (i) by inserting, immediately after the item relating to section 220 under the heading “PART B: APPLICATION GUIDANCE” after paragraph 150.2, the following item:
- “Section 225 Responding to Non-Compliance with Laws and Regulations”;
- (j) by deleting the sub-heading “**Client Acceptance**” immediately above paragraph 210.1 and substituting the sub-heading “**Client Acceptance and Continuance**”;
- (k) by deleting paragraphs 210.1 and 210.2 and substituting the following paragraph:
- “210.1 Before accepting a new client relationship, a public accountant shall determine whether acceptance would create any threats to compliance with the fundamental principles. Potential threats to integrity or professional behaviour may be created from, for example, issues associated with the client (its owners, management or activities) that, if known, could threaten compliance with the fundamental principles. These include, for example, client involvement in illegal activities (such as money laundering), dishonesty, questionable financial reporting practices or other unethical behaviour.”;
- (l) by deleting the word “improve” in paragraph 210.3(b) and substituting the words “address the questionable issues, for example, through improving”;
- (m) by renumbering the existing paragraphs 210.3 and 210.4 as paragraphs 210.2 and 210.3, respectively;

- (n) by deleting paragraph 210.5 and substituting the following paragraph:

“210.4 Potential threats to compliance with the fundamental principles may have been created after acceptance that would have caused the public accountant to decline the engagement had that information been available earlier. A public accountant shall, therefore, periodically review whether to continue with a recurring client engagement. For example, a threat to compliance with the fundamental principles may be created by a client’s unethical behaviour such as improper earnings management or balance sheet valuations. If a public accountant identifies a threat to compliance with the fundamental principles, the public accountant shall evaluate the significance of the threats and apply safeguards when necessary to eliminate the threat or reduce it to an acceptable level. Where it is not possible to reduce the threat to an acceptable level, the public accountant shall consider terminating the client relationship where termination is not prohibited by law or regulation.”;

- (o) by renumbering the existing paragraphs 210.6, 210.7, 210.8 and 210.9 as paragraphs 210.5, 210.6, 210.7 and 210.8, respectively;

- (p) by deleting paragraphs 210.10, 210.11, SG210.11A, SG210.11B, SG210.11C and SG210.11D and substituting the following paragraphs:

“210.9 A public accountant shall evaluate the significance of any threats. Safeguards shall be applied when necessary to eliminate any threats or reduce them to an acceptable level. Examples of such safeguards include —

- (a) When replying to requests to submit tenders, stating in the tender that, before accepting the engagement,

contact with the existing or predecessor accountant will be requested so that inquiries may be made as to whether there are any professional or other reasons why the appointment should not be accepted;

- (b) Asking the existing or predecessor accountant to provide known information on any facts or circumstances that, in the existing or predecessor accountant's opinion, the proposed public accountant needs to be aware of before deciding whether to accept the engagement. For example, the apparent reasons for the change in appointment may not fully reflect the facts and may indicate disagreements with the existing or predecessor accountant that may influence the decision to accept the appointment; and
- (c) Obtaining necessary information from other sources.

210.10

When the threats cannot be eliminated or reduced to an acceptable level through the application of safeguards, a public accountant shall, unless there is satisfaction as to necessary facts by other means, decline the engagement.”;

- (q) by deleting the words “existing accountant” wherever they appear in paragraphs 210.12, 210.13 and 210.14 and substituting in each case the words “existing or predecessor accountant”;
- (r) by deleting the words “legal and other” in paragraph 210.14 and substituting the words “laws and”;
- (s) by renumbering the existing paragraphs 210.12, 210.13 and 210.14 as paragraphs 210.11, 210.12 and 210.13, respectively;

(t) by inserting, immediately before the heading “Section 220”, the following paragraphs:

“210.14 In the case of an audit of financial statements, a public accountant shall request the existing or predecessor accountant to provide known information regarding any facts or other information that, in the existing or predecessor accountant’s opinion, the proposed public accountant needs to be aware of before deciding whether to accept the engagement. Except for the circumstances involving identified or suspected non-compliance with laws and regulations set out in paragraph 225.31 —

(a) If the client consents to the existing or predecessor accountant disclosing any such facts or other information, the existing or predecessor accountant shall provide the information honestly and unambiguously; and

(b) If the client fails or refuses to grant the existing or predecessor accountant permission to discuss the client’s affairs with the proposed public accountant, the existing or predecessor accountant shall disclose this fact to the proposed public accountant, who shall carefully consider such failure or refusal when determining whether or not to accept the appointment.

SG210.15 The existing or predecessor accountant shall, on receipt of any request referred to in paragraph 210.14, reply to the proposed public accountant in writing within a reasonable time.

SG210.16 If the proposed public accountant does not receive a reply from the existing or predecessor accountant to his or her request within a reasonable time and the proposed public accountant has no reason to believe that there are any exceptional circumstances surrounding the proposed change, the proposed public

accountant shall use such other reasonable means to communicate with the existing or predecessor accountant.

SG210.17

If the proposed public accountant is unable to obtain a satisfactory outcome pursuant to paragraph SG210.16, the proposed public accountant shall send a final letter by registered post to the existing or predecessor accountant, stating that he or she assumes there is no professional or other reason why he or she should not accept the appointment and that he or she intends to do so. The proposed public accountant may accept the engagement if he or she is satisfied that there are no professional or other reasons for the proposed change after taking into account guidance set out in paragraphs 210.8 to 210.14.”;

(u) by inserting, immediately after paragraph 220.14, the following section:

“Section 225

Responding to Non-Compliance with Laws and Regulations

Purpose

225.1

A public accountant may encounter or be made aware of non-compliance or suspected non-compliance with laws and regulations in the course of providing a professional service to a client. The purpose of this section is to set out the public accountant’s responsibilities when encountering such non-compliance or suspected non-compliance, and guide the public accountant in assessing the implications of the matter and the possible courses of action when responding to it. This section applies regardless of the nature of the client, including whether or not it is a public interest entity.

225.2

Non-compliance with laws and regulations (“non-compliance”) comprises acts of omission or commission, intentional or unintentional, committed by a client, or by

those charged with governance, by management or by other individuals working for or under the direction of a client which are contrary to the prevailing laws or regulations.

225.3 In some jurisdictions, there are legal or regulatory provisions governing how public accountants should address non-compliance or suspected non-compliance which may differ from or go beyond this section. When encountering such non-compliance or suspected non-compliance, the public accountant has a responsibility to obtain an understanding of those provisions and comply with them, including any requirement to report the matter to an appropriate authority and any prohibition on alerting the client prior to making any disclosure, for example, pursuant to anti-money laundering legislation.

225.4 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. When responding to non-compliance or suspected non-compliance, the objectives of the public accountant are —

- (a) To comply with the fundamental principles of integrity and professional behaviour;
- (b) By alerting management or, where appropriate, those charged with governance of the client, to seek to —
 - (i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or
 - (ii) Deter the commission of the non-compliance where it has not yet occurred; and
- (c) To take such further action as appropriate in the public interest.

Scope

- 225.5 This section sets out the approach to be taken by a public accountant who encounters or is made aware of non-compliance or suspected non-compliance with —
- (a) Laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the client's financial statements; and
 - (b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the client's financial statements, but compliance with which may be fundamental to the operating aspects of the client's business, to its ability to continue its business, or to avoid material penalties.
- 225.6 Examples of laws and regulations which this section addresses include those that deal with —
- (a) Fraud, corruption and bribery;
 - (b) Money laundering, terrorist financing and proceeds of crime;
 - (c) Securities markets and trading;
 - (d) Banking and other financial products and services;
 - (e) Data protection;
 - (f) Tax and pension liabilities and payments;
 - (g) Environmental protection; or
 - (h) Public health and safety.
- 225.7 Non-compliance may result in fines, litigation or other consequences for the client that may have a material effect on its financial statements. Importantly, such non-compliance may have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees or the general public. For the purposes of this section, an act

that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or non-financial terms. Examples include the perpetration of a fraud resulting in significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.

225.8 A public accountant who encounters or is made aware of matters that are clearly inconsequential, judged by their nature and their impact, financial or otherwise, on the client, its stakeholders and the general public, is not required to comply with this section with respect to such matters.

225.9 This section does not address —

(a) Personal misconduct unrelated to the business activities of the client; and

(b) Non-compliance other than by the client or those charged with governance, management or other individuals working for or under the direction of the client. This includes, for example, circumstances where a public accountant has been engaged by a client to perform a due diligence assignment on a third party entity and the identified or suspected non-compliance has been committed by that third party.

The public accountant may nevertheless find the guidance in this section helpful in considering how to respond in these situations.

Responsibilities of the Client's Management and Those Charged with Governance

225.10 It is the responsibility of the client's management, with the oversight of those charged with governance, to ensure that the client's business activities are conducted in accordance with laws and regulations. It is also the responsibility of management and those

charged with governance to identify and address any non-compliance by the client, by an individual charged with governance of the entity, by a member of management, or by other individuals working for or under the direction of the client.

Responsibilities of Public Accountants

- 225.11 Where a public accountant becomes aware of a matter to which this section applies, the steps that the public accountant takes to comply with this section shall be taken on a timely basis, having regard to the public accountant's understanding of the nature of the matter and the potential harm to the interests of the entity, investors, creditors, employees or the general public.

Audits of Financial Statements

Obtaining an Understanding of the Matter

- 225.12 If a public accountant engaged to perform an audit of financial statements becomes aware of information concerning an instance of non-compliance or suspected non-compliance, whether in the course of performing the engagement or through information provided by other parties, the public accountant shall obtain an understanding of the matter, including the nature of the act and the circumstances in which it has occurred or may occur.
- 225.13 The public accountant is expected to apply knowledge, professional judgment and expertise, but is not expected to have a level of knowledge of laws and regulations that is greater than that which is required to undertake the engagement. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body. Depending on the nature and significance of the matter, the public accountant may consult on a confidential basis

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- with others within the firm, a network firm or a professional body, or with legal counsel.
- 225.14 If the public accountant identifies or suspects that non-compliance has occurred or may occur, the public accountant shall discuss the matter with the appropriate level of management and, where appropriate, those charged with governance.
- 225.15 Such discussion serves to clarify the public accountant's understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also may prompt management or those charged with governance to investigate the matter.
- 225.16 The appropriate level of management with whom to discuss the matter is a question of professional judgment. Relevant factors to consider include —
- (a) The nature and circumstances of the matter;
 - (b) The individuals actually or potentially involved;
 - (c) The likelihood of collusion;
 - (d) The potential consequences of the matter; and
 - (e) Whether that level of management is able to investigate the matter and take appropriate action.
- 225.17 The appropriate level of management is generally at least one level above the person or persons involved or potentially involved in the matter. If the public accountant believes that management is involved in the non-compliance or suspected non-compliance, the public accountant shall discuss the matter with those charged with governance. The public accountant may also consider discussing the matter with internal auditors, where applicable. In the context of a group, the appropriate level

may be management at an entity that controls the client.

Addressing the Matter

- 225.18 In discussing the non-compliance or suspected non-compliance with management and, where appropriate, those charged with governance, the public accountant shall advise them to take appropriate and timely actions, if they have not already done so, to —
- (a) Rectify, remediate or mitigate the consequences of the non-compliance;
 - (b) Deter the commission of the non-compliance where it has not yet occurred; or
 - (c) Disclose the matter to an appropriate authority where required by law or regulation or where considered necessary in the public interest.
- 225.19 The public accountant shall consider whether the client's management and those charged with governance understand their legal or regulatory responsibilities with respect to the non-compliance or suspected non-compliance. If not, the public accountant may suggest appropriate sources of information or recommend that they obtain legal advice.
- 225.20 The public accountant shall comply with applicable —
- (a) Laws and regulations, including legal or regulatory provisions governing the reporting of non-compliance or suspected non-compliance to an appropriate authority. In this regard, some laws and regulations may stipulate a period within which reports are to be made; and
 - (b) Requirements under auditing standards, including those relating to —
 - (i) Identifying and responding to non-compliance, including fraud;

- (ii) Communicating with those charged with governance; and
- (iii) Considering the implications of the non-compliance or suspected non-compliance for the auditor's report.

Communication with Respect to Groups

225.21 A public accountant may —

- (a) For purposes of an audit of group financial statements, be requested by the group engagement team to perform work on financial information related to a component of the group; or
- (b) Be engaged to perform an audit of a component's financial statements for purposes other than the group audit, for example, a statutory audit.

Where the public accountant becomes aware of non-compliance or suspected non-compliance in relation to the component in either situation, the public accountant shall, in addition to responding to the matter in accordance with the provisions of this section, communicate it to the group engagement partner unless prohibited from doing so by law or regulation. This is to enable the group engagement partner to be informed about the matter and to determine, in the context of the group audit, whether and, if so, how it should be addressed in accordance with the provisions in this section.

225.22 Where the group engagement partner becomes aware of non-compliance or suspected non-compliance in the course of an audit of group financial statements, including as a result of being informed of such a matter in accordance with paragraph 225.21, the group engagement partner shall, in addition to responding to the matter in the context of the group audit in accordance with the provisions of

this section, consider whether the matter may be relevant to one or more components —

- (a) Whose financial information is subject to work for purposes of the audit of the group financial statements; or
- (b) Whose financial statements are subject to audit for purposes other than the group audit, for example, a statutory audit.

If so, the group engagement partner shall take steps to have the non-compliance or suspected non-compliance communicated to those performing work at components where the matter may be relevant, unless prohibited from doing so by law or regulation. If necessary in relation to sub-paragraph (b), appropriate inquiries shall be made (either of management or from publicly available information) as to whether the relevant component(s) is subject to audit and, if so, to ascertain to the extent practicable the identity of the auditor. The communication is to enable those responsible for work at such components to be informed about the matter and to determine whether and, if so, how it should be addressed in accordance with the provisions in this section.

Determining Whether Further Action Is Needed

- 225.23 The public accountant shall assess the appropriateness of the response of management and, where applicable, those charged with governance.
- 225.24 Relevant factors to consider in assessing the appropriateness of the response of management and, where applicable, those charged with governance include whether —
 - (a) The response is timely;
 - (b) The non-compliance or suspected non-compliance has been adequately investigated;

- (c) Action has been, or is being, taken to rectify, remediate or mitigate the consequences of any non-compliance;
- (d) Action has been, or is being, taken to deter the commission of any non-compliance where it has not yet occurred;
- (e) Appropriate steps have been, or are being, taken to reduce the risk of re-occurrence, for example, additional controls or training; and
- (f) The non-compliance or suspected non-compliance has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate.

225.25 In light of the response of management and, where applicable, those charged with governance, the public accountant shall determine if further action is needed in the public interest.

225.26 The determination of whether further action is needed, and the nature and extent of it, will depend on various factors, including —

- (a) The legal and regulatory framework;
- (b) The urgency of the matter;
- (c) The pervasiveness of the matter throughout the client;
- (d) Whether the public accountant continues to have confidence in the integrity of management and, where applicable, those charged with governance;
- (e) Whether the non-compliance or suspected non-compliance is likely to recur; and
- (f) Whether there is credible evidence of actual or potential substantial harm to the interests of the entity, investors, creditors, employees or the general public.

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- 225.27 Examples of circumstances that may cause the public accountant no longer to have confidence in the integrity of management and, where applicable, those charged with governance include situations where —
- (a) The public accountant suspects or has evidence of their involvement or intended involvement in any non-compliance; or
 - (b) The public accountant is aware that they have knowledge of such non-compliance and, contrary to legal or regulatory requirements, have not reported, or authorised the reporting of, the matter to an appropriate authority within a reasonable period.
- 225.28 In determining the need for, and nature and extent of, further action, the public accountant shall exercise professional judgment and take into account whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the public accountant at the time, would be likely to conclude that the public accountant has acted appropriately in the public interest.
- 225.29 Further action by the public accountant may include —
- (a) Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so; or
 - (b) Withdrawing from the engagement and the professional relationship where permitted by law or regulation.
- 225.30 Where the public accountant determines that withdrawing from the engagement and the professional relationship would be appropriate, doing so would not be a substitute for taking other actions that may be needed to achieve the public accountant's objectives under this section. In some jurisdictions, however, there may be

limitations as to the further actions available to the public accountant and withdrawal may be the only available course of action.

225.31 Where the public accountant has withdrawn from the professional relationship pursuant to paragraphs 225.25 and 225.29, the public accountant shall, on request by the proposed public accountant, provide all such facts and other information concerning the identified or suspected non-compliance that, in the predecessor accountant's opinion, the proposed public accountant needs to be aware of before deciding whether to accept the audit appointment. The predecessor accountant shall do so despite paragraph 210.14, unless prohibited by law or regulation. If the proposed public accountant is unable to communicate with the predecessor accountant, the proposed public accountant shall take reasonable steps to obtain information about the circumstances of the change of appointment by other means, such as through inquiries of third parties or background investigations of management or those charged with governance.

225.32 As consideration of the matter may involve complex analysis and judgments, the public accountant may consider consulting internally, obtaining legal advice to understand the public accountant's options and the professional or legal implications of taking any particular course of action, or consulting on a confidential basis with a regulator or professional body.

Determining Whether to Disclose the Matter to an Appropriate Authority

225.33 Disclosure of the matter to an appropriate authority would be precluded if doing so would be contrary to law or regulation. Otherwise, the purpose of making disclosure is to enable an appropriate authority to cause the

matter to be investigated and action to be taken in the public interest.

225.34

The determination of whether to make such a disclosure depends in particular on the nature and extent of the actual or potential harm that is or may be caused by the matter to investors, creditors, employees or the general public. For example, the public accountant may determine that disclosure of the matter to an appropriate authority is an appropriate course of action if —

- (a) The entity is engaged in bribery (for example, of local or foreign government officials for purposes of securing large contracts);
- (b) The entity is regulated and the matter is of such significance as to threaten its license to operate;
- (c) The entity is listed on a securities exchange and the matter could result in adverse consequences to the fair and orderly market in the entity's securities or pose a systemic risk to the financial markets;
- (d) Products that are harmful to public health or safety would likely be sold by the entity; or
- (e) The entity is promoting a scheme to its clients to assist them in evading taxes.

The determination of whether to make such a disclosure will also depend on external factors such as —

- (i) Whether there is an appropriate authority that is able to receive the information, and cause the matter to be investigated and action to be taken. The appropriate authority will depend on the nature of the matter, for example, a securities regulator in the case of fraudulent financial reporting or an environmental protection agency in

the case of a breach of environmental laws and regulations;

- (ii) Whether there exists robust and credible protection from civil, criminal or professional liability or retaliation afforded by legislation or regulation, such as under whistle-blowing legislation or regulation; and
- (iii) Whether there are actual or potential threats to the physical safety of the public accountant or other individuals.

225.35 If the public accountant determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, this will not be considered a breach of the duty of confidentiality under Section 140 of this Code. When making such disclosure, the public accountant shall act in good faith and exercise caution when making statements and assertions. The public accountant shall also consider whether it is appropriate to inform the client of the public accountant's intentions before disclosing the matter.

225.36 In exceptional circumstances, the public accountant may become aware of actual or intended conduct that the public accountant has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having considered whether it would be appropriate to discuss the matter with management or those charged with governance of the entity, the public accountant shall exercise professional judgment and may immediately disclose the matter to an appropriate authority in order to prevent or mitigate the consequences of such

imminent breach of law or regulation. Such disclosure will not be considered a breach of the duty of confidentiality under Section 140 of this Code.

Documentation

225.37 In relation to an identified or suspected act of non-compliance that falls within the scope of this section, the public accountant shall, in addition to complying with the documentation requirements under applicable auditing standards, document —

- (a) How management and, where applicable, those charged with governance have responded to the matter;
- (b) The courses of action the public accountant considered, the judgments made and the decisions that were taken, having regard to the reasonable and informed third party perspective; and
- (c) How the public accountant is satisfied that the public accountant has fulfilled the responsibility set out in paragraph 225.25.

225.38 *Singapore Standards on Auditing* (SSAs), for example, require a public accountant performing an audit of financial statements to —

- (a) Prepare documentation sufficient to enable an understanding of significant matters arising during the audit, the conclusions reached, and significant professional judgments made in reaching those conclusions;
- (b) Document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place; and

- (c) Document identified or suspected non-compliance, and the results of discussion with management and, where applicable, those charged with governance and other parties outside the entity.

Professional Services Other than Audits of Financial Statements

Obtaining an Understanding of the Matter and Addressing It with Management and Those Charged with Governance

- 225.39 If a public accountant engaged to provide a professional service other than an audit of financial statements becomes aware of information concerning an instance of non-compliance or suspected non-compliance, the public accountant shall seek to obtain an understanding of the matter, including the nature of the act and the circumstances in which it has occurred or may be about to occur.
- 225.40 The public accountant is expected to apply knowledge, professional judgment and expertise, but is not expected to have a level of understanding of laws and regulations beyond that which is required for the professional service for which the accountant was engaged. Whether an act constitutes actual non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body. Depending on the nature and significance of the matter, the public accountant may consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.
- 225.41 If the public accountant identifies or suspects that non-compliance has occurred or may occur, the public accountant shall discuss the matter with the appropriate level of management and, if the public accountant has access to them and where appropriate, those charged with governance.

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- 225.42 Such discussion serves to clarify the public accountant's understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also may prompt management or those charged with governance to investigate the matter.
- 225.43 The appropriate level of management with whom to discuss the matter is a question of professional judgment. Relevant factors to consider include —
- (a) The nature and circumstances of the matter;
 - (b) The individuals actually or potentially involved;
 - (c) The likelihood of collusion;
 - (d) The potential consequences of the matter; and
 - (e) Whether that level of management is able to investigate the matter and take appropriate action.

Communicating the Matter to the Entity's External Auditor

- 225.44 If the public accountant is performing a non-audit service for an audit client of the firm, or a component of an audit client of the firm, the public accountant shall communicate the non-compliance or suspected non-compliance within the firm, unless prohibited from doing so by law or regulation. The communication shall be made in accordance with the firm's protocols or procedures or, in the absence of such protocols and procedures, directly to the audit engagement partner.
- 225.45 If the public accountant is performing a non-audit service for an audit client of a network firm, or a component of an audit client of a network firm, the public accountant shall consider whether to communicate the non-compliance or suspected non-compliance

to the network firm. Where the communication is made, it shall be made in accordance with the network's protocols or procedures or, in the absence of such protocols and procedures, directly to the audit engagement partner.

225.46 If the public accountant is performing a non-audit service for a client that is not —

- (a) An audit client of the firm or a network firm; or
- (b) A component of an audit client of the firm or a network firm,

the public accountant shall consider whether to communicate the non-compliance or suspected non-compliance to the firm that is the client's external auditor, if any.

225.47 Factors relevant to considering the communication in accordance with paragraphs 225.45 and 225.46 include —

- (a) Whether doing so would be contrary to law or regulation;
- (b) Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance;
- (c) Whether the purpose of the engagement is to investigate potential non-compliance within the entity to enable it to take appropriate action;
- (d) Whether management or those charged with governance have already informed the entity's external auditor about the matter; and
- (e) The likely materiality of the matter to the audit of the client's financial statements or, where the matter relates to a component of a group, its likely materiality to the audit of the group financial statements.

225.48 In all cases, the communication is to enable the audit engagement partner to be informed about the non-compliance or suspected non-compliance and to determine whether and, if so, how it should be addressed in accordance with the provisions of this section.

Considering Whether Further Action Is Needed

225.49 The public accountant shall also consider whether further action is needed in the public interest.

225.50 Whether further action is needed, and the nature and extent of it, will depend on factors such as —

- (a) The legal and regulatory framework;
- (b) The appropriateness and timeliness of the response of management and, where applicable, those charged with governance;
- (c) The urgency of the matter;
- (d) The involvement of management or those charged with governance in the matter; and
- (e) The likelihood of substantial harm to the interests of the client, investors, creditors, employees or the general public.

225.51 Further action by the public accountant may include —

- (a) Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so; or
- (b) Withdrawing from the engagement and the professional relationship where permitted by law or regulation.

225.52 In considering whether to disclose to an appropriate authority, relevant factors to take into account include —

- (a) Whether doing so would be contrary to law or regulation;

- (b) Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance; and
- (c) Whether the purpose of the engagement is to investigate potential non-compliance within the entity to enable it to take appropriate action.

225.53 If the public accountant determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, this will not be considered a breach of the duty of confidentiality under Section 140 of this Code. When making such disclosure, the public accountant shall act in good faith and exercise caution when making statements and assertions. The public accountant shall also consider whether it is appropriate to inform the client of the public accountant's intentions before disclosing the matter.

225.54 In exceptional circumstances, the public accountant may become aware of actual or intended conduct that the public accountant has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having considered whether it would be appropriate to discuss the matter with management or those charged with governance of the entity, the public accountant shall exercise professional judgment and may immediately disclose the matter to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach of law or regulation. Such disclosure will not be considered a breach of the duty of confidentiality under Section 140 of this Code.

225.55 The public accountant may consider consulting internally, obtaining legal advice to understand the professional or legal implications of taking any particular course of action, or consulting on a confidential basis with a regulator or professional body.

Documentation

225.56 In relation to an identified or suspected act of non-compliance that falls within the scope of this section, the public accountant is encouraged to document —

- (a) The matter;
 - (b) The results of discussion with management and, where applicable, those charged with governance and other parties;
 - (c) How management and, where applicable, those charged with governance have responded to the matter;
 - (d) The courses of action the public accountant considered, the judgments made and the decisions that were taken; and
 - (e) How the public accountant is satisfied that the public accountant has fulfilled the responsibility set out in paragraph 225.49.”;
- (v) by deleting the words “may consider seeking legal advice” in paragraph 270.3 and substituting the words “shall comply with the provisions of Section 225”;
- (w) by deleting the words “Paragraphs SG210.11A to D” in the definition of “Audit engagement” under the heading “DEFINITIONS” after paragraph 291.157 and substituting the words “Paragraphs 210.14, SG210.15 to SG210.17”;
- (x) by inserting, immediately after the definition of “Office” under the heading “DEFINITIONS” after paragraph 291.157, the following definition:

“Predecessor accountant A public accountant who most recently held an audit appointment or carried out any other public accountancy services for a client, where there is no existing accountant.”; and

(y) by inserting, immediately after the definition of “Professional services” under the heading “DEFINITIONS” after paragraph 291.157, the following definition:

“Proposed public accountant A public accountant who is considering accepting an audit appointment or an engagement to perform any other public accountancy services for a prospective client (or in some cases, an existing client).”.

[G.N. Nos. S 615/2007; S 251/2009; S 383/2010; S 211/2012; S 395/2013; S 25/2015; S 51/2015; S 840/2015; S 443/2016; S 118/2017; S 332/2017; S 680/2017; S 789/2018; S 901/2018; S 62/2020]

Made on 5 March 2020.

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Accounting and Corporate
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