



ICAEW REPRESENTATION

ACRA CONSULTATION ON THE ACCOUNTANTS ACT REVIEW, PART TWO

ICAEW response to ACRA consultation paper *The Accountants Act Review, Part two* (published in November 2011)

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INTRODUCTION

1. ICAEW welcomes the opportunity to comment on the consultation paper on the *Accountants Act review*, Part two, published by ACRA.

WHO WE ARE

2. ICAEW operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council (FRC). As a world leading professional accountancy body, we provide leadership and practical support to over 136,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. We are a founding member of the Global Accounting Alliance with over 775,000 members worldwide. ICAEW is the largest Recognised Supervisory Body (RSB) and Recognised Qualifying Body (RQB) for statutory audit in the UK, registering in excess of 3,800 firms and 10,000 Responsible Individuals (RIs).
3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. We ensure these skills are constantly developed, recognised and valued.

RESPONSES TO SPECIFIC QUESTIONS

Registration requirements for public accountants

Question 1: What are your views on the guiding principles for the practical experience requirements for registration as a public accountant?

4. Generally, the principles seem well-drafted and appropriate.
5. With regard to principle 2, we suggest that some recorded and supervised audit experience below the audit management level could be allowed to be included in the body of qualifying experience.
6. With regard to principle 6, we suggest that there should be some monitoring of approved principals, at least in terms of monitoring of the practices within which they are working and supervising.

Question 2: What are your views on ACRA's proposed changes to the practical experience requirements, specifically:

a. The focus on audit management experience

7. We suggest that this focus may be overly restrictive in that certain amounts of more junior levels of audit experience could also be considered without necessarily introducing risk.

b. The definition of audit management role.

8. This appears appropriate.

c. The requirement for applicants to have 2500 hours of such experience.

9. This is a solid and worthy requirement but might be considered a "little on the high side" given that it relates to personal audit experience gained as opposed to time spent within an audit environment.

d. The requirement for the experience to be gained within the five years prior to an application.

e. The requirement for at least 1250 hours to have been obtained within the previous two years of the application.

10. While we understand the need to ensure that auditors have recent and relevant experience, we would again have concerns that these requirements, in particular the 1250 hours within the previous two years, may be overly restrictive and may unreasonably limit applications from otherwise appropriately-experienced individuals.

f. That ACRA will not distinguish between pre and post-qualification experience, given that the focus will already be on experience in an audit management role.

11. This seems a consistent approach.

g. That the practical experience should be obtained under the supervision of an approved principal and recorded (ie that all practical experience should be 'structured' as currently defined).

12. We strongly support this approach which to our mind embodies two of the key elements of quality-assuring qualifying experience.

h. That ACRA will continue to require a minimum amount of hours to be obtained in the same accounting entity (i.e. not necessarily the same approved principal)

i. That the minimum that must be acquired in the same accounting entity should be 1250 hours, or alternatively that the number of accounting entities in which the experience was gained should be capped at three.

13. We would caution on these aspects. Certainly, when pitched at the proposed amount of 1250 hours, this is a very restrictive clause which would significantly affect the employment/experience pattern. The three entities idea is less restrictive and to our mind more welcome. However, there is much to be said in favour of applicants having gained a breadth of experience by having experienced the audit role in a number of different firms. Perhaps a better way forward would be to keep the principle but to significantly lower the threshold to perhaps half of the current amount (625 hours) or raise the number of permitted entities to 5 or 6.

j. That, given the simplified and more focused requirement, the discretionary criteria available to applicants with more than six years' experience should not be continued under the new proposals and that all applicants should be required to meet the main criteria, unless specific exemptions are granted for particular reasons?

14. A standard approach would seem the most appropriate. The nature of any specific exemptions would need to be very carefully justified to avoid having differential recognition conditions.

Question 3: What are your views on the intended approach to the recording of practical experience?

Do you agree that an applicant should record details of the audit engagement and their role in which they gained the required hours submitted in the application?

15. We would support the intended approach and agree with the proposed details. We would additionally suggest that it would be important for the applicant to explain what they have learnt through each (say 90-day) block of experience or particular audit.

Question 4: What are your views on the proposal to only allow a public accountant to be an approved principal if the public accountant has undergone and passed a PMP review, or who is in a firm that has undergone firm review?

What are your views on the proposal for the PAOC to be able to order that public accountants who fail the PMP so severely that they must undergo hot review or have restrictions imposed on their practice must not act as approved principals, for example until they have completed a hot review order or have passed a subsequent PMP?

16. It seems prudent to require passing a PMP either before or at least within a reasonable period after assuming approved principal status. Much would depend on the extent to which the firm within which the approved principal is based is itself subject to prior approval and/or cyclical monitoring.
17. Where there is clear evidence that a public accountant is not competent, they should not be allowed to act as an approved principal.

5: What are your comments on the proposed approach to aligning the approach to recognition of foreign practical experience with the main proposed changes to the practical experience requirements?

18. We would support what is proposed. Recognising a certain proportion of suitable overseas experience allows an important degree of flexibility in the conditions for approval. Given the increasing globalisation of the business/audit world, it seems to us that, provided properly judged, this can only be a helpful element.

Question 6: Do you have any other comments on the proposals relating to practical experience?

For example, do you have any comments on how the proposals might affect recruitment or the ability of a person to acquire the experience necessary to become a public accountant?

19. It would be helpful to understand more about how the proposals here on auditor qualifying will interact with the new SQP that is under construction further to the award of the tender.
20. The other answers above and below highlight where we feel there may be areas of uncertainty or risk.

Question 7: What are your views on allowing former public accountants to apply under a different set of requirements that take into account their previous registration?

What are your views on having the registration requirements depend on how recently the applicant had been registered or involved in auditing?

21. We are unsure of the merit of this proposal as it does seem to cut against today's expectations, based on fairness, competence and transparency, that all licensees will have met the same requirements. Within a UK context, 'grandfathering' as such did happen with regard to the old Companies Act 1989, but any accountants training for the audit qualification since the mid-1990s have had to meet the 'new', standard requirements.

Registration & Renewal Process for Public Accountants

Question 8: Do you agree that the Registrar of Public Accountants should approve applications to be a public accountant instead of the PAOC, and that the PAOC should consider appeals against the Registrar's decisions?

22. In ICAEW the Audit Registration Committee (ARC) is responsible for granting audit registration. However, this power can be delegated to ICAEW staff. Given that the vast majority of applications are straightforward it is rare that an application has to be considered by the Committee.
23. The only powers that ICAEW staff cannot exercise when dealing with an application are the ability to refuse the application or to place conditions or restrictions on a firm's registration. These decisions can only be made by the ARC.
24. If a firm does not agree with a decision made by ICAEW concerning the application, or where there are particular issues that require further assessment (for example an applicant's previous

disciplinary record) then the application will be considered by the ARC. There is also the ability to for the decision to be reviewed and appealed.

25. It would therefore seem sensible to have a similar process whereby only those complex/judgmental cases are dealt with by the PAOC.

Question 9: What are your views on the use of conditions in relation to all or classes of public accountants, and on individual public accountants?

26. ICAEW's audit regulations allow the ARC to impose conditions on an individual registered auditor. There is no concept of applying conditions to certain classes of auditors and the first example given, concerning PII, is already covered by a UK audit regulation requiring all firms to hold PII so it is unclear what the objective of such a condition would be.
27. The second example concerns new applicants and whether their application should be approved subject to external review or support. This is similar to the process we currently follow for new applications and is typically applied where the applicant has limited evidence of recent UK audit experience at a suitably senior level.
28. The ARC can impose conditions on a firm at any time but conditions are typically applied at either the point of registration or as a result of an adverse monitoring visit. The ARC views breaches of conditions very seriously and a breach can lead to the withdrawal of registration, a financial penalty against the firm or a referral to the investigation and disciplinary committees.

Question 10: 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?

29. We do not automatically issue certificates of registration – these are only issued on request.
30. A firm's audit registration has to be renewed annually and this is achieved by each firm paying an annual registration fee, payable within 60 days of the invoice date. The fee notices are typically issued in November each year for payment by 1 January of the following year.
31. If the fee is not paid then registration may be withdrawn. However, registration does not automatically cease on non-payment of the fee, or after a set period from the invoice date – it will only cease once our attempts at chasing payment of the fee have been exhausted. We have to make a decision, on a case-by-case basis, to cease the firm's registration.

What is your view on the one month 'reinstatement period,' ie is it sufficient?

32. Once a firm ceases to be a registered auditor they will have to reapply. There is no concept of a 'reinstatement period' in the audit regulations – however we operate a one-month period whereby if a firm has voluntarily surrendered its audit registration and then wishes to be reinstated, then provided the firm pays the annual registration fee applicable at the time we will reinstate registration.
33. This will not apply in those cases where we have withdrawn a firm's audit registration for non-compliance.
34. Also, we do not have the concept of an additional re-registration fee. Should a firm reapply for registration then it has to pay the annual registration fee applicable at the time.

Do you have any other comments on the provisions that will apply when a public accountant fails to renew his registration on time?

35. The automatic expiry of a firm's audit registration for unpaid fees or failure to apply for renewal may have inadvertent, but adverse, consequences on audit clients where the audit is in progress at the time of cessation.
36. While the consultation document notes that there should be ample opportunity for firms to renew at the right time so as to not disadvantage clients, this may not be what always happens in practice – particularly for those firms who may be in financial difficulty and for whom the decision to renew the audit registration will always be made at the last minute.

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

Question 11: What are your comments on the proposal that, if a public accountant asks to cancel his registration after he has been notified of an impending PMP review:

- a. ACRA may order that the former-public accountant may not re-register for a period of two years, unless the former-public accountant agrees to undergo a programme of hot review upon registration.
37. Whenever a firm applies to become a registered auditor the ARC can impose conditions on the applicant – including the need for the firm to adopt a programme of hot file reviews until the committee is satisfied with the firm's audit quality. Therefore there is no need to have an additional power to do this in certain re-application cases.
- b. If ACRA gains information that appears to raise issues of significant 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 the PMP review.
38. Agreed – we use discretion where a firm seeks to withdraw registration and a monitoring visit has been scheduled. In some cases we require the visit to go ahead, particularly if it appears that the firm's withdraw request appears to be motivated by trying to avoid the visit.

On-going Duties and Obligations for Public Accountants

Question 12: What are your views on prescribing a statutory duty for a public accountant not to sign an audit unless he has directed and supervised the performance of an audit?

39. ISA 220 requires the engagement partner to take responsibility for the control, direction and supervision of the audit, so we would question whether this needs to be prescribed separately.
40. UK statute requires the name of the engagement partner (in addition to the name of the firm) to be shown at the foot of the audit report – this highlights the responsibilities of the individual.

What are your views on prescribing that a person not registered as a public accountant should not perform an audit unless the audit is performed in the service of or by order of and under the direction, control, supervision of or in association with a public accountant entitled to perform the audit identified and who must assume responsibility for any audit performed?

41. If it is not already the case, we agree it should be clearly stipulated in Singaporean law that only a registered public accountant or approved firm can take on an audit appointment.
42. Only registered public accountants or approved bodies can sign audit reports, and the ISAs require them to take responsibility for the control, direction and performance of the audit. This should entail the exercise of their judgement in determining to what extent they might use or rely on work carried out by unregistered individuals (or other unapproved entities). It is not clear how an unregistered individual could decide whether the registered public accountant

under whose supervision he/she may work, can decide whether the extent of supervision is appropriate

Question 13: What are your views on requiring newly registered public accountants who immediately begin practice as the sole public accountant in an audit firm, to undergo peer review or enlist similar professional support to help them establish their practice?

If you agree, do you think this should be in the form of peer review or more general professional support?

- 43. Peer review can be a useful tool. It can have the dual benefit of providing guidance to the practitioner and at the same time providing information to the regulator about audit quality. Peer reviews could involve the review of audit engagements and/or a broader review of wider compliance with, for example, the requirements of ISQC1.
- 44. In the UK, newly registered firms (not just sole practitioner firms) may be required to have an external review of the first audit performed and to submit the results of the review. Such reviews may be hot reviews (i.e. carried out prior to signing the audit opinion) or cold reviews (performed after completion of the audit). The decision as to whether hot or cold reviews are most appropriate would be based on the strength on the firm's application to be a registered auditor and past history. Should the results of an initial review be unsatisfactory, further reviews may be requested.
- 45. It is important that the peer reviewer is suitably qualified and independent. In the UK there are independent training bodies that provide a range of support services including hot and cold file reviews. Audit firms may also carry out such reviews, although are prohibited from doing so if they themselves are under conditions imposed following a regulatory inspection.
- 46. 'More general professional support' may be very valuable for a new firm, but may be more difficult to prescribe, monitor and enforce. For example, a practitioner could be required to enter into an arrangement for consultation facilities, but it would be difficult to ensure that the practitioner consulted where necessary and followed any advice given.

Question 14: What are your views on continuing to allow a public accountant to practise on his own account, without setting up an accounting firm or other accounting entity, provided certain conditions are met?

- 47. In the UK, only registered auditors can accept statutory audit appointments. So a sole practitioner (even if practising alone without any staff) has to apply to be a registered auditor. All registered auditors are required to comply with audit regulations (published by the professional bodies) which set out requirements covering eligibility as well as procedures for compliance with ISQC1 and auditing standards. The requirements on eligibility are tailored as appropriate to cover the different structures firms have, ie corporate entities, LLPs, other partnerships and sole practices.
- 48. We are unsure whether this question partly reflects a concern as to whether public accountants practising on their own account have sufficient resources at their disposal. If so, we believe that ISQC1 already addresses this concern; all firms (whatever their size), need to exercise their professional judgement in considering whether they have the resources, skills and objectivity when accepting appointment or seeking reappointment.
- 49. With reference to the element of the question '.... provided certain conditions are met', we are unsure what conditions might be under consideration or thought to be appropriate. However, a condition could be compliance with ISQC1.

In your view what are the circumstances under which a public accountant should be required to practise in an accounting entity?

50. We would not necessarily agree there should be any rules on this. However, requirements for independent review embedded in ISQC1 and the ethical code may make it difficult or impractical for public accountants to act on their own account if auditing public interest or other higher risk entities.

Question 15: Do you agree that a public accountant who practises on his own account, ie not through an accounting entity, (a) must not at the same time be practising in an accounting entity and (b) should be required to practise in his own name?

51. (a) We do not see why a public accountant practising on their own account should not also be allowed to practise in an accounting entity, where this is jointly with other practitioners (see question 17 below). But we agree it may be potentially confusing to clients for a public accountant to practise on his own account and through an entity where the entity is a sole practice.
52. (b) We do not necessarily think a public accountant should have to practice in their own name. He/she may wish to preserve the name of a previous firm or practitioner from which a client base has been purchased, for example. It is, however, a requirement in the UK for the names of the principal or principals to be shown on the firm's notepaper.
53. In the UK, there is a list of registered auditors which is publically available. The register includes the name of the firm and the names of the individuals within each firm that are permitted to sign audit reports. The scope for confusion in this area is therefore limited.

Question 16: What are your views on requiring a public accountant who practises on his own account or in an accounting firm should be required to have professional indemnity insurance?

54. We think that all public accountants should be required to have professional indemnity insurance, whether practising on their own account or through an accounting firm.
55. ICAEW has professional indemnity insurance regulations which all members should comply with. These regulations set out the minimum level of cover which is related to total practice fee income. A certain level of self-insurance is permitted but this is capped.

Question 17: Are there legitimate reasons for a public accountant to practise in more than one accounting entity? In such situations, how would risks to the public interest be addressed?

What are your views on the proposals to require a public accountant to practise in only one entity?

56. Public accountants may wish to practice in more than one entity to separate different profit-sharing business activities. They may have their own established client bases that they wish to keep separate and at the same time operate in partnership with other practitioners, taking a profit share in relation to those activities. This is not particularly unusual in the UK.
57. As regards risks to the public interest:

'Knowing 'who is in charge'

- ISQC1 requires communication of the identity of the engagement partner to the client;
 - control and direction of the audit are fundamental requirements of the engagement partner role; and
 - ISA 210 requires engagement terms to be agreed in writing for each audit client.
58. So, in theory, compliance with the requirements of ISQC1 and the ISAs should address this concern.

'Adequate supervision'

59. This can be a risk within any firm. As set out in ISQC1 and ISA 220, it is the responsibility of the firm and the engagement partner to ensure that appropriate supervision is built into every audit. The risk of inadequate supervision could be greater where a public accountant practices in more than one location, but this could risk could apply equally to a firm with more than one office.

Question 18: What are your views on allowing a public accountant to practise as an employee in an accounting firm?

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?

60. We do not see any reason why a public accountant should not be an employee in an accounting firm.
61. It should, however, be clear through the written engagement terms and the name on the audit report whether the public accountants are carrying out audits in their own name (and therefore taking personal responsibility) or in the firm's name. If a public accountant is an employee it should be clear that they have appropriate authority and influence to take responsibility for the audit.

Question 19: What are your views on the proposal to require public accountants to keep up a minimum amount of practical experience in auditing, and for example, requiring that a public accountant who has been inactive in auditing for a certain period should be required to undergo peer review on his first three audits after that period?

If you agree with the proposal, what period should a public accountant be inactive in auditing before having their registration made subject to conditions? For example, is three years too short or too long?

If you do not agree, what are the reasons why a public accountant should be able to remain registered unconditionally if he has not performed audits for a significant period?

Are there alternative requirements that should be used to protect audit quality in situations when a registered public accountant does not have recent auditing experience?

62. We agree that a reasonable approach would be to impose conditions on registration where there has been a period of inactivity. However, it may be appropriate to have a range of measures available for use rather than set out precise conditions that would always be imposed.
63. For example, a practitioner may have previously been inspected and demonstrated a good quality of audit work. In this situation, suitable conditions may be less stringent than for a practitioner that had not previously demonstrated such a good standard. Differing conditions may also be appropriate for differing types of complexity of audit work. For example, a practitioner that has had a specialism in a certain industry type may not need such stringent conditions for similar work in the future compared with another practitioner. Another factor requiring consideration would be the extent of change in the audit profession, e.g. new auditing or accounting requirements.
64. ICAEW operates the following approach:

- All registered auditors are subject to a review visit at least every six years.
- If, at the time of our inspection, firms have not completed any statutory audit work in the last two years, but wish to retain their audit registration, we require them to undertake to notify us

if they take on a new audit appointment and to confirm that they will at that point provide us with information about their audit procedures and training. We may also ask them to confirm that they will agree to have an external hot or cold review of the first audit they take on and provide us with the results.

65. All Responsible Individuals (RIs) (individuals in firms permitted to take responsibility for audits, and sole practitioners registered for audit) are required to keep up their audit competence through appropriate training, whether or not they currently have audit appointments.

Requirements for Accounting Entities

Question 20: Do you have any further comments on the proportion of partners or directors in an accounting entity that must be public accountants?

66. The ACRA proposals are in line with international developments in the area of multi-disciplinary practices and are a necessary step to support their development. The more than half benchmark is similar to that applied currently in the UK. It is likely that this ratio will need to be re-examined at a future point in the light of experiences in what is a relatively new market concept, and it may be appropriate to allow a review point say after 3 years that reinforces the audit quality protection.

Question 21: What are your views on only allowing natural persons to be a partner of an accounting LLP?

67. There are two points we would raise in this proposal. Firstly if elsewhere the aim of the legislation is to stimulate the development of multi-disciplinary practices, then a consistency between the legal and accounting approaches seems to make sense to allow simple ownership models to develop that are easily transparent to the investor community. Given the current limitations in the legal profession there is a good rationale in aligning the accountants' rules with that.
68. However the opening objectives stated in the paper include the aim to be internationally recognised and encourage investment with confidence in the Singapore markets. As other competing financial markets permit a more diverse form of person to be involved in the ownership, the limitation to natural person may inhibit market development. Accordingly consideration should equally be given to whether the accounting and indeed legal ownership rules should be more broadly expressed.

Question 22: What comments do you have on removing the minimum capital requirement for accounting corporations and LLPs?

69. The paper quite rightly draws attention to the compensating controls that already operate in the market such as practice protection requirements. There are also simple market forces such as credit ratings and the accountants' own professional rules which help provide the assurances on financial sustainability which is what the original legislation was presumably seeking to protect.
70. The current requirement also acts as a barrier to market and the removal of this does facilitate easier entry and foster competition in this market.

Question 23: Do you have any further comments on the requirements for Accounting Entities?

71. No

Complaints and Discipline Process

Question 24: What are your views on allowing the appointment of two laypersons to a complaints or disciplinary committee, provided that public accountants form the majority?

72. Appointment of two laypersons to a complaints or disciplinary committee is a constructive and progressive step. The ICAEW Appeal Committee works in panels of five, with two laypersons. One is a senior lawyer who chairs the panel. The other layperson will for example have a corporate or education background. The arrangement works well. The involvement of the two laypersons ensures a broad based perspective while retaining ICAEW members (not involved in the governance of ICAEW but with appropriate technical knowledge) in the majority.

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